MyState Limited ABN 26 133 623 962

Directors' Report

Your Directors present their report on MyState Limited (the Company) for the financial year ended 30 June 2014.

Directors and Company Secretary

The names and particulars of the Directors and Company Secretaries in office during the year and since the end of the year are:

- **Miles L Hampton** BEc(Hons), FCIS, FCPA, FAICD

  Chairman and independent non-executive Director (appointed as Chairman 29 October 2013)
- **Michael J Vertigan** AC, BEc(Hons), PhD, Hon LLD, FAICD

  Chairman and independent non-executive Director (Resigned as Director and Chairman 29 October 2013)
- **Melos A Sulicich** BBus, FAIM, GAICD

  Managing Director - Executive Director (Appointed 1 July 2014)
- **G John Gilbert** BCom, FAICD, FAMI

  Managing Director - Executive Director (Resigned as Director 31 March 2014)
- **Peter D Armstrong** BEc(Hons), DipED, Dip FP, CPA, FAICD, FAMI

  Independent non-executive Director
- **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, Senior FFin, FAICD, FIMCA

  Independent non-executive Director
- **Ian G Mansbridge** CPA, FCIS, FCIM

  Independent non-executive Director
- **Sarah Merridew** BEc, FCA, FAICD

  Independent non-executive Director
- **Scott A Lukianenko** Ad Dip BMgmt, Grad Cert BA, GIA (Cert)

  Company Secretary (Appointed 1 November 2013)
- **Lindsay T Scott** B Bus, MBA, FCPA, FCSA, FCIS, MAICD

  Company Secretary (Resigned 29 November 2013)

Principal Activities

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

MyState Limited, the listed diversified financial services group based in Tasmania, provides a range of financial products and services to existing and new customers through its wholly-owned subsidiaries MyState Financial Limited and The Rock Building Society Limited, both authorised deposit-taking institutions, and Tasmanian Perpetual Trustees Limited the trustee and wealth management company.

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

In the opinion of 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 events that is likely to significantly affect the operations of the consolidated entity.

Operating and Financial Review

The Group's net profit after income tax for the year ending 30 June 2014 was $29.571 million (2013: $28.457 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 3 October 2014 to shareholders on the register at 5pm EST on 12 September 2014.

Dividends paid in the year ended 30 June 2014 were as follows:

- In respect of the year to 30 June 2013, a fully franked dividend of 14 cents per share amounting to $12.205 million was paid on 4 October 2013.
- In respect of the year to 30 June 2014, a fully franked dividend of 14 cents per share amounting to $12.212 million was paid on 6 March 2014.

Total dividends paid from the 2014 results amount to 28.5 cents per share and the payout ratio of 84% remains in the Board's policy range of 70% to 90%.

Review and Results of Operations

Profit after income tax for the year ended 30 June 2014 increased by 3.9% to $29.571 million, during a period of challenging top line revenue growth.

Credit growth was particularly soft during the first half, which combined with challenges in the distribution network, resulted in the portfolio declining 1.3% by the end of the first half. However the second half was more encouraging, with positive momentum returning, and the loan book recovering to finish with annual growth of 0.4% by year end.

Improved net interest margin was achieved through disciplined liability management, increasing the net interest margin from 2.40% to 2.43% in 2014. However net interest income fell as the improved funding costs were insufficient to offset the decline in the loan book during the first half of the year.

Softness in lending activity, and a greater share of originations sourced through the broker channel, impacted cross selling opportunities in 2014. Combined with a further deterioration in consumer transaction fee income, non-interest revenues declined $2.1m / 5.8% for the year.

Prudent cost management during 2014 saw the cost-to-income ratio fall from 65.6% to 64.5%.

MyState's banking business delivered a flat performance for the 12 month period, with Net Profit after Tax declining $0.2m / 0.9% against the prior year.

MyState Financial's portfolio increased by 3.1%, to $2.2 billion and The Rock's portfolio contracted by 5.7% to $0.9 billion. Overall the banking business portfolio improved a modest 0.4%, aided by improved level of originations sourced through the broker channel.

The Group's wealth management business, delivered an increased contribution in 2014, with Net Profit after Tax improving $1.5m / 46.4% on the prior year.

Funds under management (FUM) grew 5.8% to $1.007b in 2014, generating additional revenues from management fees.

Looking forward, Mystate is seeking to drive profit improvement through revenue growth.

Focus in the banking business will continue on leveraging increased sales momentum through broker distribution networks, in conjunction with improved sales management in the direct channel.

In the wealth management arm, the emphasis will remain on product development and rationalisation activities, as well as improving product penetration across the Group's customer base.

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 above.

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 consolidated entity 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 table below:

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Directors' Report

MyState Limited Directors' Meetings 2013/2014

	Board Meetings		Group Audit Committee Meetings		Group Risk Committee Meetings		Group Corporate Governance & Remuneration Committee Meetings		Group Remuneration Committee Meetings		Group Nomination Committee Meetings		Group Nominations & Corporate Governance Committee Meetings	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
M J Vertigan	4	4									2	2		
M L Hampton	12	13	7	7					2	2			4	4
P D Armstrong	13	13	3	3			2	3	2	2				
R L Gordon	13	13			4	4	3	3			2	2	4	4
C M Hollingsworth	13	13	7	7			3	3						
S E Lonie	13	13	7	7			3	3	2	2			3	3
I G Mansbridge	13	13			4	5					2	2	4	4
S Merridew	11	13			4	5	3	3						
G J Gilbert	8	8												

A - Number of meetings attended
B - Number of Meetings Eligible To Attend

Directors' Interests

Interest in the shares of the Company and Managed Investment Funds offered by a related Body Corporate as at the date of this report.

	Beneficially Held	Non-beneficially Held	Managed Funds Direct	Managed Funds Indirect
P D Armstrong	387	774	-	-
R L Gordon	387	-	-	-
M L Hampton	-	600,000	-	-
C M Hollingsworth	3,000	7,274	-	-
S E Lonie	-	50,000	-	-
I G Mansbridge	-	170,000	-	-
S Merridew	4,000	20,000	-	-
M A Sulicich	-	-	-	-

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.

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Directors' Report

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 6a 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:

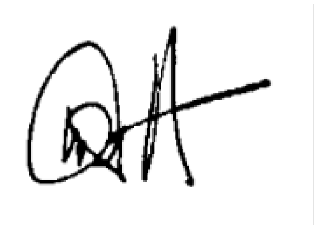
- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Group Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and,
- The non-audit services provided do not undermine the general principles 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 2014, 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.



D McCarthy
Partner
Wise Lord & Ferguson
Hobart "

Dated 21 August 2014

Remuneration Report

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 2014 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 Corporate Governance and Remuneration Committee

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

- Remuneration Policy and arrangements for Directors, the Managing Director and Chief Executive Officer and other Executives;
- Remuneration Policy and practices of the Company, having regard to comparative remuneration in the financial services industry and independent advice. This includes an assessment of the Remuneration Policy's effectiveness and compliance with the requirements of APRA Prudential Standards;
- applicable Human Resource (HR) Policies and 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, as well as review and recommendation to the Board in respect of broader organisational health.

The Committee is vigilant in monitoring the potential for, or perception of, conflict of interest 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.

2. Remuneration Philosophy

The fundamental objective of the Company's Remuneration Policy is to maintain behaviour that supports 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 Chief Executive Officer and Executives directly reporting to the Managing Director and Chief Executive Officer, to its financial and operational performance. The remuneration of the EMT is based on a package which from time to time may comprise one or more of the following:

- fixed annual reward (inclusive of superannuation and fringe benefits) (FAR);
- cash based short term incentives (STI);
- equity based long term incentives (ELTIP).

3. Consequences of performance on Shareholder wealth

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

Indicator	2010 $'000	Change	2011 $'000	Change	2012 $'000	Change	2013 $'000	Change	2014 $'000
Profit after income tax	17,341	27.0%	22,020	6.2%	23,384	21.7%	28,457	3.9%	29,571
Earnings per share (cents)	27.46	18.9%	32.65	8.4%	29.91	9.3%	32.68	3.8%	33.91
Dividends paid	13,482	22.6%	16,523	18.4%	19,564	24.6%	24,378	0.2%	24,417
Share price (dollars)	3.12	12.5%	3.51	(13.1)	3.05	39.0%	4.24	9.4%	4.64
Return of capital	Nil		Nil		Nil		Nil		Nil

The Company ultimately assesses its performance from increases in earnings and shareholder value. 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 performance measures include financial measures such as net profit after tax. ELTIP performance measures are: for the "2010" offer weighted equally between earnings per share and total shareholder return (TSR) measures; and for the "2011", "2012", and "2013" offers based solely on TSR. TSR is a measure which incorporates both dividends paid and movements in share prices.

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 were as follows:

Name	Position	Change from FY13
Non Executive Directors		
Miles Hampton	Non Executive Chairman	Appointed Chairman 30 October 2013
Michael Vertigan	Non Executive Chairman	Retired as Chairman and Director 30 October 2013
Peter Armstrong	Non Executive Director	
Robert Gordon	Non Executive Director	
Colin Hollingsworth	Non Executive Director	
Stephen Lonie	Non Executive Director	
Ian Mansbridge	Non Executive Director	
Sarah Merridew	Non Executive Director	

Name	Position	Change from FY13
Executive Directors		
Melos Sulicich	Managing Director and Chief Executive Officer	Appointed 1 July 2014
John Gilbert	Managing Director and Chief Executive Officer	Retired 31 March 2014
Executives		
David Mills	Head of Technology	
Andrew Paynter	Chief Executive Officer – The Rock	
Stephen Pender	Head of Marketing, Communications and Products	
Aaron Pidgeon	Head of People and Property	
Tim Rutherford	Chief Operating Officer Acting Chief Executive Officer	Appointed as Acting CEO 31 March 2014 Resumed as COO 1 July 2014
Tom Taylor	Chief Financial Officer	Contracted to role in fixed term capacity, September 2014
Natasha Whish-Wilson	Chief Risk Officer	

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 compulsory superannuation). The fees paid to the Company's NEDs reflect the demands on and responsibilities of those Directors.

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 to have in place a fee scale which enables 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, as Board membership is taken into account in determining the remuneration paid to Executive Directors as part of their normal employment conditions.

Each NED currently receives $85,000 each per annum inclusive of statutory superannuation.

The Chairman is paid an additional amount of $85,000 per annum inclusive of statutory superannuation.

Board Committee Chairmen are paid an additional amount of: Group Audit, $15,000; Group Risk, $12,500; and Group Remuneration, $12,500, per annum inclusive of statutory superannuation. Additionally, Members of Board Committees are paid $5,000 per annum per committee inclusive of statutory superannuation.

6. Managing Director and Chief Executive Officer and Executive Remuneration

6.1 Fixed Annual Remuneration (FAR)

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

6.2 Short Term Incentive (STI)

The STI is an annual "at risk" incentive payment. It rewards EMT members for their annual contribution towards the achievement of the Company's strategic goals. The maximum potential payment is calculated as a percentage of the FAR of each EMT member and is payable annually as 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 performance. In most cases there is no fixed minimum payment amount, and there may not be any payment made where appropriate. The KPIs are measures relating to Company and personal performance accountabilities and include financial, strategic, operational, cultural, compliance and risk management requirements and customer/stakeholder measures. The measures are chosen and weighted to best align the individual's reward to the KPIs of the Company and its overall long term performance. KPIs are weighted towards the achievement of profit growth targets.

Each year, the GRC, in consultation with the Board, sets the KPI's for the Managing Director and Chief Executive Officer who, in turn, sets KPI's for Executives. The GRC 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 GRC assesses the performance of the Managing Director and Chief Executive Officer against the KPIs set at the beginning of the financial year. At the end of the financial year the Managing Director and Chief Executive Officer 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 GRC as to the STI payment.

The GRC recommends the STI payments to be made to the Managing Director and Chief Executive Officer and Executives for approval by the Board. Approval and payment of a STI to the Managing Director and Chief Executive Officer 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 STI bonuses that affect the calculation of KMP remuneration for the 2013/14 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 2012/13 financial year. Assessment of STI bonuses in respect of the 2013/14 financial year has, in most cases, been completed by the Group Risk Committee and Board during August 2014.

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

2012/2013 STI Bonus

EXECUTIVE	Max. % (of FAR)	Max Payable	% Awarded	% Forfeited	Amount Paid	% Which is not yet assessed for payment
John Gilbert	50%	$327,600	80%	20%	$262,080	-%
David Mills	15%	$25,800	85%	15%	$21,930	-%
Andrew Paynter	20%	$44,731	85%	15%	$38,021	-%
Stephen Pender	15%	$26,359	85%	15%	$22,405	-%
Aaron Pidgeon	15%	$37,056	85%	15%	$31,498	-%
Tim Rutherford	30%	$115,366	80%	20%	$92,292	-%
Tom Taylor(1)	58.3%	$196,218	85.71%	14.29%	$168,180	-%
Natasha Whish-Wilson	30%	$96,314	80%	20%	$77,052	-%

2013/2014 STI Bonus						
EXECUTIVE	**Max. % (of FAR)**	**Max Payable**	**% Awarded**	**% Forfeited**	**Amount Paid**	**% Which is not yet assessed for payment**
John Gilbert	50%	$327,600	31%	69%	$100,000	-%
David Mills	15%	$30,000	43%	57%	$12,750	-%
Andrew Paynter	15%	$37,015	-%	-%	–	100%
Stephen Pender	15%	$30,000	30%	70%	$9,000	-%
Aaron Pidgeon	15%	$41,625	43%	57%	$17,700	-%
Tim Rutherford	30%	$120,263	33%	67%	$39,100	-%
Tom Taylor(1)	58.3%	$112,088	-%	-%	–	100%
Natasha Whish-Wilson	30%	$99,806	33%	67%	$32,500	-%

(1) Since his engagement as Chief Financial Officer, Mr Taylor has been continuously employed under several fixed term contracts. Due to the nature of this engagement, which does not coincide with the annual performance period applying to other members of the EMT, he has been offered STI bonuses in respect of each contract period. After the conclusion of each period Mr Taylor's entitlement to an STI payment has been assessed and paid. The maximum STI payment, as a percentage of FAR, applying to Mr Taylor's offers, takes account of the fact that he is not entitled to receive any reward under the ELTIP.

6.3 Executive Long Term Incentive Plan (ELTIP)

The ELTIP provides a long term "at risk" incentive, assessed over a three year performance period. It was established by the Board to reward the Executive Management Team (EMT), comprising the Managing Director and Chief Executive Officer 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 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 FAR 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 Chief Executive Officer and between 15% and 30% 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 to be determined by the Board.

In order for the shares to vest in each eligible member of the EMT, certain performance criteria must be satisfied within a 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 Total Shareholder Return (TSR) and absolute Return on Equity (ROE) as the performance criteria.

The ELTIP provides for an independent Trustee to acquire and hold shares 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 will 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 Chief Executive Officer and eligible Executive is at the complete discretion of the Board. Any shares to be allocated to the Managing Director and Chief Executive Officer 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 to not 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		**"2010"**	**"2011"**	**"2012"**	**"2013"**
Performance Period		1 July 2010 to 30 June 2013	1 July 2010 to 30 June 2014	1 July 2010 to 30 June 2014	1 July 2010 to 30 June 2014
Performance Criteria	Measure	50% Earnings per share (EPS) 50% Total Shareholder Return (TSR)	100% Total Shareholder Return	100% Total Shareholder Return	100% Total Shareholder Return
	The comparator group	Performance assessment will be measured against a selected group of "financial" companies. (Refer to the list following)			
	Calculation of the reward	Shares will vest in accordance with the following schedule			
EPS baseline for calculation of the offer		27.46cps	N/A	N/A	N/A
Share price baseline for TSR calculation		$3.12	$3.55	$3.00	$4.30
Offer Date	Managing Director and Chief Executive Officer(1)	29 March 2011	2 November 2011	14 November 2012	11 December 2013
	Other Eligible Executives	29 March 2011	6 September 2011	9 October 2012	11 December 2013
Share Priced Used in Calculations	Managing Director(1)	$3.76	$3.58	$3.63	$4.82
	Other Eligible Executives	$3.76	$3.58	$3.37	$4.82
Value of Offer(2)	Managing Director and Chief Executive Officer(1)	$225,000	$235,125	$325,000	$327,600
	Other Eligible Executives	$393,789	$316,482	$163,500	$220,069

(1) These offers were made to the former Managing Director and Chief Executive Officer.

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

The Comparator Group

ASX Ticker	Name
AMP	AMP Ltd
ANZ	Australia & New Zealand Banking Group Ltd
BEN	Bendigo and Adelaide Bank Ltd
BOQ	Bank of Queensland Ltd
CBA	Commonwealth Bank of Australia
CCP	Credit Corp Group Ltd
CCV	Cash Converters International
CGF	Challenger Ltd
FXL	Flexigroup Ltd
HGG	Henderson Group Plc
IAG	Insurance Australia Group Ltd
IFL	IOOF Holdings Ltd
MQG	Macquarie Group Ltd
NAB	National Australia Bank Ltd
PPT	Perpetual Ltd
QBE	QBE Insurance Group Ltd
SUN	Suncorp Group Ltd
WBC	Westpac Banking Corporation
WBB	Wide Bay Australia Ltd

Calculation of the Reward

The ELTIP reward for the performance period will be based upon the comparison of the Company's actual TSR performance compared to the comparator group and will be payable on the following basis:

- below the mid-point percentage – 0% reward;
- at the 50th percentile – 50% of the applicable reward;
- between the 50th percentile and the 75th percentile – 50% plus 2% for every 1 percentile above the 50th percentile;
- above the 75th percentile – 100% of the applicable reward;
- no reward will be payable if performance is negative irrespective of the benchmark group performance.

Actual and Potential ELTIP Share Allocations

The following table details, for current KMP, the status of offers made under the ELTIP. The table details the maximum number of shares granted, the number now forfeited, vested and the number for which the assessment for vesting remains outstanding. It also details the maximum amount which could be disclosed as KMP remuneration in subsequent financial years. During the financial year the assessment of the "2010" offer was completed and shares were issued accordingly. The "2011" offer performance period was completed on 30 June 2014 and the assessment of this offer was completed by the GRC and Board during August 2014. Following Mr Gilbert's retirement on 31 March 2014, an assessment was made of his entitlement under the "2011", "2012" and "2013" offers and shares were issued accordingly.

Name	Maximum Offer	Forfeited	Vested in the 2013/14 Financial Year	Not yet assessed for Vesting	Maximum possible amount to be recorded as remuneration in subsequent financial years
	Number	Number	Number	Number	$
"2010" Offer (TSR)					
John Gilbert	29,920	2,453	27,467	–	–
Tim Rutherford	10,281	842	9,439	–	–
"2010" Offer (EPS)					
John Gilbert	29,920	14,960	14,960	–	–
Tim Rutherford	10,280	5,140	5,140	–	–
"2011" Offer					
John Gilbert	65,677	65,677	–	–	–
Tim Rutherford	21,595	21,595	–	–	–
"2012" Offer					
John Gilbert	89,532	61,988	27,544	–	–
Tim Rutherford	26,261	–	–	26,261	16,008
Natasha Whish-Wilson	22,255	–	–	22,255	13,566
"2013" Offer					
John Gilbert	67,967	67,967	–	–	–
Tim Rutherford	24,951	–	–	24,951	51,406
Natasha Whish-Wilson	20,707	–	–	20,707	42,662

7. Remuneration of Key Management Personnel

		Salary & Fees $	Cash Bonus[(1) (2)]	Non-Monetary Benefits $	Post Employment Super-annuation $	Termination Benefits $	Share Based Payment[(1) (3)]	Total $
Non-Executive Directors								
Miles Hampton	**2014**	**133,062**	**–**	**–**	**12,308**	**–**	**–**	**145,370**
	2013	84,554	–	–	7,610	–	–	92,164
Michael Vertigan	**2014**	**50,135**	**–**	**–**	**4,637**	**–**	**–**	**54,772**
	2013	153,312	–	–	13,798	–	–	167,110
Peter Armstrong	**2014**	**72,061**	**–**	**–**	**24,146**	**–**	**–**	**96,207**
	2013	73,398	–	–	18,160	–	–	91,558
Robert Gordon	**2014**	**79,777**	**–**	**–**	**10,859**	**–**	**–**	**90,636**
	2013	75,683	–	–	6,811	–	–	82,494
Colin Hollingsworth	**2014**	**63,831**	**–**	**–**	**35,074**	**–**	**–**	**98,905**
	2013	72,059	–	–	23,097	–	–	95,156
Stephen Lonie	**2014**	**82,962**	**–**	**–**	**7,674**	**–**	**–**	**90,636**
	2013	75,683	–	–	6,811	–	–	82,494
Ian Mainbridge	**2014**	**82,962**	**–**	**–**	**7,674**	**–**	**–**	**90,636**
	2013	75,683	–	–	6,811	–	–	82,494
Sarah Merrridew	**2014**	**74,305**	**–**	**–**	**17,798**	**–**	**–**	**92,103**
	2013	75,683	–	–	6,811	–	–	82,494
Sub Total	**2014**	**639,095**	**–**	**–**	**120,170**	**–**	**–**	**759,265**
	2013	**686,055**	**–**	**–**	**89,909**	**–**	**–**	**775,964**

		Salary & Fees $	Cash Bonus[(1) (2)]	Non-Monetary Benefits $	Post Employment Super-annuation $	Termination Benefits $	Share Based Payment[(1) (3)]	Total $
Managing Director								
Melos Sulicich[(4)]	**2014**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2013	–	–	–	–	–	–	–
John Gilbert[(5)]	**2014**	**475,806**	**69,580**	**–**	**(16,787)**	**656,931**	**76,643**	**1,262,173**
	2013	690,432	195,000	7,011	33,750	–	148,976	1,075,169
Senior Executives								
David Mills[(6)]	**2014**	**180,095**	**10,710**	**–**	**19,660**	**–**	**1,000**	**211,465**
	2013	121,452	23,220	–	21,125	–	–	165,797
Andrew Paynter[(7)]	**2014**	**203,718**	**1,161**	**–**	**19,043**	**–**	**1,000**	**224,922**
	2013	220,661	40,258	–	27,582	–	1,000	289,501
Stephen Pender[(6)]	**2014**	**181,357**	**7,682**	**–**	**19,377**	**–**	**–**	**208,416**
	2013	130,215	23,723	–	15,453	–	–	169,391
Aaron Pidgeon[(6)]	**2014**	**227,130**	**12,287**	**360**	**23,070**	**–**	**–**	**262,847**
	2013	179,240	33,350	7,570	25,753	–	–	238,913
Tim Rutherford	**2014**	**375,993**	**5,768**	**–**	**24,137**	**–**	**34,018**	**439,916**
	2013	333,474	81,704	3,559	38,983	–	43,574	501,294
Tom Taylor[(8)]	**2014**	**360,950**	**206,172**	**–**	**32,774**	**–**	**–**	**599,896**
	2013	84,935	–	–	3,801	–	–	88,736
Natasha Whish–Wilson	**2014**	**293,866**	**14,448**	**–**	**18,297**	**–**	**25,297**	**351,908**
	2013	315,719	105,433	1,872	39,066	–	9,811	471,901
Sub Total [(9)]	**2014**	**2,298,915**	**327,808**	**360**	**139,571**	**656,931**	**137,958**	**3,561,543**
	2013	**2,368,276**	**456,563**	**20,963**	**249,194**	**954,658**	**250,320**	**4,299,974**
Total [(9)]	**2014**	**2,938,010**	**327,808**	**360**	**259,741**	**656,931**	**137,958**	**4,320,808**
	2013	**3,054,331**	**456,563**	**20,963**	**339,103**	**954,658**	**250,320**	**5,075,938**

(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.

(2) Approximately 25% of the maximum amount, in respect of the 2013/14 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 GRC and Board, and the amounts accrued will be adjusted and disclosed in the Company's Remuneration Report and financial statements for the 2015 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) Mr Sulicich became Managing Director and Chief Executive Officer on 1 July 2014. He has not received any compensation from the Company prior to this date.

(5) Mr Gilbert retired as Managing Director and Chief Executive Officer on 31 March 2014. The termination payment of $656,931 included the pay-out of accrued leave entitlements of $56,331.

(6) Mr Pidgeon, Mr Mills and Mr Pender's roles were added as KMP on 10 September 2012, and remuneration details are reflective of amounts paid from that date.

(7) Mr Paynter's role was added as KMP on 6 July 2012, and remuneration details are reflective of amounts paid from that date.

(8) Mr Taylor was appointed to the role on contract 11 April 2013.

(9) Totals in respect of the year ended 30 June 2013 do not necessarily equal the sum of amounts disclosed for 2013 for individuals specified in this report, as different individuals were specified in the 2013 Remuneration Report.

8. Shareholdings of Key Management Personnel

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[1]	Net change other	Balance at end of financial year	Balance at end of financial year held by ELTIP trustee
Non-Executive Directors					
Miles Hampton	600,000	–	–	600,000	–
Michael Vertigan AC[2]	25,000	–	–	25,000	–
Peter Armstrong	1,161	–	–	1,161	–
Robert Gordon	387	–	–	387	–
Colin Hollingsworth	10,274	*	–	10,274	–
Stephen Lonie	50,000	–	–	50,000	–
Ian Mansbridge	170,000	–	–	170,000	–
Sarah Merridew	24,000	–	–	24,000	–
Managing Director and Chief Executive Officer					
Melos Sulicich	–	–	–	–	–
John Gilbert[3]	58,226	69,971	–	128,197	128,197
Executives					
David Mills	1,630	215	–	1,845	–
Andrew Paynter	1,294	215	–	1,509	–
Stephen Pender	774	–	–	774	–
Aaron Pidgeon	–	–	–	–	–
Tim Rutherford	7,404	14,579	–	21,983	21,983
Tom Taylor	10,000	–	–	10,000	–
Natasha Whish-Wilson	1,770	–	–	1,770	–
Total	**961,920**	**84,980**	**–**	**1,046,900**	**150,180**

(1) The shares granted as compensation to G J Gilbert and T Rutherford were pursuant to the ELTIP. The shares granted as compensation to Mr Paynter and Mr Mills were pursuant to the general employee share plan.

(2) Dr Vertigan AC retired as Chairman and Director on 30 October 2013. The amount disclosed for the balance at the end of the year is as at 30 October 2013.

(3) Mr Gilbert retired as Managing Director on 31 March 2014. The amount disclosed for the balance at the end of the year is as at 31 March 2014.

9. Loans to Key Management Personnel

Details regarding the aggregate of loans made, guaranteed or secured by the Company to KMP and their related parties are set out in the following table. Details regarding loans outstanding with individual KMP and their related parties are also disclosed where the individual's aggregate loan balance exceeded $100,000 at any time in the period. Terms and conditions of the loans are either on normal commercial terms, applicable to other staff and customers, or at the fringe benefits tax rate designated by the Australian Tax Office annually and are in accordance with approved Board policy.

No write-down of loan receivables or provisioning for doubtful receivables has been made or is required to be made in respect of these loans. 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.

Key Personnel	Balance at commencement of financial year $	Interest charged $	Interest not charged $	Write off $	Balance at end of financial year $	Highest balance in period $
A R Paynter	273,213	15,049	–	–	266,433	274,201
Total for key management personnel	273,213	15,049	–	–	266,433	
Number of KMP included in the total					1	

10. Contract terms and conditions

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

Incumbent	Commenced in role	Contract term	Fixed Annual Remuneration (FAR) (per year and subject to market based review mechanisms)	Short Term Incentive (maximum)	ELTIP (maximum)	Termination Provisions (subject to shareholder approval in the event that they exceed the equivalent of 1 year FAR in total)
Melos Sulicich	1 July 2014	4 Year term from 1 July 2014	$550,000	50% of FAR	50% of FAR	The contract may be terminated by the Company with 26 weeks notice or payment in lieu of notice. The contract may be terminated by Mr Sulicich with 10 weeks notice. 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.
	Share Ownership Required to purchase and maintain shares to the value of 50% of FAR by 30 June 2018.					

Incumbent	Commenced in role	Contract term	**Fixed Annual Remuneration (FAR)** (per year and subject to market based review mechanisms)	Short Term Incentive (maximum)	ELTIP (maximum)	**Termination Provisions** (subject to shareholder approval in the event that they exceed the equivalent of 1 year FAR in total)
John Gilbert	14 December 2009	3 Year term from 14 December 2009 plus a further 2 year term which was accepted	$650,000	50% of FAR	50% of FAR	Mr Gilbert retired as Managing Director on 31 March 2014. He received his entitlement under his contract at that time. These were: • Payment in lieu of notice of 60 days FAR; • A termination payment of 9 months FAR; • A pro-rata STI payment: • Accrued leave entitlements; • The number of shares under current ELTIP offers, in accordance with the rules of that scheme. There are no further payments to be made to Mr Gilbert.
David Mills	10 September 2012	Ongoing	$200,000	Between 15% and 30% of FAR	Between 15% and 30% of FAR upon invitation to participate	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination.
Andrew Paynter	5 December 2011	5 December 2011 to 31 October 2014	$246,765	No entitlement	No entitlement	The contract can be terminated by the company upon provision of 4 weeks notice. Payment of up to 52 weeks dependent on years of service.
Stephen Pender	10 September 2012	Ongoing	$200,000	Between 15% and 30% of FAR	Between 15% and 30% of FAR upon invitation to participate	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination.
Aaron Pidgeon	10 September 2012	Ongoing	$277,500	Between 15% and 30% of FAR	Between 15% and 30% of FAR upon invitation to participate	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination.

Incumbent	Commenced in role	Contract term	Fixed Annual Remuneration (FAR) (per year and subject to market based review mechanisms)	Short Term Incentive (maximum)	ELTIP (maximum)	Termination Provisions (subject to shareholder approval in the event that they exceed the equivalent of 1 year FAR in total)
Tim Rutherford	11 January 2010	Ongoing	$400,875	Between 15% and 30% of FAR	Between 15% and 30% of FAR upon invitation to participate	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination. Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.
Tom Taylor	11 April 2013	The contract has been progressively renewed and now expires on 30 September 2014	$384,520 FAR will be applied pro rata for the contract period	Due to the shorter term nature of Mr Taylor's contract, no entitlement to the ELTIP is provided. However, an enhanced STI entitlement, of 58.3 % of FAR for the contract period is provided.		The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent to the balance of the FAR. Pro-rata STI payment applied as at the date of termination.
Natasha Whish-Wilson	27 October 2011	Ongoing	$332,687	Between 15% and 30% of FAR	Between 15% and 30% of FAR upon invitation to participate	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination. Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.

Signed in accordance with a resolution of the Directors.

M L Hampton
Chairman

M A Sulicich
Managing Director

Hobart
Dated this 21 August 2014

MyState Limited
Income Statement
for the financial year ended 30 June 2014

	Notes	Consolidated 30 June 2014 $ '000	Consolidated 30 June 2013 $ '000	Company 30 June 2014 $ '000	Company 30 June 2013 $ '000
Interest income	3	177,719	204,458	220	27
Interest expense	3	(93,330)	(118,977)	-	-
Net interest margin		84,389	85,481	220	27
Other income	4	34,867	36,865	31,591	31,761
Other expenses	5	(76,883)	(80,375)	(7,392)	(7,415)
Profit before bad and doubtful debts and income tax		42,373	41,971	24,419	24,373
Less bad and doubtful debts net of recoveries	15 (b)	(852)	(1,628)	-	-
Profit before income tax expense	6	41,521	40,343	24,419	24,373
Income tax expense / (benefit)	7	11,950	11,886	4	(2)
Net profit after income tax		**29,571**	**28,457**	**24,415**	**24,375**
Basic earnings per share (cents per share)	10	33.91	32.68		
Diluted earnings per share (cents per share)	10	33.91	32.68		

MyState Limited
Statement of Comprehensive Income
for the financial year ended 30 June 2014

	Consolidated		Company	
	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
Net profit after income tax	29,571	28,457	24,415	24,375
Other comprehensive income/(expense):				
Items that may be reclassified subsequently to profit or loss				
Cashflow hedge movements	1,280	1,583	-	-
Net fair value (losses) / gains on available for sale financial assets	(593)	306	-	-
Income tax effect	(206)	(567)	-	-
Total other comprehensive income for the period	481	1,322	-	-
Total comprehensive income for the period	**30,052**	**29,779**	**24,415**	**24,375**

Total comprehensive income for the period is attributable to:

Ordinary equity holders of MyState Limited	30,052	29,779	24,415	24,375
Total comprehensive income for the period	**30,052**	**29,779**	**24,415**	**24,375**

MyState Limited
Statement of Financial Position
as at 30 June 2014

	Notes	Consolidated 30 June 2014 $ '000	Consolidated 30 June 2013 $ '000	Company 30 June 2014 $ '000	Company 30 June 2013 $ '000
ASSETS					
Cash and cash equivalents	12	57,958	66,835	2,807	1,605
Available for sale financial assets	13	321,616	395,844	-	-
Receivables	14	22,583	25,538	4,288	1,592
Loans at amortised cost	15	3,050,873	3,037,785	-	-
Other investments	16	5,020	5,020	237,511	237,511
Assets classified as held for sale	17	2,125	-	-	-
Property, plant and equipment	18	13,496	17,818	-	-
Tax assets	8	4,034	6,216	780	876
Intangible assets and goodwill	19	78,117	74,685	-	-
TOTAL ASSETS		**3,555,822**	**3,629,741**	**245,386**	**241,584**
LIABILITIES					
Deposits	20	2,225,690	2,310,298	-	-
Interest bearing loans and borrowings	21	988,942	980,805	-	-
Payables and other liabilities	22	43,764	47,373	1,236	1,691
Derivatives	23	-	2,988	-	-
Tax liabilities	9	6,183	2,957	4,635	679
Provisions	24	5,594	5,611	225	227
TOTAL LIABILITIES		**3,270,173**	**3,350,032**	**6,096**	**2,597**
NET ASSETS		**285,649**	**279,709**	**239,290**	**238,987**
EQUITY					
Share capital	25	132,566	132,241	238,495	238,170
Retained earnings	28	150,327	145,173	315	317
Asset revaluation reserve	28	2,340	2,340	-	-
Employee equity benefits reserve	28	481	501	480	500
Hedging reserve	28	-	(896)	-	-
Net unrealised gains reserve	28	(65)	350	-	-
TOTAL EQUITY		**285,649**	**279,709**	**239,290**	**238,987**

MyState Limited
Statement of Cash Flows
for the financial year ended 30 June 2014

		Consolidated		Company	
	Notes	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
Cash flows from operating activities					
Interest received		178,815	206,137	361	27
Interest paid		(96,848)	(128,996)		-
Fees and commissions received		33,688	37,424	-	808
Other non-interest income received		2,528	1,429	3,008	-
Payments to suppliers and employees		(72,990)	(79,650)	(7,437)	(2,040)
Dividends received		614	594	-	
Income tax paid		(6,747)	(10,638)	(3,293)	(10,517)
Net income tax contributions received from subsidiaries		-	-	7,340	8,690
Net cash flows from/(used in) operating activities	29 (c)	**39,060**	**26,300**	**(21)**	**(3,032)**
Cash flows from investing activities					
Net (decrease)/ increase in loans to customers		(12,627)	17,930	-	-
Net movement in amounts due from other financial institutions		71,926	(28,025)	-	-
Dividend received		-	-	24,419	24,373
Purchase of intangible assets		(5,325)	(4,628)	-	-
Disposal of property, plant and equipment		370	3,463	-	-
Purchase of property, plant and equipment		(1,550)	(4,605)	-	-
Net cash flows from/(used in) investing activities		**52,794**	**(15,865)**	**24,419**	**24,373**
Cash flows from financing activities					
Net (decrease) / increase in deposits		(84,608)	86,298	-	-
Net decrease in loans to related entities		-	-	916	3,132
Net increase/ (decrease) in amounts due to other financial institutions		7,989	(111,108)	-	-
Employee share issue		305	118	305	118
Dividends paid	26	(24,417)	(24,378)	(24,417)	(24,378)
Net cash flows used in financing activities		**(100,731)**	**(49,070)**	**(23,196)**	**(21,128)**
Net (decrease)/increase in cash held		(8,877)	(38,635)	1,202	213
Cash at beginning of financial year		66,835	105,470	1,605	1,392
Closing cash carried forward	29 (a)	**57,958**	**66,835**	**2,807**	**1,605**

The accompanying notes form part of these financial statements.

MyState Limited
Statement of Changes in Equity
for the financial year ended 30 June 2014

Consolidated	**Share Capital $ '000**	**Retained Earnings $ '000**	**Asset Revaluation Reserve $ '000**	**Employee Equity Benefits Reserve $ '000**	**Hedging Reserve $ '000**	**Net Unrealised Gains Reserve $ '000**	**Total $ '000**
	Attributable to equity holders of the company						
At 1 July 2012	131,786	141,094	2,340	526	(2,004)	135	273,877
Net profit after income tax	-	28,457	-	-	-	-	28,457
Other comprehensive income net of tax	-	-	-	-	1,108	215	1,323
Total comprehensive income for the period	-	28,457	-	-	1,108	215	29,780
Equity issued under employee share scheme	117	-	-	-	-	-	117
Share based payment expense recognised	-	-	-	313	-	-	313
Equity issued under Executive long term incentive plan	338	-	-	(338)	-	-	-
Dividends paid	-	(24,378)	-	-	-	-	(24,378)
At 30 June 2013	**132,241**	**145,173**	**2,340**	**501**	**(896)**	**350**	**279,709**
At 1 July 2013	132,241	145,173	2,340	501	(896)	350	279,709
Net profit after income tax	-	29,571	-	-	-	-	29,571
Other comprehensive income/(expense) (net of tax)	-	-	-	-	896	(415)	481
Total comprehensive income for the period	-	29,571	-	-	896	(415)	30,052
Equity issued under employee share scheme	-	-	-	-	-		-
Share based payment expense recognised	114	-	-	305	-		419
Equity issued under Executive long term incentive plan	211	-	-	(325)	-		(114)
Dividends paid	-	(24,417)	-	-	-		(24,417)
At 30 June 2014	**132,566**	**150,327**	**2,340**	**481**	**-**	**(65)**	**285,649**

The accompanying notes form part of these financial statements.

MyState Limited
Statement of Changes in Equity (continued)
for the financial year ended 30 June 2014

	Attributable to equity holders of the company						
Company	**Share Capital $ '000**	**Retained Earnings $ '000**	**Asset Revaluation Reserve $ '000**	**Employee Equity Benefit Reserve $ '000**	**Hedging Reserve $ '000**	**Net Unrealised Gains Reserve $ '000**	**Total $ '000**
At 1 July 2012	237,715	320	-	525	-	-	238,560
Net profit after income tax	-	24,375	-	-	-	-	24,375
Total comprehensive income for the period	-	24,375	-	-	-	-	24,375
Equity issued under employee share scheme	117	-	-	-	-	-	117
Share based payment expense recognised	-	-	-	313	-	-	313
Equity issued under Executive long term incentive plan	338	-	-	(338)	-	-	-
Dividends paid	-	(24,378)	-	-	-	-	(24,378)
At 30 June 2013	**238,170**	**317**	-	**500**	-	-	**238,987**
At 1 July 2013	238,170	317	-	500	-	-	238,987
Net profit after income tax	-	24,415	-	-	-	-	24,415
Total comprehensive income for the period	-	24,415	-	-	-	-	24,415
Equity issued under employee share scheme	-	-	-	-	-	-	-
Share based payment expense recognised	114	-	-	305	-	-	419
Equity issued under Executive long term incentive plan	211	-	-	(325)	-	-	(114)
Dividends paid	-	(24,417)	-	-	-	-	(24,417)
At 30 June 2014	**238,495**	**315**	-	**480**	-	-	**239,290**

1 Summary of significant accounting policies

(a) Basis of accounting

The consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, including Australian Accounting Standards. The financial report has been presented in Australian dollars.

This financial report is for MyState Limited and the entities it controlled at the end of, or during the year ended 30 June 2014. The comparative information disclosed in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows is for the corresponding year to 30 June 2013.

The consolidated entity is a kind referred to in ASIC Class order 98/100 and in accordance with this Class Order, amounts presented in the financial report are rounded off to the nearest thousand unless otherwise indicated.

Throughout these notes to the financial statements, the following terms are used with the corresponding meaning:

the "Company"	MyState Limited;
the "consolidated entity"	MyState Limited and the entities it controlled at the end of, or during the period;
"MSF Group"	MyState Financial Limited and the entities it controlled at the end of, or during the period;
"MSF"	MyState Financial Limited;
"TPT"	Tasmanian Perpetual Trustees Limited;
"ROK Group"	The Rock Building Society Limited and the entities it controlled at the end of, or during the period;
"ROK"	The Rock Building Society Limited;
the "period"	the year ended 30 June 2014;
the "comparative period"	the year ended 30 June 2013;
"APRA"	the Australian Prudential Regulation Authority;
"ADI"	Authorised deposit-taking institution;
"ASIC"	Australian Securities and Investments Commission; and
"AFSL"	Australian financial services licence.

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

(b) Historical cost convention

The financial report has been prepared on a historical cost basis, with the exception of certain assets and liabilities as outlined in these accounting policies.

(c) Compliance with IFRS as issued by the IASB

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards. The consolidated financial report and the financial report of the Company comply with International Financial Report Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

1 Summary of significant accounting policies (continued)

(d) New and revised accounting standards, amendments and interpretations

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 2013. The adoption of these accounting standards have not resulted in any significant changes to the financial statements:

AASB 10 *Consolidated Financial Statements (and AASB 127 (2011) Separate Financial Statements).*
AASB 11 *Joint Arrangements.*
AASB 128 (2011) *Investments in Associates and Joint Ventures.*
AASB 12 *Disclosure of Interests in Other Entities.*
AASB 13 *Fair Value Measurements.*
AASB 119 (2011) *Employee Benefits.*
AASB 2013-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.*

AASB 2013-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle.*

AASB 2013-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures.*

AASB 2013-9 *Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039.*
AASB 2013-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other*
AASB 1048 (2013) *Interpretation of Standards.*
AASB CF 2013-1 *Amendments to the Australian Conceptual Framework.*
AASB 2013-9 (part A) *Amendments to Australian Accounting Standards – Conceptual Framework.*

The following standard, amendments to standard and interpretation has been identified as an accounting standard which may impact the entity in the period of initial application. It is available for early adoption at 30 June 2014, but has not been applied in preparing this financial report. The consolidated entity will adopt this standard on its effective date. It is not expected that adoption of this standard will have a significant impact on the presentation of the Group's financial statements:

AASB 9 *Financial Instruments – Classification & Measurement.*

The principle accounting policies adopted in the preparation of the Financial report are set out in the following sectio

(e) Principles of consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of MyState Limited and its subsidiaries as at 30 June each year. Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern directly or indirectly decision making in relation to financial and operating policies, so as to require that entity to conform to the Company's objectives. Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent had control. Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Impairment of subsidiaries

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.

1 Summary of significant accounting policies (continued)

(e) Principles of consolidation (continued)

Securitisations

Securitised positions are held through a number of Special Purpose Entities (SPE's). These entities are joint operations as the parties to them have rights to the assets and obligations for the liabilities arising from the arrangement in proportion to the value of their contribution. The special purpose vehicles are accounted for by proportional consolidation.

(f) Critical accounting estimates and significant judgments

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:

- Fair value of financial instruments (see note 1(i));
- Impairment losses on loans and advances and held for sale investments (see note 1(s));
- Recoverability of deferred tax assets (see note 1(u)); and
- Impairment losses on goodwill (see notes 1(m) and 19).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. Management considers that the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

(g) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined, 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.

(h) Receivables

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis. Other receivables are carried at the nominal amount due and are non-interest bearing. An estimate of doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written-off when identified.

(i) Investments

All investments are initially recognised at cost at trade date, being the fair value of the consideration given and including acquisition charges associated with the investment. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investment is derecognised or impaired, as well as through the amortisation process. Fair value is calculated in accordance with the principles outlined in note 33.

1 Summary of significant accounting policies (continued)

(i) Investments (continued)

Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not otherwise designated. After initial recognition, available-for-sale securities are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. Interest income from available-for-sale investments is recognised in profit or loss using the effective interest method.

Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the consolidated entity has a positive intent and ability to hold to maturity, and which are not designated as available for sale. These investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the consolidated entity from classifying investment securities as held-to-maturity for the current and the following two financial years.

(j) Recoverable amount of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(k) Property, plant and equipment

Land and building

Land and buildings are measured at fair value less accumulated depreciation.

Property

Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less accumulated depreciation.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Impairment

The carrying values of 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. If such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Income Statement.

1 Summary of significant accounting policies (continued)

(k) Property, plant and equipment (continued)

Revaluations

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. 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 a knowledgeable willing 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 Statement of Financial Position, unless it reverses a revaluation decrease of the same asset previously recognised in the Income Statement. Any revaluation deficit is recognised in the Income Statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve. Any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Independent valuations are performed with sufficient regularity to ensure the carrying amount does not differ materially from the asset's fair value at the Statement of Financial Position date. 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 Income Statement in the year the item is derecognised.

Depreciation

The consolidated entity adopts the straight line method of depreciating property, plant and equipment, and intangible assets, to depreciate these assets over their 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:

	2014	2013
Buildings	2.50%	2.50%
Office furniture and fittings	15.00% - 20.00%	15.00% - 20.00%
Building fit-	6.67% - 25.00%	6.67% - 25.00%
Office equipment	25.00%	25.00%
Computer hardware	33.33%	33.33%

(l) Leases

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.

Operating leases

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 Income Statement over the life of the lease. The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

(m) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment is reviewed in accordance with the principles outlined in note 19.

1 Summary of significant accounting policies (continued)

(n) Intangible assets

Acquired both separately and from a business combination

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 Income Statement. Certain costs directly incurred in acquiring and developing software are capitalised and amortised over the estimated useful life. Other intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

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.

Software licences

Items of computer software which are not integral to the computer hardware are classified as intangible assets. Computer software is amortised on a straight line basis over the expected useful life of the software.

(o) Payables and other liabilities

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The terms and conditions for creditors and other liabilities are payable between 7 and 30 days. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis. The terms and conditions for payables to related parties are payable within 30 days. The consolidated entity classifies financial instruments as financial liabilities or equity instruments, in accordance with the substance of the contractual terms of the instrument.

(p) Employee benefits

Liabilities for salaries, wages and annual leave are recognised in respect of the employee's 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.

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

(q) Interest recognition

Interest on customers' loans is calculated daily on the outstanding balance and charged monthly in arrears. Future interest on long-term loans is not accounted for in advance. Interest expense on deposits is calculated on the daily balance. All borrowings are measured at the principal amount. Interest on borrowings is charged as an expense as it accrues.

(r) Provisions

Provisions are recognised when the consolidated entity 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.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments.

1 Summary of significant accounting policies (continued)

(s) Loans and advances

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The loan interest is calculated on the daily balance and is charged in arrears to a borrower's account on the last day of each month.

Bad debts are written off when identified. If a provision for impairment has previously been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Income Statement.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described as follows:

- Non-accrual loans, being loans classified as categories two, three and four under the APRA Prudential Standard APS 220 - Credit Quality, where statutory provisioning is required. Interest on these loans is not recognised as revenue. There is reasonable doubt about the ultimate collectability of principal and interest, and hence provisions for impairment are recognised.
- Restructured loans, consisting of all loans for which the original contractual terms have been revised to provide for concessions of interest, principal or repayment. Loans with revised terms are included in non-accrual loans when impairment provisions are required.
- Other real estate and assets owned are assets acquired in full or partial settlement of a loan or similar facility through enforcement of security arrangements.
- Past due loans, consisting of loans classified as category one under APS 220 where payments of principal or interest are at least 90 days in arrears but the loans are well secured.

(t) Revenue recognition

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

Interest

Loan interest income is recognised as interest accrues, using the effective interest rate method. The effective interest rate method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the loan to the net carrying amount of the loan.

When a loan is classified as impaired, the consolidated entity ceases to recognise interest and other income earned but not yet received. Loan interest income is not charged when the consolidated entity is informed that a borrower has deceased or, generally, if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the borrower are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Fees

Control of a right to receive consideration for the provision of fees has been attained.

Commission

Control of a right to receive consideration for the provision of funds placement, insurance policy sales or participation in card activities has been attained.

Corpus administration fees

Revenue is recognised progressively as the work is performed during the administration of the estates.

1 Summary of significant accounting policies (continued)

(t) Revenue recognition (continued)

Management fee revenue

Trustee Company revenue is recognised as it accrues and is calculated in accordance within the meaning of Chapter 5D of the Corporations Act 2001 and the Funds' Constitutions.

Distributions from managed fund investments

Revenue is recognised when the right to receive the distribution is obtained.

(u) Taxes

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Statement of Financial Position date.

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that the future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

1 Summary of significant accounting policies (continued)

(u) Taxes (continued)

Income taxes (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

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 Company and consolidated entity exercise judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the tax consolidated group, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

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

Tax consolidation

The consolidated entity's tax liabilities are determined according to tax consolidation legislation. The Company and its wholly owned subsidiaries, TPT, MSF, Connect Asset Management Proprietary Limited and ROK form a tax consolidated group. The head company is MyState Limited.

Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax 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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in note 7.

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.

(v) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset, or as part of the expense.

Receivables and payables in the Statement of Financial Position are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

1 Summary of significant accounting policies (continued)

(w) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the consolidated entity no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party.

(x) Derivative instruments and hedging

The consolidated entity is exposed to changes in interest rates. The only derivative instruments currently entered into by the consolidated entity are interest rate swaps, which are used to mitigate the risks arising from the exposure to changes in interest rates. These derivative instruments are principally used for the risk management of existing financial liabilities.

All derivatives, including those derivatives used for Statement of Financial Position hedging purposes, are recognised on the Statement of Financial Position and are disclosed as an asset where they have a positive fair value at balance date, or as a liability where the fair value at balance date is negative.

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 Income Statement, unless the derivative meets the requirements for hedge accounting.

The consolidated entity 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 consolidated entity 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.

Accounting for hedges

Cash flow hedges

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect the Income Statement, the effective portion of the change in the fair value of the derivative is recognised in other comprehensive income. The amount recognised in other comprehensive income is reclassified to the Income Statement as a reclassification adjustment in the same period as the hedged cash flows affect the Income Statement, and, in the same line item in the Statement of Comprehensive Income, as the hedged item. Any ineffective portion of the change in the fair value of a derivative is recognised immediately in the 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 cash flow 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 Income Statement. If the forecast transaction is no longer expected to occur, it is reclassified to the Income Statement as a reclassification adjustment.

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

At the inception of a hedging transaction, the relationship between the hedging instruments and the hedged items, as well as the risk management objective and strategy for undertaking the transaction, are documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in the cash flows of hedged items are also documented.

1 Summary of significant accounting policies (continued)

(y) Comparatives
Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(z) Segment information
Operating segments are identified on the basis of internal reports to senior management about components of the consolidated entity that are regularly reviewed by senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to the senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising reportable segments as disclosed in note 11. Information about products and services and geographical segments are based on the financial information used to produce the consolidated entity's financial statements.

(aa) Earnings per share
Basic earnings per share is calculated by dividing the consolidated entity'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 consolidated entity'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.

(ab) Share-based payment transactions
The consolidated entity provides benefits to its employees in the form of share-based payment transactions, whereby employees render services in exchange for shares ('equity-settled transactions'). The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable); non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment in equity or cash (non-vesting conditions); or, conditions that are linked to the price of the shares of the Company (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('vesting date').

2 Change in Accounting Policies
There have been no changes in accounting policies which have been applied in this period.

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$' 000	$' 000	$' 000	$' 000
3 Interest income and interest expense				
Interest income				
Interest on Loans, other than commercial	160,120	182,373	-	-
Interest on Deposits with other financial institutions	13,839	18,122	220	27
Interest on Commercial loans	3,760	3,963	-	-
Total interest income	**177,719**	**204,458**	**220**	**27**
Interest expense				
Interest on deposits	63,806	80,224	-	-
Interest due to other financial institutions	29,524	38,753	-	-
Total interest expense	**93,330**	**118,977**	**-**	**-**
4 Other income				
Income from operating activities				
Banking operating income				
Loan fee income	3,325	2,986	-	-
Transaction fees	8,122	9,074	-	-
Commissions	4,695	5,592	-	-
Dividends from other corporations	614	594	-	-
Other income	771	1,479	-	-
Total banking operating income	**17,527**	**19,725**	**-**	**-**
Wealth Management operating income				
Funds management income	9,188	8,950	-	-
Fees and commissions	8,150	8,455	-	-
Total Wealth Management operating income	**17,338**	**17,405**	**-**	**-**
Other operating income				
Dividends received from subsidiaries	-	-	24,419	24,373
Intercompany management fees	-	-	7,172	7,233
Profit / (loss) on sale of assets	2	(265)	-	-
Other income	-	-	-	154
Total Other operating income	**2**	**(265)**	**31,591**	**31,760**
Income from other operating activities				
Total other income	**34,867**	**36,865**	**31,591**	**31,760**

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$' 000	$' 000	$' 000	$' 000
5 Expenses				
Personnel costs	35,659	38,489	3,607	4,007
Marketing costs	3,171	3,467	57	29
Governance costs	2,807	2,875	2,093	2,130
Technology costs	8,196	9,726	75	44
Occupancy costs	7,619	7,291	102	90
Administration costs	19,431	18,527	1,458	1,114
Total expenses	**76,883**	**80,375**	**7,392**	**7,414**

6 Profit before income tax expense

Profit before income tax expense includes the following specific expenses:

	Consolidated 30 June 2014 $' 000	Consolidated 30 June 2013 $' 000	Company 30 June 2014 $' 000	Company 30 June 2013 $' 000
(a) Expenses				
Termination payments	370	2,214	12	712
Operating lease payments	3,507	2,609	3	-
Supervision levy	168	164	-	-
Amounts received or due and receivable by the external auditors Wise, Lord & Ferguson for:				
- Audit of the financial statements of the consolidated entities	394	416	155	167
- Other non-external audit services				
Tax compliance services	-	8	-	-
Assurance related services	-	81	-	-
Audit of loans sold into the securitisation program	99	124	-	-
Other services	3	3	3	3
Total Other non-external audit services	**102**	**216**	**3**	**3**

7 Income tax

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$' 000	$' 000	$' 000	$' 000
Income tax expense (benefit)				
The major components of income tax expense /(benefit) are:				
Current tax expense	11,592	9,281	(6)	(592)
Deferred tax expense				
- movement in deferred tax assets before losses	979	2,230	21	607
- movement in deferred tax liabilities	(319)	472	(11)	(3)
Adjustments for current tax of prior years	(868)	(183)	-	(5)
Adjustments for deferred tax of prior years	566	86	-	(9)
	11,950	**11,886**	**4**	**(2)**
Reconciliation of income tax expense to prima facie tax payable				
Accounting profit/ (loss) before tax	41,521	40,343	24,419	24,373
Prima facie tax at statutory income tax rate of 30% (2013: 30%)	12,456	12,103	7,326	7,312
Tax effect of amounts which are non assessable/(non deductible) in calculating taxable income:				
- Adjustments for current tax of prior years	(302)	(183)	-	-
- Non taxable dividends received	(184)	(196)	(7,326)	(7,312)
- Other adjustments	(20)	76	4	12
- Adjustments for deferred tax of prior years	-	86	-	(14)
Income tax expense/(benefit)	**11,950**	**11,886**	**4**	**(2)**
Weighted average effective tax rates	29%	29%	0%	0%

	Company	
	30 June 2014	30 June 2013
Tax consolidation contributions	$' 000	$' 000
MyState Limited has recognised the following amounts as tax consolidation contribution adjustments:		
Total increase to tax payable of the Company	11,598	9,868
Total increase to intercompany assets of the Company	11,598	9,868

8 Deferred tax assets

The balance comprises temporary differences attributable to:

	Consolidated 30 June 2014 $' 000	Consolidated 30 June 2013 $' 000	Company 30 June 2014 $' 000	Company 30 June 2013 $' 000
Amounts recognised in the Income Statement				
Other	572	566	257	302
Provision for doubtful debts	248	168	-	-
Depreciation of property, plant & equipment	-	2,003	-	-
Employee provisions	1,678	1,686	68	68
Creditors & accruals	893	650	285	199
Carried forward losses	243	243	243	243
Other costs to be amortised for tax purposes	342	1,312	(131)	-
	3,976	**6,628**	**722**	**812**
Amounts recognised directly in Equity				
Hedging liability	-	(476)	-	-
Other	58	64	58	64
	4,034	**6,216**	**780**	**876**
Movements				
Opening balance	6,216	8,744	876	1,410
Reclassification deferred tax	(694)	201	-	-
Charged to Income Statement	(979)	(2,230)	(154)	(607)
Credited/(charged) to Equity	58	(413)	58	64
Adjustments for deferred tax of prior years	(567)	(86)	-	9
Closing balance	**4,034**	**6,216**	**780**	**876**

9 Tax liabilities

The deferred tax balance comprises temporary differences attributable to:

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$' 000	$' 000	$' 000	$' 000
Amounts recognised in the Income Statement				
Other	273	909	-	-
Prepaid expenses	3	32	-	11
Intangible assets	235	34	-	-
Depreciation of property, plant & equipment	843	1,485	-	-
	1,354	**2,460**	**-**	**11**
Amounts recognised directly in Equity				
Land and buildings	-	-	-	-
Other	194	(92)	-	-
	194	**(92)**	**-**	**-**
	1,548	**2,368**	**-**	**11**
Movements				
Opening balance	2,368	1,603	11	14
Reclassification deferred tax asset	(694)	201	-	-
(Charged) / credited to income statement	(319)	472	(11)	(3)
Credited / (charged) to equity	194	92	-	-
Adjustments for deferred tax of prior years	(1)	-	-	-
Deferred tax closing balance	**1,548**	**2,368**	**-**	**11**
Current tax liabilities				
Current tax payable	4,635	589	4,635	668
Total tax liabilities	**6,183**	**2,957**	**4,635**	**679**

10 Earnings per share

	Consolidated	
	30 June 2014	30 June 2013
	cents	cents
Basic earnings per share	33.91	32.68
Diluted earnings per share	33.91	32.68

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	$' 000	$' 000
Net Profit	29,571	28,457
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share:	87,199,366	87,074,890

11 Segment financial information

For internal reporting purposes, the consolidated entity is divided into two operating divisions and a corporate cost centre. Performance is measured based on profit after income tax of each segment and is determined in accordance with the consolidated entity's accounting policies.

The banking division consists of two broad based financial institutions operating predominantly in Tasmania and Queensland. Its 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, as well as through the mortgage broker channel. The banking division is conducted by the MSF Group and the ROK Group. Both MSF and ROK are ADIs, authorised by APRA.

The wealth management division is a provider of funds management, financial planning and trustee services. It operates predominantly within Tasmania. It holds over $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 TPT. TPT 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. TPT holds an AFSL issued by ASIC.

The corporate cost centre is responsible for the governance of the consolidated entity. The corporate cost centre charges the operating divisions on a cost recovery basis for costs it has incurred.

11 Segment financial information (continued)

	Banking Group $' 000	Wealth Management Group $' 000	Corporate and consolidation adjustment $' 000	Consolidated Total $' 000
Year ended 30 June 2014				
Interest income	177,105	394	220	177,719
Interest expense	93,330	-	-	93,330
Other Income				
Loan fee income	3,325	-	-	3,325
Management fees	-	9,188	-	9,188
Estate administration	-	2,414	-	2,414
Other fees	8,122	1,283	-	9,405
Commissions	4,695	4,177	-	8,872
Dividends and distributions	614	-	-	614
Other revenue	1,335	287	(573)	1,049
Total other Income	**18,091**	**17,349**	**(573)**	34,867
Material expenditures				
Termination payments	331	27	12	370
Loss on sale of equipment	1	1	-	2
Contractually committed lease payments	3,139	749	(381)	3,507
Bad and doubtful debts net of recoveries	852	-	-	852
Depreciation and amortisation	4,477	319	-	4,796
Income tax expense	9,952	1,994	4	11,950
Segment net profit after income tax	**25,044**	**4,590**	**(63)**	**29,571**
Segment assets	**3,477,036**	**29,661**	**49,125**	**3,555,822**
Intangibles - finite life	12,073	66	-	12,139
Intangibles - indefinite life	2,091	16,219	47,668	65,978
Capital expenditure - Property, plant and equipment	1,545	5	-	1,550
Capital expenditure - Intangible assets and goodwill	5,325	-	-	5,325
Segment Liabilities	**3,267,211**	**3,280**	**(318)**	**3,270,173**

11 Segment financial information (continued)

	Banking Group $' 000	Wealth Management Group $' 000	Corporate and consolidation adjustment $' 000	Consolidated Total $' 000
Year ended 30 June 2013				
Interest revenue	203,967	310	181	204,458
Interest expense	118,977	-	-	118,977
Other Income				
Loan fee income	2,986	-	-	2,986
Management fees	-	8,950	-	8,950
Estate administration	-	2,799	-	2,799
Other fees	9,074	856	-	9,930
Commissions	5,592	4,502	-	10,094
Dividends and distributions	594	-	-	594
Other revenue	1,794	324	(606)	1,512
Total other Income	**20,040**	**17,431**	**(606)**	36,865
Material expenditures				
Termination payments	1,291	208	715	2,214
Contractually committed lease payments	2,273	717	(381)	2,609
Bad and doubtful debts net of recoveries	1,628	-	-	1,628
Depreciation and amortisation	4,302	328	-	4,630
Income Tax	10,599	1,349	(62)	11,886
Segment net profit after income tax	**25,260**	**3,135**	**62**	**28,457**
Segment assets	**3,551,973**	**30,041**	**47,727**	**3,629,741**
Intangibles - finite life	8,567	140	-	8,707
Intangibles - indefinite life	2,091	16,219	47,668	65,978
Capital expenditure - Property, plant and equipment	3,484	1,121	-	4,605
Capital expenditure - Intangible assets and goodwill	4,503	125	-	4,628
Segment Liabilities	**3,348,275**	**3,228**	**(1,471)**	**3,350,032**

11 Segment Financial information (continued)

The consolidated entity's segments have changed from that disclosed in the last annual financial report. The banking division is comprised of what were formerly identified as the MSF and ROK segments. These two businesses, as described in the foregoing, both operate in the same industry sector. The business activities that they engage in and the economic environments in which they operate are similar. ROK was acquired in December 2009 and, since that time, the consolidated entity has, and continues to, integrate the activities of ROK and MSF such that that they are operated as one business unit. The consolidated entity expects that, in due course, the activities of this segment will be conducted within one legal entity as a single seamless business unit. Taking these factors into account, it was considered appropriate to revise the basis of the segmentation of the consolidated entity.

The wealth management sector, other than that it has been renamed, is the same as the TPT segment as disclosed in the last annual financial report.

The basis of the measurement of segment results, assets and liabilities has not changed from prior periods. The comparative information has been revised to reflect the new segments.

	Consolidated		Company	
	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
12 Cash and cash equivalents				
Cash on hand	57,958	66,835	2,807	1,605
Total cash and cash equivalents	**57,958**	**66,835**	**2,807**	**1,605**
13 Available for sale financial assets				
Due from banks	210,179	280,042	-	-
Due from other non-bank financial institutions	111,437	115,802	-	-
Total due from other financial institutions	**321,616**	**395,844**	**-**	**-**
14 Receivables				
Interest receivable	1,445	1,999	-	-
Related party receivables				
- Controlled entities within the wholly owned consolidated entity	-	-	4,280	1,469
Other receivables	21,138	23,539	8	124
Total receivables	**22,583**	**25,538**	**4,288**	**1,593**
15 Loans held at amortised cost				
(a) Classification				
Residential home loans	2,833,096	2,789,768	-	-
Personal loans	168,050	191,355	-	-
Commercial and industrial loans	50,553	57,312	-	-
Total loans	**3,051,699**	**3,038,435**	**-**	**-**
Provision for doubtful debts	(826)	(650)	-	-
Total net loans	**3,050,873**	**3,037,785**	**-**	**-**

15 Loans held at amortised cost (continued)

	Consolidated		Company	
	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
(b) Provision for doubtful debts				
Specific provision				
Opening balance	650	1,564	-	-
Charge / (credit) against profit	200	(914)	-	-
Write-off of previously provisioned facilities	(79)	-	-	-
Closing balance	**771**	**650**	**-**	**-**
Individually assessed provisions				
Opening balance	-	-	-	-
Charge / (credit) against profit	55	-	-	-
Closing balance	**55**	**-**	**-**	**-**
(c) Charge to profit for bad and doubtful debts comprises:				
- Bad debts recovered	(1,609)	(1,537)	-	-
- Bad debts written off directly	2,206	4,079	-	-
- Increase / (decrease) in collective provisions	200	(914)	-	-
- Increase / (decrease) in specific provisions	55	-	-	-
Total charge for bad and doubtful debts	**852**	**1,628**	**-**	**-**

There are no loans that individually represent 10% or more of shareholders' equity. The Banking Group has a diversification of the geographical location of customers, with the primary customer bases being in Tasmania and Queensland and the majority of the remaining customers being in Victoria and New South Wales.

16 Other investments

Shares in Cuscal Limited	3,347	3,347	-	-
Shares in subsidiaries	-	-	237,511	237,511
Other Investments	1,673	1,673	-	-
Total other investments	**5,020**	**5,020**	**237,511**	**237,511**

17 Assets classified as held for sale

Land and buildings	2,125	-	-	-

Assets classified as held for includes one freehold properties, located in Hobart.

18 Property, plant and equipment

	Consolidated				
	Furniture, fittings and equipment at cost $ '000	Building Fit Outs $ '000	Land & Buildings at Cost $ '000	Land and buildings at independent valuation $ '000	Total $ '000
Year ended 30 June 2014					
At 1 July 2013, net of accumulated depreciation	2,795	6,480	3,438	5,105	17,818
Assets classified as held for sale	-	-	(2,125)	-	(2,125)
Reclassification	142	659	(1,253)	468	16
Additions	188	1,362	-	-	1,550
Disposals	(16)	-	-	(368)	(384)
Impairment	-	-	-	(476)	(476)
Depreciation charge for the year	(1,085)	(1,662)	-	(156)	(2,903)
At 30 June 2014, net of accumulated depreciation	**2,024**	**6,839**	**60**	**4,573**	**13,496**
At 30 June 2014					
Cost or fair value	7,540	11,617	60	4,657	23,874
Accumulated depreciation	(5,516)	(4,778)	-	(84)	(10,378)
Net carrying amount	**2,024**	**6,839**	**60**	**4,573**	**13,496**

18 Property, plant and equipment (continued)

	Consolidated				
	Furniture, fittings and equipment at cost $ '000	Building Fit Outs $ '000	Land & Buildings at Cost $ '000	Land and buildings at independent valuation $ '000	Total $ '000
Year ended 30 June 2013					
At 1 July 2012, net of accumulated depreciation	4,343	5,984	3,546	2,816	16,689
Reclassification	(793)	(164)	164	793	-
Additions	851	2,009	47	1,698	4,605
Disposals	(386)	(128)	(226)	-	(740)
Depreciation charge for the year	(1,220)	(1,221)	(93)	(202)	(2,736)
At 30 June 2013, net of accumulated depreciation	**2,795**	**6,480**	**3,438**	**5,105**	**17,818**
At 30 June 2013					
Cost or fair value	7,272	9,607	3,650	5,344	25,873
Accumulated depreciation	(4,477)	(3,127)	(212)	(239)	(8,055)
Net carrying amount	**2,795**	**6,480**	**3,438**	**5,105**	**17,818**

(1) Freehold land and buildings are carried at fair value. Had these land and buildings been recognised under the cost model, the carrying amount would have been: $1,789,230 (2013: $7,363,506).

19 Intangible assets and goodwill

	Consolidated			
	Goodwill $ '000	Software $ '000	Other $ '000	Total $ '000
Year ended 30 June 2014				
At 1 July 2013, net of accumulated amortisation	65,978	8,594	113	74,685
Additions	-	4,354	971	5,325
Disposals	-	-	-	-
Amortisation	-	(1,723)	(170)	(1,893)
At 30 June 2014, net of accumulated amortisation	**65,978**	**11,225**	**914**	**78,117**
At 30 June 2014				
Cost (gross carrying amount)	65,978	18,651	8,573	93,202
Accumulated amortisation	-	(7,426)	(7,659)	(15,085)
Net carrying amount	**65,978**	**11,225**	**914**	**78,117**

	Consolidated			
	Goodwill $ '000	Software $ '000	Other $ '000	Total $ '000
Year ended 30 June 2013				
At 1 July 2012, net of accumulated amortisation	65,978	5,570	414	71,962
Additions	-	4,628	-	4,628
Disposal	-	(11)	-	(11)
Amortisation	-	(1,593)	(301)	(1,894)
At 30 June 2013, net of accumulated amortisation	**65,978**	**8,594**	**113**	**74,685**
At 30 June 2013				
Cost (gross carrying amount)	65,978	14,274	7,516	87,768
Accumulated amortisation	-	(5,680)	(7,403)	(13,083)
Net carrying amount	**65,978**	**8,594**	**113**	**74,685**

19 Intangible assets and goodwill (continued)

For the purpose of impairment testing, goodwill recognised in a business acquisition is allocated to the consolidated entity's cash-generating units (CGUs) identified according to business segments, which represent the lowest level within the consolidated entity at which the goodwill is monitored for internal management purposes. The consolidated entity has identified two CGUs, the first CGU being Banking, made up of the ADI operations of the consolidated entity, the second CGU being Wealth Management (WM).

The aggregate carrying amounts of goodwill recorded within, and allocated for the purpose of impairment testing to each CGU are as follows:

	Consolidated	
CGU	**30 June 2014 $ '000**	**30 June 2013 $ '000**
Banking	40,189	40,189
Wealth Management	25,789	25,789
	65,978	**65,978**

The recoverable amounts for the relevant CGUs have been determined based on value-in-use calculations using cash flow projections from financial budgets approved by Board and Management. The Company's assessment of goodwill value-in-use exceeds the carrying value allocated to the CGUs and included in the accounts. The manner in which MyState Limited conducts each impairment assessment for each CGU is discussed in the following paragraphs.

Each CGU's value-in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2015 approved by the Board. Various 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 10.0% reflects the consolidated entity's post-tax nominal weighted average cost of capital, which has been calculated 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 assumptions are considered to be conservative. NIM is projected to be consistent with the budget outlook, which reflects the current low interest rate environment, which depresses this figure. Management expects that, over time, these assumptions will be positively exceeded. Management's assessment of Banking's value-in-use significantly exceeds its carrying value by 35%. Any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

19 Intangible assets and goodwill (continued)

The key assumption adopted in assessing WM'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. Taking into account Management's past experiences and external evidence, the assumption adopted is considered reasonable and conservative. Management’s assessment of WM's value-in-use significantly exceeds its carrying value by over 80%. Any reasonably possible change to assumptions used in Management’s assessment will not result in impairment.

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$ '000	$ '000	$ '000	$ '000
20 Deposits				
Deposits	2,225,690	2,310,298	-	-
Total deposits	**2,225,690**	**2,310,298**	**-**	**-**

Concentration of liabilities

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

	Consolidated 30 June 2014 $ '000	Consolidated 30 June 2013 $ '000	Company 30 June 2014 $ '000	Company 30 June 2013 $ '000
21 Interest bearing loans and borrowings				
Due to other financial institutions	988,942	980,805	-	-
Total Interest bearing loans and borrowings	**988,942**	**980,805**	**-**	**-**
22 Payables and other liabilities				
Accounts payable and other creditors	28,624	28,713	950	1,138
Related party payables	-	-	286	553
Accrued interest payable	15,140	18,660	-	-
Total payables and other liabilities	**43,764**	**47,373**	**1,236**	**1,691**
23 Derivatives				
Interest rate swap contracts - cash flow hedges	-	2,988	-	-
	-	**2,988**	**-**	**-**
24 Provisions				
Provision for annual leave	2,022	2,190	84	151
Provision for long service leave	3,572	3,421	141	76
	5,594	**5,611**	**225**	**227**
Due to be settled within 12 months	4,874	4,320	212	197
Due to be settled more than 12 months	720	1,291	13	30
	5,594	**5,611**	**225**	**227**
Opening balance	5,611	6103	227	561
Settled in the financial year	(1,954)	(1,749)	(136)	(109)
Increases / (decrease) to the provision	1,937	1,257	134	(225)
Closing balance	**5,594**	**5,611**	**225**	**227**

25 Share capital

	Consolidated		Company	
	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
Issued and paid up capital				
Ordinary shares fully paid	132,566	132,241	238,495	238,170

Movements in share capital

	Consolidated			
	30 June 2014		30 June 2013	
	Number of shares	Amount $ '000	Number of shares	Amount $ '000
Ordinary shares				
Opening balance	87,153,047	132,241	86,977,573	131,786
Shares issued pursuant to the Employee share scheme of the consolidated entity	24,398	114	35,090	117
Shares issued under the Executive long term incentive plan	84,550	211	140,384	338
Closing balance	**87,261,995**	**132,566**	**87,153,047**	**132,241**

Movements in share capital

	Company			
	30 June 2014		30 June 2013	
	Number of shares	Amount $ '000	Number of shares	Amount $ '000
Opening balance	87,153,047	238,170	86,977,573	237,715
Shares issued pursuant to the Employee share scheme of the consolidated entity	24,398	114	35,090	117
Shares issued under the Executive long term incentive plan	84,550	211	140,384	338
Closing balance	**87,261,995**	**238,495**	**87,153,047**	**238,170**

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.

26 Dividends

	Date of payment	Consolidated 30 June 2014 $ '000	Consolidated 30 June 2013 $ '000	Company 30 June 2014 $ '000	Company 30 June 2013 $ '000
a) Dividends paid					
2012 Final Dividend paid - 14 cents per share	4/10/2012	-	12,182	-	12,182
2013 Interim dividend paid - 14 cents per share	5/04/2013	-	12,196	-	12,196
2013 Final Dividend paid - 14 cents per share	4/10/2013	12,205	-	12,205	-
2014 Interim dividend paid - 14 cents per share	6/03/2014	12,212	-	12,212	-
		24,417	24,378	24,417	24,378

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

b) Dividends not recognised at the end of the financial year

At a Directors' meeting held on 21st August 2014, Directors resolved to pay a final dividend for the 2014 financial year of 14.5 cents per share or $12,653,000 total to be paid on the 3rd of October 2014, 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 $5,423,000.

27 Franking credit balance

	Consolidated 30 June 2014 $ '000	Consolidated 30 June 2013 $ '000	Company 30 June 2014 $ '000	Company 30 June 2013 $ '000
The amount of franking credits available for the subsequent financial year are:				
Franking account balance as at the end of the period at 30% (2013: 30%)	52,881	56,153	52,881	56,153
Franking credits that will arise from the payment of income tax payable at the end of the period	4,635	589	4,635	589

28 Reserves

Retained Earnings
The retained earnings reserve contains amounts of retained profits that have been set aside by Directors for the purpose of funding specific projects and asset replacement that are announced from time to time.

Asset revaluation reserve
The asset revaluation reserve is used to record increments in the value of non current assets.

Employee equity benefits reserve
This reserve is used to record the value of equity benefits provided to employees as part of their remuneration. It also records the tax benefit attributable to these transactions that is recognised directly in equity.

Hedging reserve
The cashflow hedge reserve constitutes movements in the fair value of the underlying interest rate swap derivative where it has been deemed to be effective. If, at any stage, the derivative is deemed to be ineffective, the fair value movement is taken from the reserve to the Income Statement.

Net unrealised gains reserve
This reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, since initial recognition or when impairment losses were recognised, until the investment is derecognised or deemed to be further impaired.

29 Statement of cash flows

(a) For the purpose of the Statement of Cash Flows, cash includes the items at note 1 (g) which are reconciled to the related items in the Statement of Financial Position.

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$ '000	$ '000	$ '000	$ '000
Cash on hand	57,958	66,835	2,807	1,605
Total cash and cash equivalents	**57,958**	**66,835**	**2,807**	**1,605**

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

(i) Customer deposits and withdrawals from savings and fixed-term deposit accounts;
(ii) Movements in investments;
(iii) Due from other financial institutions;
(iv) Loans from subsidiaries;
(v) Due to other financial institutions; and
(vi) Customer loans.

(c) Reconciliation from net profit to net cash flows provided by operating activities:

	Consolidated 30 June 2014 $ '000	Consolidated 30 June 2013 $ '000	Company 30 June 2014 $ '000	Company 30 June 2013 $ '000
Net profit after tax	29,571	28,457	24,415	24,375
Adjustments for				
Depreciation of non-current assets	2,903	2,736	-	-
Amortisation of non-current assets	1,893	1,894	-	-
Impairment of non-current assets	476	-	-	-
Net (gain)/ loss on sale of non current assets	(2)	(199)	-	-
Cash flow hedges	-	(2,770)	-	-
Dividends received	-	-	(24,417)	(24,378)
Bad and doubtful debts expense net of recoveries	852	1,628	-	-
Changes in assets and liabilities				
Decrease / (increase) in accrued interest	554	849	-	-
Decrease / (increase) in receivables	2,402	(2,238)	(4,166)	(70)
Decrease / (increase) in other assets	(1,314)	-		-
Decrease / (increase) in deferred tax assets	2,182	2,528	95	535
Increase / (decrease) in interest payable	(3,371)	(2,602)	-	-
Increase / (decrease) in other payables	(89)	311	98	(1,051)
Increase / (decrease) in derivatives	-	(4,355)	-	-
Increase / (decrease) in provision for employee benefits	(17)	(492)	(2)	(334)
Increase / (decrease) in provision for income tax liabilities	3,226	(777)	3,956	(2,422)
Increase / (decrease) in reserves	(206)	1,330	-	313
Net cash flows used in operating activities	**39,060**	**26,300**	**(21)**	**(3,032)**

30 Financial risk management

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

The main risks faced by the consolidated entity are market risk, credit risk, liquidity risk, operational risk, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual business units giving rise to them. It is the responsibility of the Risk Business Unit to ensure the appropriate assessment and management of these risks.

Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. Credit risk arises from the consolidated entity's lending activities and treasury investments.

The consolidated entity's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals and management committees, with oversight of credit risk exposures by the consolidated entity's Risk Committee. The consolidated entity's Credit Committee monitor credit related activities through regular reporting processes. The roles of funding and oversight of credit are separated.

The consolidated entity has ensured Board approved loans policies exist which outline 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 Company's Group Risk Committee on a regular basis. Any loan outside of delegated parameters must be approved by the Board prior to funding.

The consolidated entity's policy to control credit risk includes monitoring and regulation of large exposures to single counterparties or groups of counterparties.

The following tables detail the concentration of credit exposure of the consolidated entity's assets to significant counterparty types.

	Consolidated						
	Equivalent S&P rating		New facilities (1)		Existing facilities		
	A+ and above	A- and below	Closely monitored (2)	No default (3)	Closely monitored (2)	No default (3)	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2014							
Cash and liquid assets	57,958	-	-	-	-	-	57,958
Due from other financial institutions	148,120	173,496	-	-	-	-	321,616
Financial assets other than loans and advances	**206,078**	**173,496**	**-**	**-**	**-**	**-**	**379,574**
Gross loans and advances at amortised cost	-	-	1,251	618,376	21,208	2,410,038	3,050,873
Total financial assets	**206,078**	**173,496**	**1,251**	**618,376**	**21,208**	**2,410,038**	**3,430,447**

30 Financial risk management (continued)

	Consolidated						
	Equivalent S&P rating		New customers (1)		Existing Customers		
	A+ and above	A- and below	Closely monitored (2)	No default (3)	Closely monitored (2)	No default (3)	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2013							
Cash and liquid assets	66,835	-	-	-	-	-	66,835
Due from other financial institutions	248,630	147,214	-	-	-	-	395,844
Financial assets other than loans and advances	**315,465**	**147,214**	**-**	**-**	**-**	**-**	**462,679**
Gross loans and advances at amortised cost	-	-	843	540,317	20,248	2,476,377	3,037,785
Total financial assets	**315,465**	**147,214**	**843**	**540,317**	**20,248**	**2,476,377**	**3,500,464**

(1) New facilities are loans that have been funded within the financial year.
(2) Closely monitored facilities are those which have overdue loan repayments in excess of 30 days or overdue overdraft repayments in excess of 14 days.
(3) "No default" facilities are those facilities where there is no history of default, late payments, renegotiated terms or breach of its credit terms.

30 Financial risk management (continued)

Loans and advances which were past due but not impaired

Loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal and interest amounts due.

	Consolidated		Company	
	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
Non-accrual loans				
With provisions	2,889	2,211	-	-
Specific provision for impairment	(826)	(650)	-	-
Net non-accrual loans	**2,063**	**1,561**	**-**	**-**

As at 30 June 2014, the ageing of loans held at amortised cost was as follows:

Past due but not impaired				
31 to 60 days	16,004	8,421	-	-
61 to 90 days	6,830	3,513	-	-
More than 90 days	8,149	5,578	-	-
Total past due but not impaired	30,983	17,512	-	-
Impaired	2,889	2,211	-	-
Total	**33,872**	**19,723**	**-**	**-**
Fair value of collateral held	**43,845**	**43,313**	**-**	**-**

The Banking Group hold collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees and mortgage insurance. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except where a loan is individually assessed as impaired.

30 Financial risk management (continued)

Liquidity risk management

Liquidity risk is the risk that the consolidated entity is unable to meet its financial and statutory obligations as they fall due, which could arise due to mismatches in cash flows. The consolidated entity's liquidity risk management framework ensures that the consolidated entity is able to meet its funding requirements as they fall due under a range of market conditions. The primary liquidity objective is to fund in a way that will facilitate growth (and income) in core business under a wide range of market conditions.

The Group's ALCOs assist the Board with oversight of asset and liability management including liquidity risk management. The consolidated entity's liquidity policies are approved by the Board after endorsement by the Group Risk Committee and the Banking Group's ALCO. The Banking Group's funding and liquidity management is performed centrally by Treasury, with oversight from their ALCO. The Wealth Management's funding and liquidity management is performed centrally by the Investment Services Division. These Divisions manage liquidity on a daily basis and provide regular reports to the Group Risk Committee and the Group's ALCOs.

The consolidated entity models liquidity scenarios over a twelve month timeframe, taking into account past and expected future cashflows. The objective of this modelling is to determine the consolidated entity's capacity for asset growth, whilst meeting all financial and statutory obligations over the next twelve months. The maturity analysis in this note highlights mis-matches in maturities between asset and liability classes, which is taken into consideration when modelling future cashflow constraints.

The consolidated entity maintains a portfolio of highly liquid assets to ensure adequate funding is available under all forseeable conditions. These liquid assets are held to cover both known and contingent funding outflows. The assets are predominantly held in the most liquid asset classes such as short dated inter-bank deposits.

The Banking Group's Treasury and the Wealth Management Groups Investment Services Divisions undertake regular reviews of the liquidity characteristics of the consolidated entity's Statement of Financial Position, which provides an understanding of the liquidity characteristics of assets and liabilities against a backdrop of changing market conditions. The analysis ensures that the Statement of Financial Position is able to be appropriately funded and the liquidity ramifications of market conditions are clearly understood.

30 Financial risk management (continued)

Liquidity facilities

The consolidated entity has an approved overdraft of $13.5 million with Cuscal Limited. Cuscal Limited holds an equitable charge over all the assets of MSF as security for facilities provided. In addition, there is an MSF uncommitted $20 million overnight facility with the National Australia Bank. Bendigo and Adelaide Bank Limited (BABL) provides an overdraft facility of $100,000, a business card facility of $100,000, and an asset purchase/lease facility of $200,000.

At 30 June 2014, the ConQuest Securities securitisation program had a number of support facilities available provided by Westpac Banking Corporation, including a $5 million cash advance facility specifically available to meet cash shortfalls as a result of the timing of the receipt of payments on loans and a $200 million liquidity facility available for the repayment of maturing ConQuest notes in the event that the notes could not be reissued within the market place at the time of maturity. As at 30 June 2014, this facility had not been used since the inception of the program.

A liquidity facility of $1.4 million is supplied to the ConQuest 2007-1 Trust by the Commonwealth Bank of Australia Limited for the express purpose of meeting any payment shortfalls as defined in the ConQuest 2007-1 Series Notice. At reporting date, this facility had not been used.

A liquidity facility of $3.6 million is available to the ConQuest 2013-1 Trust by the Westpac Banking Corporation for the express purpose of meeting any payment shortfalls as defined in the ConQuest 2013-1 Series Notice. At reporting date, this facility has not been used.

ConQuest 2010-1R Trust has collateral liquidity of $1 million held in a separate account with Bankwest to provide liquidity support. As at 30 June 2014, this facility has not been used. The ConQuest 2010-2 Trust has collateral liquidity of $2.1 million held in a separate account with Bankwest to provide liquidity support which can be used. MSF provides a redraw facility to the ConQuest 2010-2 Trust of $500,000 to meet redraw commitments if there are cash shortfalls. MSF provides a redraw facility to the ConQuest 2013-1 Trust of $454,000 to meet redraw commitments if there are cash shortfalls. As at 30 June 2014, all facilities had not been used.

A number of facilities are provided to entities controlled by the ROK. The RBS Trust 2007-1 has collateral liquidity of $1.4 million held in a separate account with Westpac Banking Corporation to provide liquidity support. This facility was wound up after the call of this transaction in July 2013, and this facility had not been used up to this time.

The following table summarises the maturity profile of financial assets and liabilities as at 30 June 2014 based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice was given immediately. However, it is expected that many customers will not request repayment on the earliest date that the consolidated entity could be required to pay and the table does not reflect the expected cashflows indicated by deposit retention history.

30 Financial risk management (continued)

	Consolidated					
	On demand	3 months or less	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2014						
Assets						
Available for sale assets	4,060	241,576	49,725	25,013	1,242	321,616
Receivables	-	22,583	-	-	-	22,583
Loans	95,780	61,760	184,295	876,686	1,832,352	3,050,873
Other investments	4,020	1,000	-	-	-	5,020
Total	**103,860**	**326,919**	**234,020**	**901,699**	**1,833,594**	**3,400,092**
Liabilities						
Due to Banks and other financial institutions	-	477,014	107,512	11,000	393,416	988,942
Deposits	1,053,934	570,750	567,869	33,137	-	2,225,690
Payables	-	43,764	-	-	-	43,764
Total	**1,053,934**	**1,091,528**	**675,381**	**44,137**	**393,416**	**3,258,396**
Net mismatch	**(950,074)**	**(764,609)**	**(441,361)**	**857,562**	**1,440,178**	**141,696**

	Consolidated					
	On demand	3 months or less	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2013						
Assets						
Available for sale assets	10,021	231,385	65,408	89,030	-	395,844
Receivables	-	25,538	-	-	-	25,538
Loans	117,841	68,571	185,971	899,136	1,766,266	3,037,785
Other investments	4,020	1,000	-	-	-	5,020
Total	**131,882**	**326,494**	**251,379**	**988,166**	**1,766,266**	**3,464,187**
Liabilities						
Due to Banks and other financial institutions	-	434,969	40,779	-	505,057	980,805
Deposits	968,372	698,106	606,689	36,964	167	2,310,298
Payables	-	47,373	-	-	-	47,373
Total	**968,372**	**1,180,448**	**647,468**	**36,964**	**505,224**	**3,338,476**
Net mismatch	**(836,490)**	**(853,954)**	**(396,089)**	**951,202**	**1,261,042**	**125,711**
Derivative financial liabilities	**(135,000)**	**10,000**	**125,000**			

30 Financial risk management (continued)

Market Risk

Market risk is the exposure to adverse changes in the value of the consolidated entity's portfolio as a result of changes in market prices or volatility. The consolidated entity is exposed to the following risks:

- Interest rates: changes in the level, shape and volatility of yield curves;
- The basis between different interest rate securities; and
- Derivatives and credit margins.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date, with all other variables held constant.

Judgements of reasonably possible movements:	Net profit after tax higher/(lower)	
	2014	2013
	$ '000	$ '000
+ 1.0% (100 basis points)	5,785	5,232
- 0.5% (50 basis points)	(2,893)	(2,616)

Derivative financial Instruments

The consolidated entity uses derivatives to hedge asset/liability management and only enters into cash flow hedges to mitigate the exposure to volatility in future interest cash flows.

At 30 June 2014, the fair value of outstanding derivatives held and designated as cash flow hedges was $Nil (2013: $2,988,040).

The consolidated entity only uses interest rate swaps for hedging purposes. Swap transactions provide for two parties to swap a series of interest rate cash flows in relation to an underlying principal amount, usually to exchange fixed interest for a floating interest rate.

MSF provides a Basis Swap to the ConQuest 2010-2 RMBS Trust and Conquest 2013-1 Trust to reduce the potential volatility in changing rates given a potential delay in effecting a lending rate change against an immediate change in the base rate of the notes (i.e. BBSW). Given the amount of the payments, the consolidated entity does not consider the amounts to be material to require the derivative to be valued on the face of the Statement of Financial Position. ROK provides Interest Rate Swaps to the RBS Warehouse Trust No2 and the RBS Trust 2009R, to convert the loan interest of these trusts from fixed to floating, which is consistent with the character of the interest on the notes that have been issued by the trusts. As the Interest Rates Swaps are between entities within the consolidated group, their fair value is not shown on the face of the Statement of Financial Position.

30 Financial risk management (continued)

The consolidated entity uses Value-At-Risk (VAR) to monitor market risk. VAR is a statistical measure based on a 20 day holding period and 99 per cent confidence level. The consolidated entity uses a historical simulation method for the calculation of VAR. VAR focuses on unexceptional prices moves and it does not account for losses that occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VAR in predicting future price moves when changes to future risk factors deviate from the movements expected by the assumptions.

The following table shows the average, maximum and minimum VAR over the year for interest rate market risk.

	Consolidated Entity		Company	
	2014 $M	2013 $M	2014 $M	2013 $M
Average	3.138	2.910	-	-
Maximum	3.433	3.758	-	-
Minimum	2.654	2.237	-	-

30 Financial risk management (continued)

Interest rate risk

The consolidated entity also has exposure to interest rate risk generated by banking products such as loans and deposits. Interest rate risk is assessed by the consolidated entity's Group Risk Committee and ALCO on a regular basis. The consolidated entity has entered into interest rate swaps to reduce the exposure to fluctuations in variable interest rates. These derivative instruments have been classified as cash flow hedges.

The following table represents the consolidated entity's contractual interest rate risk sensitivity from repricing mismatches as at 30 June 2014 and the corresponding weighted average effective interest rates.

Consolidated
Asset and Liability Repricing

	Floating interest rate $ '000	1 year or less $ '000	Between 1 and 5 years $ '000	More than 5 years $ '000	Non interest bearing $ '000	Carrying amount in Statement of Financial Position $ '000	Weighted average effective interest rate %
2014							
Assets							
Cash and liquid assets	44,455	-	-	-	13,503	57,958	3.08%
Available for sale assets	-	295,360	25,013	1,243	-	321,616	3.39%
Receivables	-	-	-	-	22,583	22,583	0.00%
Loans	2,487,888	28,558	110,359	424,068	-	3,050,873	5.67%
Other investments	-	1,000	-	-	4,020	5,020	0.85%
Total financial assets	**2,532,343**	**324,918**	**135,372**	**425,311**	**40,106**	**3,458,050**	
Liabilities							
Deposits	1,053,934	721,743	417,559	32,454	-	2,225,690	3.57%
Interest bearing liabilities and borrowings	-	405,929	11,000	572,013	-	988,942	3.19%
Payables and other liabilities	-	-	-	-	43,764	43,764	0.00%
Total financial liabilities	**1,053,934**	**1,127,672**	**428,559**	**604,467**	**43,764**	**3,258,396**	
Net mismatch	**1,478,409**	**(802,754)**	**(293,187)**	**(179,156)**	**(3,658)**	**199,654**	

30 Financial risk management (continued)

Consolidated
Asset and Liability Repricing

	Floating interest rate	1 year or less	Between 1 and 5 years	More than 5 years	Non interest bearing	Carrying amount in Statement of Financial Position	Weighted average effective interest rate
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	%
2013							
Assets							
Cash and liquid assets	52,993	-	-	-	13,842	66,835	2.39%
Available for sale assets	9,445	296,793	89,030	-	576	395,844	3.74%
Receivables	-	-	-	-	25,538	25,538	0.00%
Loans	2,468,459	270,944	297,841	541	-	3,037,785	6.29%
Other investments	-	1,000	-	-	4,020	5,020	0.85%
Total financial assets	**2,530,897**	**568,737**	**386,871**	**541**	**43,976**	**3,531,022**	
Liabilities							
Deposits	968,372	1,304,795	36,964	167	-	2,310,298	3.54%
Interest bearing liabilities and borrowings	-	781,026	-	199,779	-	980,805	4.28%
Payables and other liabilities	-	1,137	-	-	46,236	47,373	0.00%
Total financial liabilities	**968,372**	**2,086,958**	**36,964**	**199,946**	**46,236**	**3,338,476**	
Net mismatch	**1,562,525**	**(1,518,221)**	**349,907**	**(199,405)**	**(2,260)**	**192,546**	
Derivatives	(245,000)	110,000	135,000	-	-	-	

30 Financial risk management (continued)

Capital management strategy

The consolidated entity's capital management strategy is to 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.

- Continue to support MSF's and ROK's credit ratings;
- Ensure sufficient capital resource to support the consolidated entity's business and operational requirements;
- Maintain sufficient capital to exceed prudential capital requirements; and
- Safeguard the consolidated entity's ability to continue as a going concern.

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

The consolidated entity has developed a detailed Internal Capital Adequacy Assessment Plan (ICAAP). This plan covers the capital requirements of the Company and also MSF, ROK and TPT.

The ICAAP aims to ensure that adequate planning activities take place so that the consolidated entity is efficiently capitalised to a level also satisfactory to regulators. The ICAAP caters for all known financial events, dividend policy, capital raisings, securitisation and the potential to establish a dividend reinvestment plan in the future.

The consolidated entity is subject to minimum capital requirements externally imposed by Australian Prudential Regulatory Authority (APRA), following the guidelines developed by the Basel Committee on Banking Supervision. MSF and ROK report to APRA as Authorised Deposit Taking Institutions (ADI). The Company reports to APRA as a non-operating holding company (NOHC). As at reporting date, MSF's Level One capital adequacy ratio was 13.31% (2013: 13.46%), ROK's Level One capital adequacy ratio was 13.54% (2013: 13.45%) and the consolidated entity's Level Two ratio was 13.81% (2013: 14.04%).

Regulatory capital requirements are measured for MSF, ROK and certain subsidiaries which meet the definition of extended licensed entities (Level 1 reporting) and for the Group (Level 2 reporting). Level 2 consists of MSF, ROK, their subsidiaries and immediate parent less certain subsidiaries of MSF and ROK which are deconsolidated for APRA reporting purposes. These entities conduct non-financial operations or are special purpose vehicles. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least four per cent 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 consolidated entity's capital management policy, set by the Board, requires capital floors above this regulatory required level.

30 Financial risk management (continued)

MSF, ROK and certain subsidiaries utilise residential mortgage backed securities programmes to manage liquidity and capital adequacy requirements, in accordance with the operational needs of the business.

MSF’s and ROK Limited's Tier 1 capital consists of share capital and retained earnings. Deductions from Tier 1 capital are made for intangibles, certain capitalised expenses, deferred tax assets and equity investments over prescribed limits. In addition, MSF and ROK are required by APRA to deduct investments in subsidiaries that are special purpose securitisation vehicles from Tier 1 capital. The consolidated entity's Tier 2 capital includes the general reserve for credit losses as required by APRA.

MSF, ROK and the consolidated entity have complied with all internal and external capital management requirements throughout the year.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The consolidated entity cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

31 Average balances and related interest

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 consolidated entity and average interest rates. Averages used are predominantly monthly averages. Interest income figures include interest income on non-accruing loans to the extent that cash payments have been received.

	Consolidated 2014			Consolidated 2013		
	Average balance $ '000	Interest $ '000	Average rate %	Average balance $ '000	Interest $ '000	Average rate %
Average assets and interest income						
Interest-earning assets						
Cash and liquid assets	62,397	1,126	1.81%	73,291	1,396	2.05%
Due from other financial institutions	363,750	12,713	3.50%	338,420	16,267	3.95%
Loans	3,044,329	163,880	5.38%	3,059,725	186,795	6.10%
Total average interest-earning assets	**3,470,476**	**177,719**	**5.12%**	**3,471,436**	**204,458**	**5.89%**
Non interest earning assets						
Property, plant and equipment	93,120	-	0.00%	19,427	-	-
Other assets	29,186	-	0.00%	102,587	-	-
Total average non interest earning assets	**122,306**	**-**	**0.00%**	**122,014**	**-**	**-**
Total average assets	**3,592,782**	**177,719**	**4.95%**	**3,593,450**	**204,458**	**5.69%**
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits	1,956,656	63,806	3.26%	2,334,803	80,224	3.44%
Due to other financial institutions	311,338	7,739	2.49%	289,772	13,300	4.59%
ConQuest Notes and bonds on issue	984,873	21,785	2.21%	715,357	25,453	3.56%
Total average interest-bearing liabilities	**3,252,867**	**93,330**	**2.87%**	**3,339,932**	**118,977**	**3.56%**
Non interest bearing liabilities						
Other	55,741	-	0.00%	47,731	-	-
Total average non interest bearing liabilities	**55,741**	**-**	**0.00%**	**47,731**	**-**	**-**
Total average liabilities	**3,308,608**	**93,330**	**2.82%**	**3,387,663**	**118,977**	**3.51%**
Reserves	282,679	-	0.00%	274,131	-	-
Total average liabilities and reserves	**3,591,287**	**93,330**	**2.60%**	**3,661,794**	**118,977**	**3.25%**

32 Maturity analysis of assets and liabilities

The following table shows the maturity profile of the consolidated entity's assets and liabilities. This analysis is based upon contractual terms.

	Consolidated							
	At call	Overdraft	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due in over 5 years	No maturity specified	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2014								
Assets								
Cash and liquid assets	57,958	-	-	-	-	-	-	57,958
Due from other financial institutions	4,060	-	241,575	49,725	25,013	1,243	-	321,616
Receivables	-	-	22,583	-	-	-	-	22,583
Loans	-	92,806	7,376	24,849	50,826	2,875,016	-	3,050,873
Other investments	4,020	-	1,000	-	-	-	-	5,020
Total financial assets	**66,038**	**92,806**	**272,534**	**74,574**	**75,839**	**2,876,259**	**-**	**3,458,050**
Liabilities								
Deposits	1,053,934	-	570,750	567,869	33,137	-	-	2,225,690
Due to other financial institutions	-	-	477,014	107,512	11,000	393,416	-	988,942
Accounts payable and other liabilities	-	-	43,764	-	-	-	-	43,764
Total financial liabilities	**1,053,934**	**-**	**1,091,528**	**675,381**	**44,137**	**393,416**	**-**	**3,258,396**

	Consolidated							
	At call	Overdraft	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due in over 5 years	No maturity specified	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2013								
Assets								
Cash and liquid assets	66,835	-	-	-	-	-	-	66,835
Due from other financial institutions	10,021	-	231,385	65,408	89,030	-	-	395,844
Receivables	-	-	25,502	-	-	-	-	25,502
Loans	-	105,019	12,871	43,109	216,234	2,660,552	-	3,037,785
Other investments	-	-	1,000	-	-	-	4,020	5,020
Total financial assets	**76,856**	**105,019**	**270,758**	**108,517**	**305,264**	**2,660,552**	**4,020**	**3,530,986**
Liabilities								
Deposits	968,372	-	698,106	606,689	36,964	167	-	2,310,298
Due to other financial institutions	-	-	434,969	40,779	-	505,057	-	980,805
Accounts payable and other liabilities	-	-	47,373	-	-	-	-	47,373
Total financial liabilities	**968,372**	**-**	**1,180,448**	**647,468**	**36,964**	**505,224**	**-**	**3,338,476**

33 Net fair value

The aggregate net fair values of financial assets and financial liabilities, at balance date, are as follows:

	Consolidated			
	2014		2013	
	Carrying value $ '000	Net fair value $ '000	Carrying value $ '000	Net fair value $ '000
Assets				
Cash and liquid assets	57,958	57,958	66,835	66,835
Due from other financial institutions	321,616	321,616	395,844	395,844
Receivables	25,502	25,502	25,502	25,502
Loans	3,050,873	3,144,546	3,037,785	3,043,938
Other investments	5,020	5,020	5,020	5,020
Land and buildings	4,633	4,633	8,543	8,543
Total financial assets	**3,465,602**	**3,559,275**	**3,539,529**	**3,545,682**
Liabilities				
Deposits	2,225,690	2,310,031	2,310,298	2,310,462
Due to other financial institutions	988,942	988,942	980,805	980,805
Accounts payable	43,764	43,764	47,373	47,373
Total financial liabilities	**3,258,396**	**3,342,737**	**3,338,476**	**3,338,640**

Fair values have been determined as follows:

- All assets and liabilities with a maturity of less than 12 months were determined based on the assumption that the carrying amounts in the Statement of Financial Position approximate fair value because of their short term to maturity.
- The fair value of available for sale financial assets with more than 12 months to maturity are $26.256 million.
- The fair value of loans at amortised cost includes loans with a floating interest rate of $2,468.459 million. Loans with a fixed interest rate and more than 12 months to maturity are $298.382 million.
- The net fair value of deposits with more than 12 months to maturity assumes the carrying amount is discounted by the market rate.
- The net fair value of fixed loans with more than 12 months to maturity assumes the carrying amount is discounted by the market rate.
- The fair value of Land and buildings has been determined by an independent valuer using observable market data.

34 Contingent liabilities and expenditure commitments

	Consolidated		Company	
	30 June 2014 $ '000	30 June 2013 $ '000	30 June 2014 $ '000	30 June 2013 $ '000
(a) Lease expenditure commitments				
(i) Operating leases				
- not later than 1 year	3,527	4,252	-	-
- later than 1 and not later than 5 years	10,139	13,413	-	-
- later than 5 years	14,158	20,506	-	-
Total lease expenditure contracted for at balance date	**27,824**	**38,171**	**-**	**-**

The consolidated entity 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, MSF 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 consolidated entity also entered into a lease of a property situated in Launceston, which is principally used to house elements of the 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 years and are non-cancellable. Assets that are the subject of operating leases are computer equipment and property.

(b) Loans approved but not advanced	46,742	30,396	-	-
(c) Undrawn continuing lines of credit	81,611	88,102	-	-
(d) Performance guarantees	1,667	2,011	-	-

MSF 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.

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 MSF is crystallised in the form of an overdraft or loan.

34 Contingent liabilities and expenditure commitments (continued)

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$ '000	$ '000	$ '000	$ '000
(e) Bank Guarantee	1,000	1,000	-	-

The consolidated entity 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 consolidated entity maintains a deposit with BABL for $1,000,000 (2013: $1,000,000) as collateral for the guarantee.

(f) Loan Guarantees	138	140	-	-

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 consolidated entity providing the loan guarantee.

(g) Contracts

The consolidated entity has contracted computer requirements to Transaction Solutions Proprietary Limited.

(h) Estate Administration

The consolidated entity acts as executor and trustee for a significant number of trusts and estates. In this capacity, the consolidated entity 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.

35 Capital and other expenditure commitments

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

36 Employee benefits

	Note	Consolidated		Company	
		30 June 2014	30 June 2013	30 June 2014	30 June 2013
		$ '000	$ '000	$ '000	$ '000
The aggregated employee benefit liability is comprised of the following:					
Bonus		431	1,286	93	571
Provisions	24	5,594	5,611	225	227
Total employee benefits		**6,025**	**6,897**	**318**	**798**

Superannuation commitments
Superannuation plans have been established for the provision of benefits to employees on retirement, death or disability. Benefits provided under the plan are based on contributions for each employee. Employees contribute various percentages of their annual salaries and the consolidated entity contributed between 9% and 14% of the employees annual salaries, thus complying with the Superannuation Guarantee Legislation. As the superannuation plans are accumulation schemes, the consolidated entity does not guarantee their performance.

37 Related parties

(i) Ultimate Parent Company
MyState Limited is the ultimate parent company.

(ii) Significant subsidiaries

Name	Country of incorporation	Ownership interest 30 June 2014 %	Ownership interest 30 June 2013 %
MyState Financial Limited	Australia	100	100
Tasmanian Perpetual Trustees Limited	Australia	100	100
Connect Asset Management Proprietary Limited	Australia	100	100
The Rock Building Society Limited	Australia	100	100

(iii) Subsidiaries
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.

37 Related parties (continued)

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$ '000	$ '000	$ '000	$ '000
Management fees received	-	-	7,172	7,233
Dividends	-	-	24,419	24,373
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	-	-	4,280	(553)
Amounts payable	-	-	286	1,468

(iv) Managed Investment Schemes

Within the consolidated entity, 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 has 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:

	TPT	
	30 June 2014	30 June 2013
	$ '000	$ '000
Management fees received	9,188	8,950
Balance of investment held at year end	6,346	5,299
Distributions received from managed funds	350	254

The Company has 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		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$ '000	$ '000	$ '000	$ '000
Management fees received	9,188	8,950	-	-
Balance of investment held at year end	13,498	9,317	7,152	4,018
Distributions received from managed funds	502	408	152	154

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 MSF, in the form of term deposits, totalling $10.1 million (2013: $18.1 million); and
- Loaned money to ConQuest 2010-2 Trust, in the form of Class B RMBS notes, totalling $8.7 million (2013: $10.3 million).

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

37 Related parties (continued)

(v) MyState Financial Limited

The Group has a securitisation program which is utilised to provide regulatory capital relief. Under this program, MSF and Rock sell loans to special purpose vehicles transferring the risks of these loans and the vehicles fund the purchases of these sales by issuing notes in the trust to wholesale investors. The assets and liabilities of the trusts are proportionally consolidated in to the Group as the Group retains the rights to the variable returns of the loans that it has transferred in to the trusts.

The Group has established Connect Asset Management Proprietary Limited, ConQuest 2007-1 Trust, ConQuest 2010-1R Trust, ConQuest 2010-2 Trust through MSF. The Group has established the RBS2007-1 Trust, RBS 2009R Trust, and RBS Warehouse Trust #2 through the ROK. Both MyState Financial and the Rock Building Society have an interest in the ConQuest 2013-1 Trust and ConQuest Mortgage Trust.

The special purpose vehicles are charged a range of fees to the trusts for the management and operation of the loans transferred to them. These transactions are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions and are eliminated on consolidation. Details of the transactions with these related parties are as follows:

Loan servicing fee

A loan servicing fee based on the outstanding monthly balance of the loans sold to the trust is charged to each Trust at an interest rate of 0.25% per annum to cover the servicing of the loan portfolio transferred. MSF charges Loan Servicing Fees to ConQuest 2010-1R Trust and Conquest 2010-2 Trust. The ROK charges Loan Servicing Fees to RBS 2007-1 Trust, RBS 2009R Trust and RBS Warehouse Trust #2. Conquest Mortgage Trust and the Conquest 2013-1 Trust has loans sold to it from both MSF and ROK, each company charges the trust a loan servicing fee based on the percentage of outstanding loans that it has sold to the trust.

Interest rate swaps

ROK and the RBS 2009R Trust have entered into an interest rate swap contract. Payments under this contract are determined on the outstanding monthly balance of the fixed rate loans sold into the RBS 2009R Trust at a rate calculated as the difference between the weighted average interest rate of the outstanding fixed rate loans and the one month BBSW rate plus the required swap margin.

ROK and the RBS Warehouse Trust #2 have entered into an interest rate swap contract. Payments under this contract are determined on the outstanding monthly balance of the fixed rate loans sold into the RBS Warehouse Trust #2 at a rate calculated as the difference between the weighted average interest rate of the outstanding fixed rate loans and the one month BBSW rate plus the required swap margin.

ROK and the ConQuest 2013-1 Trust have entered into an interest rate swap contract. Payments under this contract are determined on the outstanding monthly balance of the fixed rate loans sold into the ConQuest 2013-1 Trust at a rate calculated as the difference between the weighted average interest rate of the outstanding fixed rate loans and the one month BBSW rate plus the required swap margin.

37 Related parties (continued)

Custodian and management fees

Connect Asset Management Proprietary Limited operates as the manager for the ConQuest and RBS securitisation programmes and has since October 2012. The ROK operates in the role of custodian for assets originated via the Rock Building Society. Details of these transactions with these related parties are as follows:

	Receivable / (payable) at year end $ 000	Swap interest income / (expense) $ 000	Service fees income / (expense) $ 000	Loans securitised at year end $ 000
2014				
- MyState Financial Limited	872	-	3,513	(421,614)
- Connect Asset Management Proprietary Limited	527	-	5,173	-
- ConQuest Mortgage Trust	(311)	-	(6,106)	129,630
- ConQuest Securities	162	-	4,201	-
- ConQuest 2010-1R Trust	(238)	-	(5,711)	104,137
- ConQuest 2010-2 Trust	(233)	-	(1,353)	94,961
- ConQuest 2013-1 Trust	(686)	(1,283)	283	227,001
- ConQuest 2007-1 Trust	(93)	-	1,325	55,163
- The Rock Building Society Limited	9	1,832	(2)	(189,278)
- RBS 2007-1 Trust	-	-	74	-
- RBS 2009R Trust	(9)	(3)	(1,093)	-
- RBS Warehouse Trust #2	-	(546)	(304)	-
2013				
- MyState Financial Limited	(710)	-	2,194	(445,784)
- Connect Asset Management Proprietary Limited	388	-	(42)	-
- ConQuest Mortgage Trust	(224)	-	(183)	149,701
- ConQuest Securities	289	-	-	-
- ConQuest 2010-1R Trust	187	-	(265)	100,267
- ConQuest 2010-2 Trust	75	-	(1,491)	125,832
- ConQuest 2007-1 Trust	(5)	-	(212)	86,621
- The Rock Building Society Limited	27	2,429	3,640	(333,338)
- RBS 2005-1 Trust	-	-	(23)	-
- RBS 2007-1 Trust	-	-	(77)	25,795
- RBS 2009R Trust	(27)	(260)	(2,754)	37,094
- RBS Warehouse Trust #2	-	(2,169)	(786)	253,812

37 Related parties (continued)

(vi) Key Management Personnel

a) Individual Directors and Executive compensation disclosures

Information regarding individual Directors and Executive compensation and some equity instruments disclosures, as required by the Corporations Regulation 2M.3.03, 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 consolidated entity is comprised of the non Executive Directors, Managing Director and certain Executives.

b) Key management personnel compensation

The key management personnel compensation comprised:

	Consolidated		Company	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$ '000	$ '000	$ '000	$ '000
Short-term employee benefits	3,266	3,532	2,442	2,759
Post employment benefits	260	339	179	249
Share-Based payment (1)	138	250	136	249
Termination benefits	657	955	657	955
	4,321	5,076	3,414	4,212

(1) 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, refer note 38. 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.

38 Share Based Payment Arrangements

a) Executive long term incentive plan (ELTIP)

The Executive long term incentive plan (ELTIP) was established by the Board to encourage the Executive Management Team (EMT), currently comprising the Managing Director and invited 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 EMT of fully paid ordinary shares in the Company if performance criteria specified by the Board are satisfied in a set performance period. The value of the offer is converted into fully paid ordinary shares, based upon the weighted average price of the Company's shares over the twenty trading days prior to the offer date.

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. The Board has determined that Total Shareholder Return (TSR) measured against the performance of a selected group of "financial" companies from within the S&P/ASX 300 Index (the benchmark group) would be the performance criteria.

The fair value of shares offered is calculated at the date of grant and is allocated to each reporting period over the period from grant date to vesting date. Fair value is determined utilising a "Monte Carlo" simulation, which seeks to predict the performance of the Company against the benchmark group and the proportion of shares offered which will actually vest. This predicted value is discounted back to its present value at grant date and excludes the value of dividends which are not received during the performance period.

Details of offers made under the ELTIP are as follows:

		"2010" Offer		"2011" Offer	
		Managing Director	Other Executives	Managing Director	Other Executives
Date of offer ("Grant" date)		29 Mar 2011	29 Mar 2011	2 Nov 2011	6 Sep 2011
Performance period		1/7/2010 to 30/6/2013	1/7/2010 to 30/6/2013	1/7/2011 to 30/6/2014	1/7/2011 to 30/6/2014
Maximum number of shares that may vest under the offer		59,840	104,731	65,677	88,403
Value of the offer		$225,000	$393,789	$235,125	$316,482
Share price used in the calculation of the offer		$3.76	$3.76	$3.58	$3.58
EPS baseline used in the offer (cents per share)		27.46cps	27.46cps	n/a	n/a
MyState Limited share price baseline for TSR calculation		$3.12	$3.12	$3.55	$3.55
Fair value of shares at grant date:	EPS shares	$3.11	$3.11	n/a	n/a
	TSR shares	$2.43	$2.43	$2.14	$1.93
Number of shares that have vested		42,427	57,826	-	23,009
Number of shares that have been forfeited		17,413	46,905	65,677	43,799
Number of shares for which assessment against performance criteria has yet to be undertaken		-	-	-	21,595

38 Share Based Payment Arrangements (continued)

		"2012" Offer		"2013" Offer	
		Managing Director	Other Executives	Managing Director	Other Executives
Date of offer ("Grant" date)		14 Nov 2012	9 Oct 2012	11 Dec 2013	11 Dec 2013
Performance period		1/7/2012 to 30/6/2015	1/7/2012 to 30/6/2015	1/7/2013 to 30/6/2016	1/7/2013 to 30/6/2016
Maximum number of shares that may vest under the offer		89,532	77,003	67,967	45,658
Value of the offer		$325,000	$259,500	$327,600	$220,069
Share price used in the calculation of the offer		$3.63	$3.37	$4.82	$4.82
MyState Limited share price baseline for TSR calculation		$3.00	$3.00	$4.30	$4.30
Fair value of shares at grant date:	TSR shares	$2.15	$1.66	$2.63	$2.63
Number of shares that have vested		27,544	-	-	-
Number of shares that have been forfeited		61,988	28,487	67,967	-
Number of shares for which assessment against performance criteria has yet to be undertaken		-	48,516	-	45,658

39 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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

MyState Limited

Directors' Declaration
for the financial year ended 30 June 2014

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 consolidated entity set out on pages 1 to 62 are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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 2014.

3. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(c) .

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 this 21August 2014.

Wise Lord & Ferguson
Chartered Accountants
advice to advantage

Independent auditor's report to the members of MyState Limited

Report on the financial report

We have audited the accompanying financial report of MyState Limited which comprises the statements of financial position as at 30 June 2014, the income statements and statements of comprehensive income, the statements of changes in equity and the statements 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 and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Partners: Harvey Gibson, Danny McCarthy, Douglas Thomson, Joanne Doyle, Stuart Clutterbuck, Ian Wheeler, Dean Johnson, Marg Marshall, Paul Lyons, Alicia Leis, Nick Carter
Managers: Melanie Richardson, Simon Jones, Trent Queen, Rachel Burns, Nathan Brereton, Melissa Johnson, Donna Powell, Chris Harper, Rebecca Meredith
Consultant: Peter Beven

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of MyState Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2014 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of MyState Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

D J McCARTHY
Partner
Wise Lord & Ferguson

Date: 21.8.2014