A Definitive Point. 2011-2012 ANNUAL REPORT

MyState LIMITED

MyState Limited
has had a defining year;
a year focused on delivering
the commitments
made to our customers,
our staff, our community
and our Shareholders.

The acquisition of The Rock
signals our expansion
aspirations while MyState's
new products and services
will reach new consumer
segments in Tasmania.

It has been, and
will continue to be,
a challenging operating
environment, but this
year represents a
definitive point in
our history that
will serve us
well.

Name, ABN and Licence Numbers

MyState Limited
ABN 26 133 623 962

Regulated by Australian Prudential Regulation Authority (APRA)

MyState Financial Limited
ABN 89 067 729 195

Australian Financial Services Licence / Australian Credit Licence (AFSL/ACL) No 240896

Regulated by Australian Prudential Regulation Authority (APRA)

Tasmanian Perpetual Trustees Limited
ABN 97 009 475 629

Australian Financial Services Licence / Australian Credit Licence (AFSL/ACL) No 234630

The Rock Building Society Limited
ABN 16 067 765 717

Australian Financial Services Licence / Australian Credit Licence (AFSL/ACL) No 237095

Regulated by Australian Prudential Regulation Authority (APRA)

Registered Office

23 Paterson Street
Launceston Tasmania 7250
Telephone: (03) 6348 1111
Facsimile: (03) 6348 1173
Email: info@mystatelimited.com.au
Website: www.mystatelimited.com.au

Operations and Principal Activities

MyState Limited is a non-operating holding Company and listed diversified financial products and services group, providing a range of financial products and services to existing and new customers through three wholly-owned subsidiaries:

- MyState Financial (MSF)
  - the authorised deposit-taking institution;
- The Rock Building Society Limited (The Rock)
  - an authorised deposit-taking institution; and
- Tasmanian Perpetual Trustees (TPT)
  - the trustee and wealth management company.

Share Registry

Computershare Investor Services
GPO Box 2975EE
Melbourne Vic 3000
Enquiries
(Within Australia): 1300 538 803
(Outside Australia): +61 (0) 3 9415 4660
Facsimile: +61 (0) 3 9473 2500
Email: web.queries@computershare.com.au

For enquiries relating to shareholdings or dividends you may contact the share registry.

The Australian Securities Exchange (ASX) code for the Company's shares is "MYS".

Annual General Meeting

Date:	23 October 2012
Time:	10.30am
Venue:	Hotel Grand Chancellor 1 Davey Street, Hobart

Company Profile

MyState Limited (MYS), a non-operating holding Company, is a diversified financial services group listed on the ASX and provides a broad range of financial services through three wholly-owned subsidiaries, MyState Financial (MSF) and The Rock Building Society Limited (The Rock) authorised deposit-taking institution's (ADI), and Tasmanian Perpetual Trustees (TPT) a trustee and wealth management company.

Headquartered in Tasmania, its diverse business operations cover:

Banking Services

- Transactional and internet banking
- Insurance and other alliances
- Savings and investments
- Business banking
- Agribusiness
- Personal and business lending

Trustee Services

- Estate planning
- Estate and trust administration
- Power of attorney
- Corporate and custodial trustee

Wealth Management

- Financial planning
- Managed fund investments
- Portfolio administration services
- Portfolio advisory services
- Private client services

MyState Financial is a retail financial services ADI, regulated by the Australian Prudential Regulation Authority (APRA), operating predominately in Tasmania. MyState Financial was established on 1 July 2007 and is the result of a number of credit union consolidations; the most recent being the merger of islandstate and connectfinancial. MyState Financial, which demutualised in August 2009, provides financial services to approximately 120,000 customers and holds an Australian Financial Services Licence (AFSL) issued by the Australian Securities and Investments Commission (ASIC).

The MyState Financial Group also includes:

- MyState Financial Foundation Limited, which provides annual grants to charities to educate and nurture the young people of Tasmania; and
- Connect Asset Management Pty Ltd, which manages four securitisation programmes under the name of ConQuest: ConQuest Mortgage Trust, ConQuest 2007-1 Trust; ConQuest 2010-1 Trust and ConQuest 2010-2 Trust.

The Rock Building Society Limited is a retail financial services ADI, regulated by APRA, operating predominately in Queensland. The Rock became a wholly owned subsidiary of the Company following a successful acquisition by MyState Limited on 1 December 2011. The Rock provides financial services to approximately 40,000 customers. The Rock holds an AFSL issued by ASIC.

The Rock also owns and operates the Rockhampton Custodial and Management Company Limited, a securitisation trust management and custodial company.

Tasmanian Perpetual Trustees was established in 1887 and is a major Tasmanian based provider of financial products and trustee services. Tasmanian Perpetual Trustees is a trustee company authorised under the *Tasmanian Trustee Companies Act 1953* and the *Corporations Act*.

Tasmanian Perpetual Trustees holds an AFSL issued by ASIC.

Tasmanian Perpetual Trustees has over $930 million in funds under management on behalf of personal, business and wholesale investors in Tasmania. Tasmanian Perpetual Trustees also has a further $700 million of assets under advice, through the Company's role as financial adviser, attorney or trustee on behalf of various trusts, estates and other clients.

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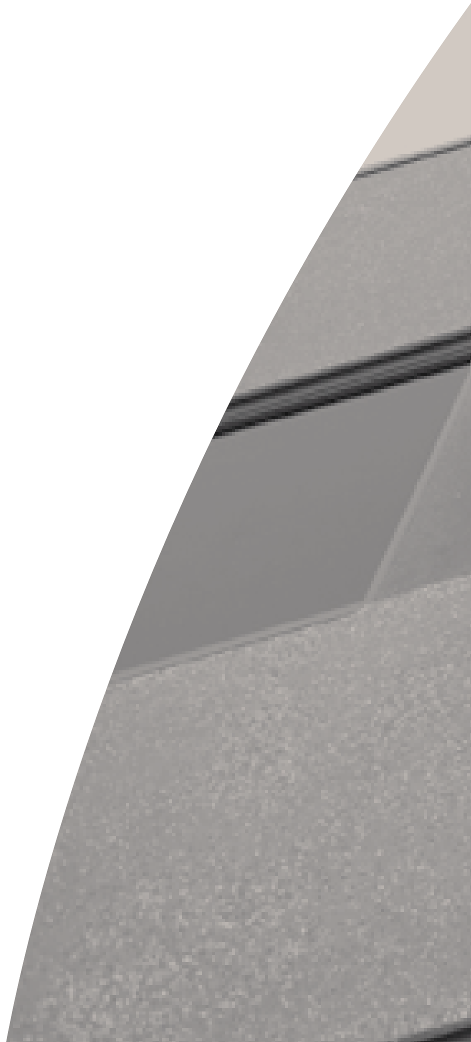
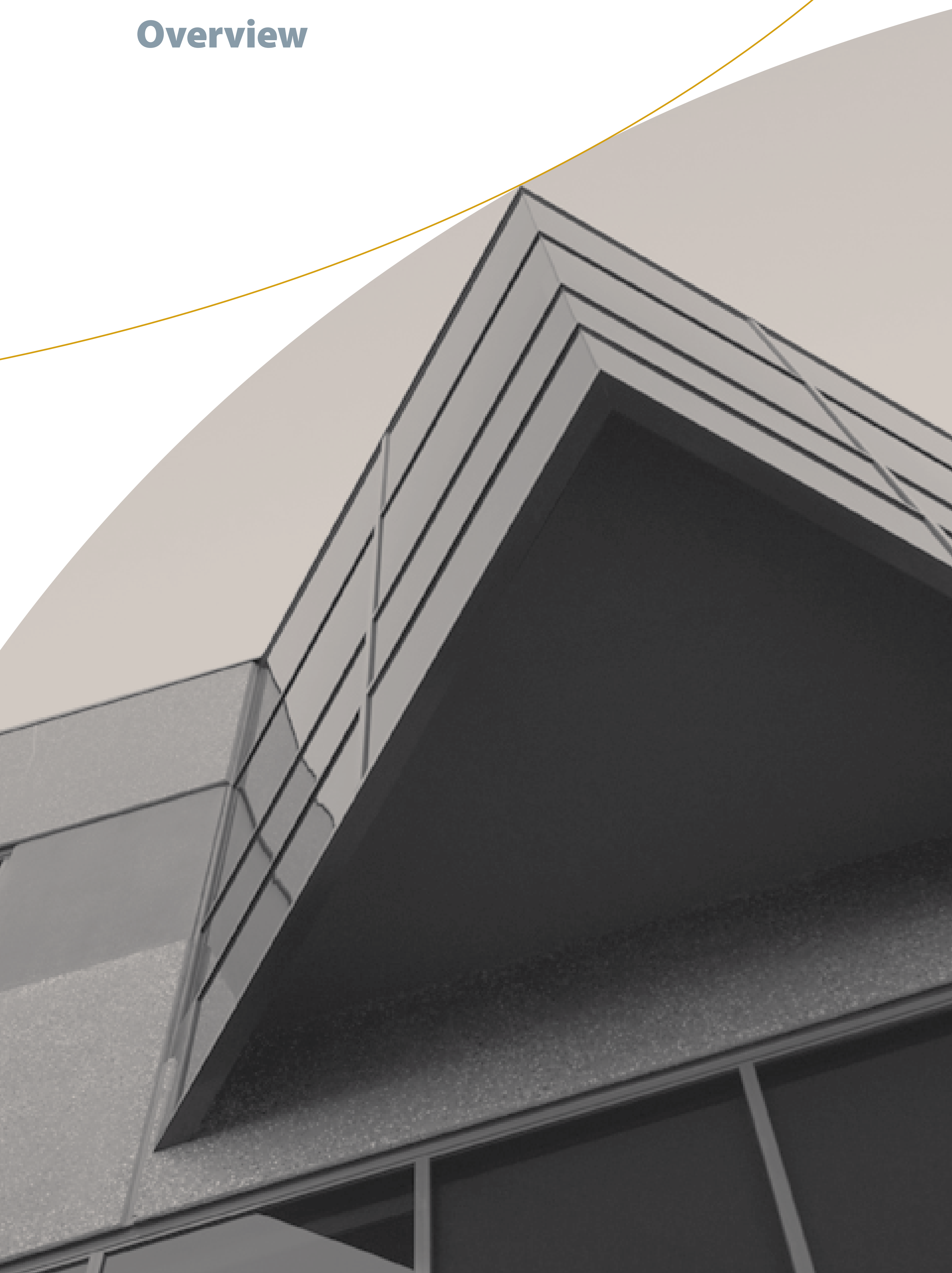


Overview



Chairman's Report to Shareholders

"We have achieved success in our strategic objective to add value for Shareholders by expanding our business into the national marketplace."

Michael J Vertigan AC - Chairman

Dear Shareholder,

I am pleased to report that while the past year has been a challenging one, the Company has recorded a sound financial performance while continuing to progress its major strategic objectives.

Our end of year results, released in August, confirm that we are benefitting from the increased operational capability and financial stability that emanates from being a significantly larger Group. These results are even more pleasing and represent a significant achievement given the challenging economic conditions and interest rate climate that have affected all financial institutions.

We have achieved success in our strategic objective to add value for Shareholders by entering the national marketplace and expanding our business. Early in the financial year, we announced our intention to proceed with the acquisition of The Rock Building Society and, following a successful vote by The Rock Shareholders, the new arrangements became effective in December 2011. While there have been short-term challenges, the Directors remain confident the acquisition will provide long-term opportunities for MyState Limited.

The acquisition of The Rock is the first step in our strategy to expand our activities interstate and the Board and management are focussed on keeping a watchful eye on identifying opportunities for future expansion, to achieve greater geographic diversity. Our strategy is not based on growth for its own sake, but derives from the view that increased scale and diversification will contribute to long-term Shareholder value. However, we are mindful of the need to ensure The Rock acquisition is appropriately bedded down with synergy realisation well on-track before we engage in our next opportunity.

As we achieve greater economies of scale and build our Group, we remain committed to our key strategic objectives, which include:

- consolidating our new national footprint;
- identifying future key strategic growth opportunities;
- building upon our loyal and diverse customer base;
- enhancing the customer experience by providing a high level of service and offering a broad range of products;
- maintaining a diversified funding base;
- a strong commitment to enhancing our broader communities; and,
- continual focus on providing development opportunities for staff.

The strength of our business has been achieved through a long-established presence in Tasmania and a well-deserved reputation for showing genuine concern for our clients, customers and the communities in which we operate. It is this common denominator that MyState Financial and Tasmanian Perpetual Trustees share with The Rock. Our desire to expand in regional communities has commenced with The Rock acquisition in Central Queensland.

We are committed to supporting the communities in which we operate. It is eleven years since we proudly established the MyState Foundation. In the past financial year around $100,000 was allocated to community projects through the Foundation's grants programme. This included support for our partnership with the University of Tasmania to improve school retention rates through the Springboard to Higher Education programme, which supports disadvantaged or at- risk young Tasmanians through the provision of bursaries.

We also support students through the MyState Student Film Festival, which this year celebrated its tenth anniversary. We are strong sponsors of other events, such as the MyState Australian Wooden Boat Festival and by supporting projects and initiatives such as these, we build sustainable communities.

Board and Employees

At around this time last year, I announced that three of our Directors, Mr Nicholas d'Antoine, Mr Tim Gourlay and Mr Tony Reidy would be stepping down from the Board. These Directors served all Shareholders to an outstanding level throughout their long and distinguished period on the Board of MyState Limited and its predecessor organisations. Under the terms of The Rock Merger Implementation Agreement, The Rock's then Chairman, Mr Stephen Lonie, was appointed to the MyState Limited Board in December 2011.

The Executive Management team, under the leadership of Managing Director, John Gilbert, has continued to function effectively. The Executive team has also been expanded by the appointment of Mrs Natasha Whish-Wilson as the Company's first Chief Risk Officer. This appointment is reflective of the increasing importance of risk management to the successful operation of financial services operations. It is also reflective of our commitment to ensure the highest level of governance for this important aspect of our business.

I wish to express the Board's gratitude to the Executive team, who have made an exceptional level of progress in implementing The Rock merger and pursuing the strategies and programmes that will deliver continued growth for that business and the broader Group. I would also like to thank the management and staff of the Company for the considerable extra effort that they have given over the year and the spirit in which they have embraced the challenges and the many changes that have occurred to the business.

Dividend

The Board has an established policy of generally paying ordinary dividends each year within the range of 70% - 90% of net profit after tax. The actual dividend distribution each year will be determined taking into account the capital requirements of the Company.

The full year dividend for the year is 28 cents per share. Following the interim dividend of 14 cents per share paid to Shareholders on 9 December 2011, Directors have declared a final dividend of 14 cents per share. This dividend will be fully franked for Australian Tax purposes. Record date for entitlement to the final dividend will be 6 September 2012 and will be payable on 4 October 2012.

Outlook

The global and national outlook will continue to provide a challenging environment for the business. However, our resilience and innovative approach coupled with our ability to pursue growth opportunities place us in good stead.

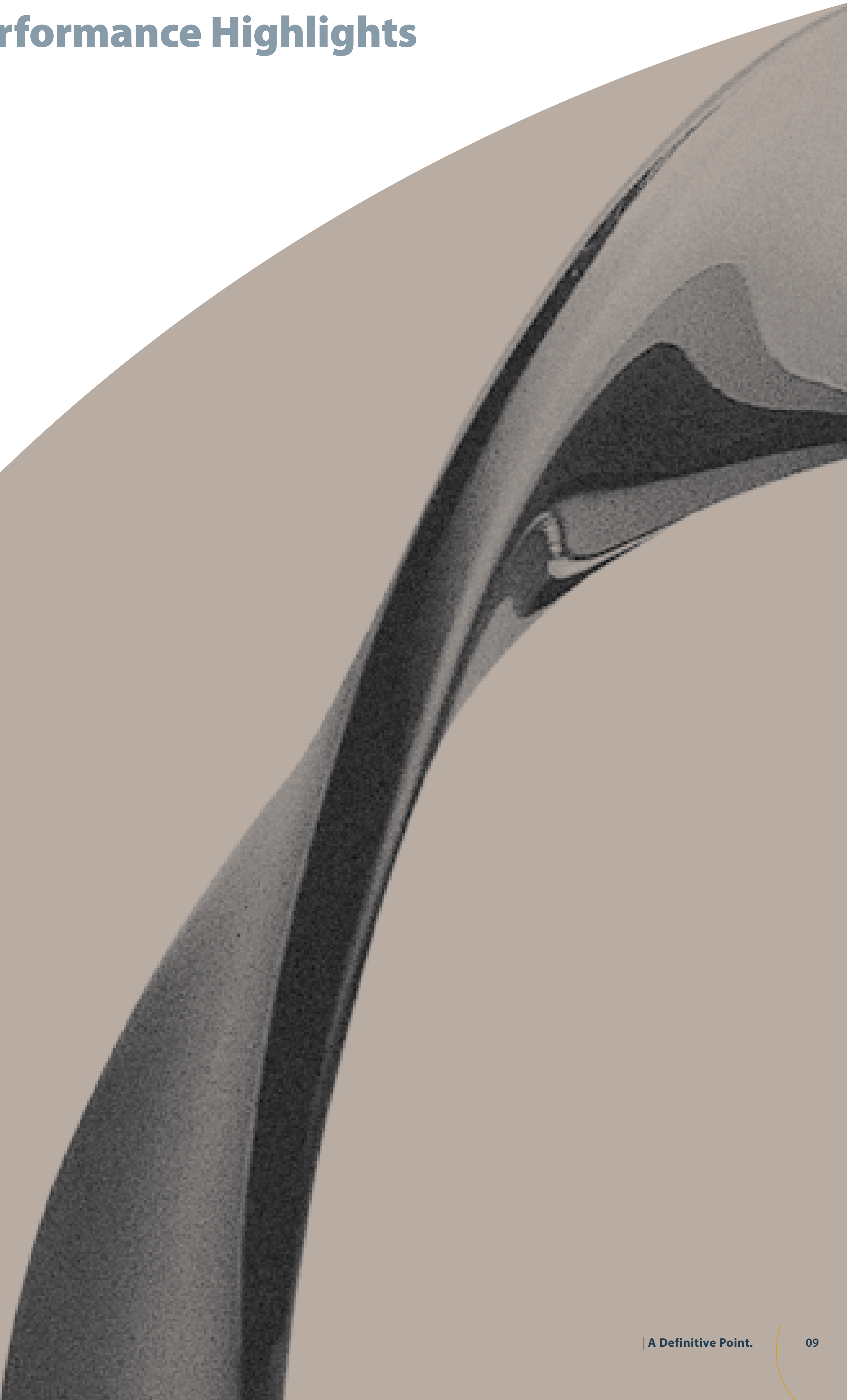
Consolidation of expanded Group operations will be the focus during 2012- 2013, which will also see revenue synergies from The Rock merger accelerate, due to our desire to improve the retail focus of our Queensland operations.

On behalf of the Board and the management team, I would like to thank Shareholders for their continued support of MyState Limited and I would also like to express my personal gratitude to my fellow Directors for their commitment during the past year.

Yours sincerely,

Dr Michael Vertigan AC
Chairman

Performance Highlights



Performance Highlights 2011 - 2012

Profit after Tax

- Reported profit after tax of $23.38 million, up 6% on prior year.

Return on Equity

- ROE of 9%, down 20% on prior year, based on reported share register for The Rock acquisition.

Earnings per Share

- After tax earnings per share of 29.91 cents per share, down 8% on prior year, based on reported share register for The Rock acquisition.

Dividends

- Interim 2012 of 14 cents per share fully franked paid on 9 December 2011.
- Final dividend for 2012 of 14 cents per share fully franked, declared 29 August 2012 and payable on 4 October 2012.

Expense to Income Ratio

- MyState Group underlying expense to income ratio of 67.1% [(1)] steady on prior year.

Continuing focus on trapping merger synergies

- Net Assets of $273.88 million, up $69.28 million on prior year.
- Market Capitalisation of $287 million as at 1 September 2012.

(1) Excludes Rock merger costs of $2.1 million and after set adjustment of $0.6 million.

* unless otherwise stated, the 'prior year' refers to the full year ended 30 June 2011.

MyState Financial result highlights

- Revenues of $177.06 million, up 3% on prior year.
- Group profit contribution of $20.58 million, up 4% on prior year.
- Substantial growth in MyState Financial home lending of 10.9% compared to national system growth of 5%.
- Solid growth in MyState Financial household deposits of 12.4% compared to national system growth of 11.6%.
- Net Interest Margin (NIM) of 2.99%.
- Capital Adequacy – Tier 1 of 14.2%.
- Total assets of $2.37 billion.

The Rock result highlights

- Revenue of $47.15 million.
- Group profit contribution of $3.29 million.
- Net Interest Margin (NIM) $1.87%.
- Capital Adequacy - Tier 1 of 12.46%.
- Total assets of $1.21 billion.

Tasmanian Perpetual Trustees result highlights

- Revenue of $17.39 million.
- Group profit contribution of $1.5 million.
- Funds under management stable at $931 million.
- Funds under advice of $700 million.
- New and revised Wills steady at 1340.

Our Achievements

- Group Vision and growth strategies re-confirmed.
- Group Cultural Values reinforced.
- Acquisition of The Rock Building Society Limited completed December 2011.
- Commencement of revenue and cost synergy capture programme with encouraging results.
- Group brand, product and distribution strategies fully documented and being implemented.
- IT Strategy confirmed and progressing to plan.
- Legacy products rationalised and new products and services being developed.
- MyState Wealth Management business growth in difficult economic environment.
- MyState Platform for investments and superannuation growing to plan.
- MyState Financial expansion into business banking for SMEs continues with establishment of a fully resourced state-wide team.
- Risk Appetite agreed and Risk Management Strategies implemented.
- Continuing strong and successful strategic partnerships with CGU and St.LukesHealth Insurance.
- Tasmanian Perpetual Trustees' distribution footprint refined.
- Appointment of a new CEO and Management team at The Rock.

Managing Director's Report

"The year ahead will be a new chapter for MyState Limited as we build our position in the national marketplace following the acquisition of The Rock and strengthen our long-term generational relationships."

John Gilbert - Managing Director

We are very pleased with the Group's performance in a year when we faced many challenges. Demand for credit slowed in our core markets and there was pressure on margins as a result of declining interest rates and competition for retail deposits, particularly in the second half.

MyState Financial continues to perform well in a challenging market. Our lending book grew by 10.9% to $1.8 billion, with no material increase in non-performing assets, compared with growth of 5.1% by the national banking system. This demonstrates our ability to out-perform our peers while maintaining rigorous credit assessment standards. The credit quality of the lending portfolio remains high, with 30 day secured loan arrears below 1% of the portfolio.

Our initiative to increase share of SME and agribusiness lending has been slower than anticipated due to strict credit assessment criteria. We continue to seek new business in these market segments, but maintain a cautious approach in the current economic environment.

Household deposits grew 12.4% to $1.5 billion, compared with growth of 11.6% by the national banking system. This reflects the strength of the MyState brand in its core markets and the security of its deposit product offerings in an uncertain economic environment.

Net interest margin declined slightly to 2.9%, at a time when industry margins were under pressure due to falling interest rates, particularly in the second half of the year. Loan re-pricing was swifter than re-pricing of deposits, reflecting the highly competitive market for funding. MyState Financial continues to enjoy net interest margins above industry averages due to our high level of retail deposit funding.

The Rock experienced difficult trading conditions around the time of its acquisition by MyState Limited. Falling interest rates and The Rock's concentrated funding mix resulted in a contraction in net interest margin. Concerted efforts by The Rock's retail and treasury teams led to a recovery in net interest margin in the second half and, as the new financial year starts, this key index stands at approximately 1.7%.

Merger synergies are starting to be captured. Cost synergies have already been realised in accordance with the acquisition plan and revenue synergies are starting to flow, with term deposit and general insurance sales ahead of expectations.

The performance of Tasmanian Perpetual Trustees was stable, reflecting an uncertain investment environment and stagnant asset values.

Funds under management grew modestly to $931 million. Inflows to cash and income funds, which represent approximately 90% of managed fund balances, were strong, as they offer highly competitive yields with capital stability - attractive to many investors in today's environment. However, this growth was broadly offset by outflows from equity linked funds. Funds under advice were relatively stable at $700 million.

Group

The consolidation of our activities in Hobart, to new headquarters in Harrington Street, reflects a commitment to our long-term vision to retain a strong Tasmanian presence. It has provided a greatly enhanced customer experience for Tasmanian Perpetual Trustees' clients including clients of our Wealth Management Division. The new site also provides the business with an opportunity to deliver efficiencies and synergies while providing a dramatically improved working environment for staff.

Our employees provide us with a competitive edge and by fostering relationships and providing a stimulating workplace, our team is encouraged and supported to pursue further learning, professional development and leadership opportunities. Internal advancement and promotional prospects ensure our staff are challenged accordingly to reach their full potential.

Throughout the year, almost one quarter of our staff were enrolled in vocational qualifications, with 23 staff currently undertaking tertiary study, assisted by the Company. We are particularly proud of the success of our new Leadership Development Program, launched in the past financial year. Thirty participants have now completed or obtained a Diploma of Management, while another 16 emerging leaders will undertake the programme over the next financial year.

We welcomed Natasha Whish-Wilson to the Executive team in October, appointed as the Company's first Chief Risk Officer. The appointment is recognition of our increased commitment to ensuring managing risk is an integral part of the way we do business in order to achieve or exceed our objectives. We place a heavy emphasis on developing and maintaining a risk-aware culture in our operations and decision-making processes.

Our strategic partnerships with CGU and St.LukesHealth also remain an important part of the way we interact and service our customers by offering a range of value-adding products. Indeed, we relentlessly pursue our intention to maintain and grow our level of personalised customer service to our base of more than 240,000 customers.

Going Forward

The year ahead will be a new chapter for MyState Limited as we build our position in the national marketplace following the acquisition of The Rock and strengthen our long-term generational relationships.

As Managing Director, my primary focus will be on consolidating the acquisition and ensuring the efficiencies and synergies are realised through the formulation and implementation of effective strategies.

It has been a year of significant change and I would like to commend our committed and skilled team of employees in our Group. The year has been unprecedented in terms of non-organic growth for MyState Limited and the motivation required to achieve the Group's goals has been suitably grasped by a dedicated team across all levels of the organisation.

John Gilbert
Managing Director




Our Operations

Divisional Overview

During the year, the efforts of MyState Limited Divisions have been focused towards the following key goals:

- Acquisition of The Rock;
- Commencement of synergy capture from The Rock (revenue and cost);
- Refining and documenting Group strategies;
- Establishment of a dedicated Risk Management function;
- Building internal capability to execute the strategies; and
- Implementing the strategies to deliver growth.

A Definitive Point

The reports which follow detail a number of these significant achievements including the following:

Acquiring 'The Rock'

- Scrip for Scrip merger completed.
- CEO appointed.
- Management team in place.
- Revenue synergies commenced.
- Cost synergies progressing to plan.
- Investment in properties and the brand reinvigorated.

Refining and documenting the Group strategies

- Group's vision and growth strategy confirmed.
- Brand(s) strategies refined.
- Group product strategy and the Group distribution strategy refined.
- IT strategy confirmed.

Building internal capability

- Leadership programmes refined.
- Increased project management resourcing.
- Group governance and policy framework upgraded including enhanced enterprise risk management frameworks, capital adequacy and liquidity management policies and plans.
- M&A capability enhanced.

Implementing the strategies

- Brand repositioning commences.
- Business banking initiatives progressing.
- MyState Wealth Management growing in 'tough' economic conditions.
- MyState investment platform launched.
- New and upgraded products and services launched.
- M&A activity progressing.

The MyState Limited divisional structure consists of the following:

Retail Banking, Distribution, Product Development and Research – responsible for sales and customer services via our distribution channels, including branch network, internet, call centre, mortgage brokers and our strategic partners.

Wealth Management, Trustee Services, Brands and Communications – responsible for all aspects of both financial and estate planning advice, administration of deceased estates and ongoing and charitable trusts. The Division also has responsibility for the funds management process of all Managed Investment Schemes including the origination and management of the lending portfolio involving the mortgage assets of the mortgage funds. More recently it has taken on responsibility for marketing, communications and research.

Technology and Operations – responsible for information technology, loans processing, credit management and collections, property, major projects and business improvement.

Finance and Governance – responsible for finance, accounting, taxation, treasury, secretariat and governance.

Risk – responsible for risk management, legal and compliance.

Retail Banking, Distribution, Product Development and Research

The work of this Division aims to provide timely, appropriate and profitable financial products, solutions and services to customers - and in so doing, satisfy or exceed their expectations so they become advocates for the brands.

The Division operates with five aligned business units delivering services to the Group and its brands.
The units are:

- Retail and Strategic Partners
- Retail Support Services
- Mortgage Broker Management
- Product Development and Research
- Business Banking

The future strategic focus of the Division centres on building revenue through cross referral between the brands and customer centric processes which deliver improved service and relationship management.

With nine branches and mini-branch networks strategically located across the Central Queensland region, the acquisition of The Rock has enabled the Group to achieve a strong retail presence in Central Queensland for the first time. We are now well positioned for The Rock to realise the revenue synergies we have identified through the acquisition process while also increasing customer and product diversity in the three complementary businesses.

Since the acquisition in December 2011, we have recorded uplift in customer acquisition and direct business, as well as a higher level of retail term deposits and consumer lending in regards to customer volume and, loan and term deposit values.

By heavily investing in staff training and developing a comprehensive product mix, we have a strong retail sales division well equipped to be a key player in the Queensland market.

Business Banking Solutions

In November 2011, we launched the Business Banking team and an associated broad suite of products and services, including merchant and business banking, and internet banking solutions; primarily attractive to small and medium sized businesses.

A specialised, highly-credentialed team of mobile business banking professionals has been recruited with a proven track record of expertise in this sector and a firm understanding of the local business market.

The development and launch of the Business Banking solution for small business will provide a strong growth channel for the business.

Future of Banking - Retail Branch Development

We are very proud to have launched our 'Branch of the Future'. Piloted in Launceston, this retail branch development enables a greater level of customer interaction through a more engaging environment and space. This capital investment enhances the commitment of the Division to deliver the highest service standards. We are pursuing a similar investment in Hobart in 2012/2013. In addition, a number of Rock branches have been re-modelled in Queensland to strengthen the brand affinity with the Group and improve the customer experience.

Recognising customer needs are ever-changing, our staff across MyState Financial, Tasmanian Perpetual Trustees and The Rock have undergone intensive internal training in service delivery.

Our Strategic Partners

Our strategic partnerships with CGU and St.LukesHealth are key alliances providing our customers the best in general insurance products and service through CGU and discounted quality health insurance cover solutions through St.LukesHealth. These partnerships also provide a consistent revenue line for the Group. The relationship and alliance partnerships with the memberships of two major unions, the CPSU and the ANF, are ongoing and have created further opportunities to acquire new sales while supporting existing service relationships.

We continue to develop our existing partnerships and seek to identify other alliance opportunities.

Our relationship with a significant number of mortgage brokers ensures we expand the cross-sales capability of the business unit. The alliances reflect our commitment to support these small businesses and ensure a seamless experience for our customers through our intermediaries. Timely turnarounds and local decision making provide a competitive point of differentiation.

Access to Competitively Priced Products

We have continued to produce strong growth across a number of key portfolios. Most notably, we have witnessed solid growth in lending portfolio and term deposits. We have outperformed system growth for retail term deposits and significantly outperformed system growth for retail lending (12 month growth is double system growth).

Additionally, our non-interest income streams, in particularly general insurance and consumer credit insurance performance, has remained strong.

Our home loan market share continues to increase as does total lending market share despite lower than expected consumer confidence, a softening housing market and other economic challenges. We are pleased to deliver such a positive result.

Through our alliance with Citibank we are committed to extending our Products solution by developing a more effective and simplified process for customers seeking credit cards.

We are extremely proud of our achievements and with twelve branches in Tasmania and nine in Central Queensland, internet and mobile business banking options and a team of highly committed employees, the Division provides flexible product and service solutions to the Group's 240,000 customers.

Product Strategy

The Product Development and Research team continues to prioritise, develop and adopt changes to our product mix including the development of our new Business Banking solution. It provides a significant boost to shared services capability across the Group, enabling specialist focus on this complex and increasingly demanding area. Following a rigorous research and analysis process, a detailed Group product strategy has been developed. This strategy has been structured from a customer centric position, taking account of the changing competitive context and matched against the Group's strengths and capabilities, including brand and product distribution capability. This reinvigorated product strategy, with an emphasis on simplicity and value, is providing a clear blueprint for the future direction of product development within the business.

The product strategy involves three main bodies of work, each progressing to plan:

Product Rationalisation

- A continued investment of considerable time and effort in reducing the number of both legacy and offered products in order to achieve business efficiencies across multiple departments including retail, technology, treasury, marketing, training, risk and compliance.

Product Re-positioning

- Changes to current policies, features, functionality, terms and conditions, pricing, collateral, processes and fulfilment – designed to improve customer utility or satisfaction or improve margin and product profitability.

Product Innovation and Development

- Creation of new products or technological capabilities that meet new or emerging customer needs in order to grow or retain revenue.

Wealth Management, Trustee Services, Brands and Communications

This Division provides high value and expert services dedicated to the management and inter-generational transfer of personal and business wealth. The Division is also responsible for the Brands and Communications strategies across the Group.

The Division operates with five business units delivering services to Tasmanian Perpetual Trustees as well as the broader MyState Group. These are:

- Wealth Management
- Lending Services
- Trustee Services
- Investment Services
- Brands and Communications

Wealth Management

The newly established brand of MyState Wealth Management, created as a result of the consolidation of the MyState Financial and Tasmanian Perpetual Trustees Financial Planning businesses, is enabling clients to build, protect and manage their wealth. We have created newly segmented client service offerings and, along with a move into a 'fee for service' environment, the streamlined business unit has been embraced by new and existing clients. The restructure occurred ahead of regulatory changes outlined under the Federal Government's 'Future of Financial Advice' reforms and, as such, our business is leading the way in terms of providing greater professionalism within the financial advice industry. It is especially pleasing that our adoption of a 'fee for service' offering has been well embraced by our existing clients, demonstrating recognition of the true value of our services.

In November, we launched the new MyState Wealth Management Investment, Super and Pension accounts. This badged Platform solution is offered in conjunction with Powerwrap Limited and features strong Separately Managed Account (SMA) technology. This quality low cost offering features the new MyState Cash Management

Newly established Wealth Management Brand

Account as the central cash hub for the Platform, along with MyState Term Deposits. A Tasmanian Perpetual Trustees Mortgage Fund is due to be made available on the Platform in the new financial year, adding to an extensive menu of available Exchange Traded Funds, Equities and Managed Funds. This Platform offering has been well supported with many customers welcoming the option of having super, pension and/or investments held with us, in addition to the traditional retail and commercial products that have been so widely accepted over the years. Funds Under Advice held on these accounts now approaches $50 million dollars. We anticipate further substantial growth on Platform over the coming year.

Lending Services

The Commercial Business and Rural Banking team continues to be successful in sourcing quality mortgages for inclusion in Tasmanian Perpetual Trustees' Managed Investment Schemes and provides a client contact point and personal client management for Tasmanian Perpetual Trustees products. All business and agribusiness products now provide customers with a competitive whole of business banking solution, as envisaged at the time of the merger between Tasmanian Perpetual Trustees and MyState Financial.

In due course, we anticipate an extension of these offerings to The Rock as a natural progression. We believe our understanding of regional business requirements will ensure our success in Tasmania is replicated in Rockhampton and surrounds in coming years.

Trustee Services

The consolidation of Trustee Services administration has resulted in greater efficiencies and consistency throughout the Group. This approach has been an important improvement from a risk management perspective, as we strive to provide the most professional offering possible to testators and beneficiaries alike.

The centralisation of Trust administration functions into Hobart and Launceston has been finalised whilst Senior Estate Planners and Senior Trust and Estate Practitioners continue to work throughout the state (as has been the case for many years). In this way, the highest quality service is being provided to our valued clients.

Our staff are provided with on-going professional development and accreditation qualifications through the STEP (Society of Trust and Estate Practitioners) programme. All Senior Estate Planners and Senior Trust and Estate Practitioners are members of STEP – a professional body which provides education, training, representation and networking for its members. It is our aim to provide all Trustee Services staff with the training and opportunity to become STEP members in the future.

In-house professional development is provided for all Senior Estate Planners and, Trust and Estate Administrators, ensuring they maintain their status as true professionals in their chosen field. Additionally, many Trustee Services staff have been involved in our 'Day in the Life' initiative whereby staff spend a day within another business unit to gain an understanding of the Group's operations. Such activities assist staff in gaining a greater knowledge of MyState Limited Group products and therefore develop a stronger ability to recommend appropriate products to our clients.

The recent restructure of Trustee Services into specialist teams has ensured Estate Planning advice (including the preparation of Wills and Enduring Powers of Attorney) is now primarily provided by Tasmanian Perpetual Trustee's specialist Senior Estate Planners. These changes not only increase efficiency and provide better management of risk but, importantly, ensure Estate Planning clients are given consistent advice from fully-qualified advisors who are able to recommend personalised alternatives.

Investment Services

The Investment Services team is continuing to add value to Tasmanian Perpetual Trustees and MyState Wealth Management through the prudent selection of quality high-yielding assets while managing individual pool liquidity requirements. This involves extensive analysis of investment opportunities, interest rate forecasts, asset allocation and liquidity management. These various sources of value-add, combined with a thorough understanding of how these factors come together to represent overall portfolio risk, continue to benefit our Cash and Income Fund investor returns.

The performance of the cash deposit products over the past year has been very strong and has consistently exceeded performance benchmarks. Maturing credit market securities purchased prior to the global financial crisis continue to be reinvested at significantly higher rates; adding to fund yields. Further, competition amongst banks for deposit funding remains very strong, as reflected in the high margins offered for funds relative to reference market rates. Cash deposit customers benefited from these high margins as reflected by each product's strong performance relative to benchmark.

The performance of Income Funds has also been exceptional, with each consistently exceeding their target benchmarks over the past year. Similar to Cash products, each fund benefited from a high demand from banks for deposit funding. A falling interest rate environment also assisted each fund, due to their holding of a diversified portfolio of fixed rate mortgage assets. The increasing competitiveness of the Income Funds relative to competitive offerings over the past year has seen encouraging fund growth.

In February, the Tasmanian Perpetual Trustees Select Mortgage Fund was assigned a three-star rating by international ratings agency Standard & Poor's Fund Services (S&P) – the first time any Tasmanian Perpetual Trustees fund has been independently rated. The S&P rating was a very positive result and is an important step forward in the growth of Tasmanian Perpetual Trustees Wealth Management business. The S&P analysis found the Fund had performed well over the past five years; outperforming its benchmark and its peer group benchmark. S&P also stated it viewed the Funds' investment management capability favourably and investors in the fund benefit from an experienced, capable and stable senior Management team.

In our current local markets, the rating will assist to attract new investors to the Fund and add value for our investors. In addition, the rating enables us to deliver on our

A full house for the MyState Student Film Festival awards ceremony in Hobart's Theatre Royal.

distribution strategy which will ultimately see the fund distributed to a wider investor market in different geographies. Future investment strategies include placing the fund on our MyState investment platform for financial planners and dealer groups in different regions, as well as leveraging the distribution potential in Central Queensland following The Rock acquisition.

Managed Investment Schemes which invested in growth style assets have had a challenging year due to continued high levels of global uncertainty. These asset classes may take more time to recover. However, based on historical measures, current valuations seem attractive. Should the global economy continue to recover, growth assets should ultimately perform well.

Brands and Communications

With a combined base of 240,000 customers, MyState Financial, Tasmanian Perpetual Trustees and The Rock share strong historical links with the communities in which they operate and hold enviable market positions founded on reputations for exceptional customer service.

This success is in no small part due to the role of our staff and their contribution to our customers and their communities. To support our staff to engage with the communities they serve, all staff are able to participate in our 'Hands On' programme, through which they can volunteer for community activities, charities and not-for-profit organisations. Many of our staff have unique skills in the regional communities in which they live and we are delighted to share these skills in this way.

MyState

Independent research has confirmed that MyState's brand is continuing to be positively recognised and well-regarded in Tasmania. Leading specialist brand research firm Millward Brown has found MyState remains one of the strongest and most differentiated financial services brands in Tasmania. This is an outstanding result in difficult times and given the fierce competition in the category.

MyState continues to lead competitors on customer satisfaction levels with 96% of all customers ranging between 'satisfied' and 'extremely satisfied'. Importantly, our 'very satisfied' or 'extremely satisfied' ratings were higher than any other banking brand operating in Tasmania. MyState is a genuine challenger to the major banks and this position has been earned through the quality of our staff, the competitiveness of our product offering, our community engagement programme and our marketing communications strategies.

In November 2011, MyState reinvigorated its brand strategy to support the launch of new market offerings in Business Banking, Agribusiness and Wealth Management. Most recently, MyState launched mobile banking capabilities coupled with a mobile website for customers choosing to bank through mobile devices and smart phones. We will continue to monitor consumer activity and look for emerging trends to ensure that our customers are able to bank with MyState through convenient and secure channels.

Consistent refinement of our digital strategy has resulted in MyState claiming the top ranking for all online financial services related traffic in Tasmania – outstripping all major banks.

MyState continues to be recognised for its strong and genuine support of the community and for the importance it places on building vibrant and sustainable communities. MyState is committed to supporting events of significance in Tasmania with a key focus on developing the talents of young Tasmanians, particularly at a grassroots level.

The MyState Student Film Festival is the state's premier artistic event for students and assists them in developing key life skills through the art of film making. In 2011, over 130 films were submitted by 63 different schools with more than 500 students involved from around the state. The films were viewed by more than 60,000 people from over 20 countries with media reports showcasing Tasmanian talent reaching 700,000 Australians. The MyState Student Film Festival will celebrate its tenth year in 2012 – a significant achievement in the ever-changing arts environment.

As naming rights sponsor of the MyState Australian Wooden Boat Festival, MyState supports an important cultural event in Hobart, whilst also promoting the brand to a large audience. A biennial event, the Festival attracts around 140,000 local, national and international patrons and proudly showcases Tasmania to Australia and the world.

Board members and recipients of the 2011 MyState Foundation grants.

MyState Foundation

Since its inception just over a decade ago, the MyState Foundation has provided over $1 million to more than 80 not-for-profit organisations. Its goal is to educate, nurture, support and advance the interests of Tasmania's young people.

In 2012, the Foundation provided more than $100,000 in grants to charity and community groups including the Springboard to Higher Education programme. The Springboard to Higher Education programme assists young people from rural and regional areas to continue their education through to tertiary studies. Through the programme, a bursary is awarded over three years to talented students covering their Year 11, 12 and first- year university studies.

Tasmanian Perpetual Trustees

The Tasmanian Perpetual Trustees' brand enjoys strong support from its customers. Research has found Tasmanian Perpetual Trustees is perceived as a very open, honest brand with a high level of expertise and knowledge.

This is a reflection of the strengths and approach of our staff and their engagement with customers. Marketing and communication efforts throughout the year supported strong inflows to the Investment Funds and supported additional growth in Estate Planning revenues. Tasmanian Perpetual Trustees continues to support local and regional initiatives assisting communities and rural industries to prosper. This includes supporting the Toosey Foundation to raise funds for the community aged-care facility, and becoming the major sponsor of the inaugural Cape Hope fundraising initiative. Cape Hope is a Launceston based, not-for-profit organisation which raises funds to donate to local charities.

Tasmanian Perpetual Trustees continues to invest in building the capability of Tasmania through the Hardie Fellowship. Established by Professor Charles Hardie before his passing, the Fellowship is administered by Tasmanian Perpetual Trustees and provides the opportunity for Tasmanian teachers within the Department of Education network to undertake research and study programmes at a university in the United States and bring new skills and learning back to Tasmania to share with others in the sector.

The Rock

Like MyState, The Rock is strongly valued by its customers with independent research showing it has a higher level of satisfied customers than other major banking brands operating in the Central Queensland region. This research also found The Rock outshone its competitors with higher 'very satisfied' or 'extremely satisfied' ratings. It is with this in mind that The Rock brand will be enhanced to reflect and respect the focus on superior customer service and its deep connection to regional Queensland.

Since acquiring The Rock, marketing communications activity has delivered strong growth in retail term deposits – a fiercely contested product category. This result is promising and points to strong support from the Central Queensland community when coupled with the right brand and marketing strategies.

Increased community engagement activity is planned for The Rock to support a key platform of the brand and maintain and grow the connections with staff and the community for which The Rock is renowned. The Rock has invested in initiatives that support a broad range of community activities including health, sporting, agricultural, youth, education and local business. The Rock continued its support of the Cancer Council of Central Queensland through funding to the Rockhampton based education and support centre; while smaller community initiatives such as the Goomeri Pumpkin Festival, Mount Morgan Show and Callide Valley Agricultural and Pastoral Society Show received sponsorship and on-ground support by teams of dedicated staff members.

The Rock encouraged local businesses through its support of 'Rockhampton's Best in Business Awards' while the continued provision of the annual John Maxwell Scholarship, a partnership with CQ University, encourages academic achievement in business studies.

The Rock staff supporting the Goomeri Pumpkin Festival.

Technology and Operations

The work of this Division aims to provide the best possible facilities, tools and services to facilitate highly efficient and effective delivery to the market of financial products and services that meet the needs of all stakeholders.

The Division operates with three business units delivering services across the Group. These are:

- Technology
- Operations
- Property

Technology

During the past financial year, we commenced implementation of the IT Strategic Plan. The Plan involves high level consideration of our business needs into the future and identifies the possible network architecture and system applications solutions to support the delivery of our products and services to market. This includes core system and major application decisions and recognition within the business of the need to adopt more contemporary technologies in order to increase our efficiency and effectiveness.

To support the future needs and growth of the Group we have selected TCS BaNCS as our core banking provider. This decision was reached through a rigorous assessment process that considered the financial, technical, functional, risk and architectural aspects with a focus on the ability of the successful provider to support the Group's future growth. The consolidation onto a single core banking platform across the Group, will provide significant operational efficiencies and reduce our operational cost. It is our intention for the core banking platform to be fully operational across the Group by the end of 2013.

The Technology unit's core business focus remains on the consolidation and standardisation of processes across the Group following the acquisition of The Rock. Standardisation of loan processing and the integration of the collections capability is well advanced; with this expected to be completed within the 2012 calendar year.

On a day-to-day basis we continue to deliver high quality cost effective solutions for both internal and external customers. The Technology team has worked in conjunction with Retail to launch the new Internet Banking platform and provide significant upgrading capability and functionality for retail and business customers. The team has developed and enhanced security and management of payments and payees by increasing the level of personalisation of the internet banking experience. In addition, we have worked with Wealth Management to provide key support and technical integration for the Praemium product.

Training and development of our people remains an ongoing focus ensuring staff are provided the opportunity to further development their skills and capabilities.

Operations

The Operations unit supports Group customer service imperatives while managing to tight business objectives.

MyState Financial continues to deliver loan approval and documentation to customers faster than any of our competitors; therefore contributing to outstanding customer satisfaction outcomes. MyState Financial continues to finalise and dispatch to customers over 90 per cent of all loan contracts and documentation within 48 hours of receiving the request for that loan documentation (with the completion of the remainder of documentation dependent on external providers). We continue to drive operational efficiencies across all areas, particularly focussed on ensuring consistency and reducing cycle times and error rates.

We also continue to see the benefits of investment in Operations made over recent years. Despite variations in the official RBA cash rate and difficult economic conditions, our 30 day secured loan arrears are still sitting at less than one per cent by value; far less than that reported by the major and second tier banks.

Our continuing high credit quality is testimony to our rigorous credit assessment processes as well as the quality of our on-going customer relationship.

We continue to utilise technology based solutions to assist in better recovery outcomes and the on-going maintenance of accounts that remain in arrears, with an extended implementation of SMS technology to remind customers they have missed a loan repayment. This has greatly assisted us in reducing the need to impose unpopular arrears penalties. As a result, over the past financial year, we have made a significant reduction in the number of loans more than 30 days in arrears.

MyState Financial's collections processes also ensure we continue to balance the requirements of our customers to meet their obligations, while supporting customers who are experiencing genuine financial hardship in the current economic climate.

Property

There have been significant changes to the property ownership and appearance of the Group during the past financial year.

From March 2012, all Hobart-based MyState Financial and Tasmanian Perpetual Trustees back office staff commenced relocation to a new site at 137 Harrington Street, Hobart. The consolidation drew staff previously working across thirteen floors in four buildings to a single, three-storey building. The new centre houses 220 employees in a modern, purpose-built site.

The new green-star rated building is testament to the Group's commitment to environmental and socially responsible business practices. The new centre will provide power cost savings and significant work has occurred to ensure efficiencies in telecommunications, document management and office support. The clear and deliberate shift to an open plan and inclusive welcoming workplace will also assist in the recruitment and retention of quality employees.

The consolidation resulted in the sale of 172 Collins Street, Hobart (Heritage House) and 29 Murray Street, Hobart (to settle in 2013).

More recently, we sold 23 Paterson Street, Launceston with back-office operations to be relocated to new, modern premises in Cimitiere House, Launceston.

In Launceston, the MyState Financial branch in St John Street was refurbished to provide a more inviting and welcoming environment for customer and staff business interaction. This format will form the basis of all future refits across the Group. Planning is underway for a similar redevelopment of the MyState Financial Hobart city branch in Collins Street.

In Queensland, a refurbishment has occurred at The Rock's Stockland branch and new branches have been opened at Gracemere and at The Rock's headquarters in central Rockhampton. We are particularly thankful to local contractors involved with our Queensland redevelopments for assisting with project completion without significant delays.

The design principles of renovations and new branches are consistent across the Group and support business objectives to provide the highest level of customer service.

New green-star rated building at 137 Harrington Street, Hobart

Finance and Governance

The work of this Division ensures the Group's financial capacity is harnessed to achieve maximum performance for Shareholders while managing within robust prudential, legal and corporate governance frameworks. In addition, the Division supports the Managing Director and Board with the non-organic growth strategy of the Group.

The Division provides the following services across the Group:

- Finance
- Secretariat
- Investor Relations
- Treasury
- Mergers and Acquisitions

Since merger, the strategic focus of the Division has centred on developing the Group's financial management capability, including capital and liquidity management and consolidation of the overall financial risk and reporting compliance regime for the Group.

Finance

Standard financial reporting protocols have been established to ensure the Board is able to review and analyse the operational performance of the Group. Finance and accounting systems and processes have been reviewed and plans are being developed to progress towards systems consolidation in the post-Rock acquisition period.

The taxation arrangements of the new Group have received focus in the past year, with a number of key projects finalised with support from the Group's tax advisers, KPMG. This includes bringing The Rock within the Group's consolidated tax regime.

The Finance team has also further developed its capital expenditure policy framework to ensure all capital expenditure meets value creation criteria, or assists the Group to comply with legal, industrial relations or workplace health and safety obligations. This is of particular importance as MyState Financial considers a replacement core banking system project.

A full review of the Finance Policy Framework has been completed aimed at ensuring consistent application across the recently expanded Group.

Secretariat

The Secretariat of MyState Limited continues to provide secretariat support for the extensive share register of some 70,000 Shareholders. Work has included the consolidation of The Rock with MyState Limited Shareholders following the scrip for scrip merger in December 2011.

This unit also aims to ensure the highest standards of Shareholder communication are achieved through ASX releases, the MyState Limited website and also direct communication through telephone, mail or at general meetings. The Annual General Meeting of the Company is held in October each year and the Company aims to ensure Shareholders receive a high standard briefing with specific questions answered wherever possible.

Investor Relations

With the expanded share register, MyState Limited has increased its investor relations activities over the past year in recognition of the growing institutional interest in the Group.

Investor briefing sessions are held regularly and throughout the year, with particular emphasis on annual and half year results releases.

Treasury

MyState Financial Treasury operations have been bolstered to cater for the expanded requirements of dealing with the new MyState Limited non-operating holding company group financial and prudential regulatory arrangements. Further, this unit also supports The Rock Treasury requirements as was envisaged under the 2011 merger proposal.

Following the merger with The Rock, the Treasury area has been required to develop a revised Liquidity Policy and Internal Capital Adequacy Assessment plan. Harmonisation of Treasury support activities in the Group has included governance arrangements for the MyState Financial and The Rock Asset and Liability committees.

As an example of the synergies possible between the merged companies, commercial arm's length discussions have resulted in co-operative arrangements between MyState Financial and The Rock regarding balance sheet management opportunities. Such arrangements include intra-group funding, negotiable certificates of deposit programmes, securitisation and loan warehousing arrangements.

Increased focus is being placed on ensuring effective capital management and appropriate return on equity outcomes. In addition, work is underway to enable the Group to take advantage of subordinated debt or hybrid instrument facilities, when appropriate pricing can be achieved.

This unit has also been heavily involved with the development of a capital management capability for MyState Limited. This work will serve the Group well, supporting future growth opportunities; whether they are through organic growth, or significant step out through acquisition.

Merger and Acquisitions

This Division is also responsible for the identification, research and assessment of merger and acquisition opportunities. Significant resource has been committed towards building a mergers and acquisitions capability to ensure future growth prospects for the MyState Limited Group.

Over the past year, further investment has been made in researching and analysing potential merger or acquisition partners, with particular focus on Wealth Management opportunities. A number of opportunities have been pursued, but due to market volatility and uncertainty in the legislative environment due to the Federal Government's 'Future of Financial Advice' reforms, the Group has not been able to consummate a transaction. It is hoped that continuing efforts will deliver additional distribution opportunities to the MyState Limited Group over the coming year.

In addition to the desire to expand MyState's Wealth Management offerings, the unique APRA approved Non-Operating Holding Structure (NOHC) of the MyState Limited Group makes it ideally placed to add additional Authorised Deposit Taking Institutions alongside its existing investments in MyState Financial and The Rock Building Society Limited. MyState Limited has a strong focus on regional Australia and, with the ever-increasing complexities associated with compliance activities in banking, MyState Limited would welcome like-minded and culturally aligned ADIs to the Group.

Risk and Compliance

With a dedicated and deliberate increased focus on risk management and frameworks, the Group established a new Risk and Compliance Division in October 2011. A Chief Risk Officer was appointed for the first time and is a member of the Executive. The Chief Risk Officer is independent; reporting directly to the Managing Director and, if required, has direct access to the Chairman of the Group Risk Committee and External Auditor.

The newly-established Division consists of two existing but separate business units delivering services to the Group.

These are:

- Legal and Compliance
- Risk

The aim of the Division is to safeguard the interests of stakeholders through the implementation of procedures and practices which are consistent with regulatory standards. The Group's Risk Management Policy and Framework mandates risks (including governance and compliance risks) are identified, evaluated and treated, and ensures the highest compliance standards are achieved.

Legal and Compliance

This unit draws upon the legal and compliance strengths of the Group and is charged with ensuring the highest compliance standards are achieved.

The Legal and Compliance team oversees the compliance operations of the Group and is responsible for the supervision of a broad range of business activities, including the Compliance programmes and plans, Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) programme, complaint handling and dispute resolution processes, privacy, general legal advice and support, the newly implemented internal audit plan and related programmes.

Group compliance systems and processes have been reviewed and standardisation across the expanded Group is continuing. Following The Rock acquisition, alignment of legal and compliance functions is the core focus to enable operational consistencies to be achieved.

Effective training programmes for all Divisions, business units and branches are ongoing to ensure all employees have a strong and solid understanding of legal and compliance requirements.

Risk

Shareholder value is driven by the Group taking considered risks. The Group assesses its risks by identifying potential events and evaluating the combination of the consequences of an event and the associated likelihood of occurrence. Risks, whether positive or negative, are then assessed against the Group's risk appetite to ensure they are within the boundaries of activity that the Board intends.

It is pleasing to report the Division has met business unit objectives by ensuring metrics in key appetite statements and regulatory requirements were met.

Building on the Risk Management Framework and the Risk Appetite Statement and consolidating through all levels of the Group is the ongoing focus of the team.

The Group places strong emphasis on developing and maintaining a risk-aware culture in decision-making and across all its operations. Given this, it is recognised that risk culture can become a key business driver. It is the responsibility of every employee of the Group to appropriately manage risk and we seek to create a workplace where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted.

Following acquisition of The Rock, an operational risk assessment was completed to assess and evaluate the risks and risk culture of the newly acquired business. The assessment has led to an analysis of how to improve and consolidate systems and align risk related functions.

The Risk team oversees a number of key business activities including the Group's Risk Management policy and associated practices, Corporate Insurance programme, credit risk management and reporting, fraud and corruption control management and procedures; and the Whistleblower Protection Policy, procedures and associated investigations when required.

Fraud risk assessments throughout MyState Financial and Tasmanian Perpetual Trustees have been completed and fraud risk training has been substantially strengthened over the past twelve months. A Group Fraud Control plan has also been developed and implementation is almost complete.

Responsibility

Board of Directors

Michael J Vertigan AC
BEc (Hons), PhD, Hon LLD, FAICD
Chairman and independent non-executive Director
Appointed 8 October 2008

Dr Vertigan is currently a Director of Aurora Energy and the Commonwealth Superannuation Corporation. He is Chair of the Energy Security Council and Chair of the Board of the Australian Maritime College. He was formerly Secretary of the Department of Treasury and Finance in both Tasmania and Victoria. For the past decade, he has had extensive involvement in the finance, investment, energy and utilities sectors. Director of Tasmanian Perpetual Trustees Limited since July 2004 and Chairman since October 2004, Dr Vertigan also serves as Chairman of MyState Limited Board's Group Nomination Committee and was appointed Chairman of The Rock Building Society Limited in December 2011. He was made a Companion of the Order of Australia in January 2004.

G John Gilbert
B Com, FAICD, FAMI
Managing Director - Executive Director
Appointed 10 December 2009

Mr Gilbert was appointed Chief Executive Officer of MyState Financial and subsidiary companies on 27 May 2009 and appointed a Director of Tasmanian Perpetual Trustees Limited on 22 December 2009. He was appointed Managing Director of The Rock Building Society Limited in December 2011. Mr Gilbert has extensive experience in the financial services sector in general and most recently as the former Chief Executive Officer of Cuscal Limited, a leading provider of wholesale and transactional banking services to specialist retail financial institutions. He is currently a Director of QBE Insurance (Australia) Limited, QBE Insurance (International) Limited, QBE Life (Australia) Limited, QBE Lenders Mortgage Insurance Limited and Elders Insurance Limited.

Peter D Armstrong
BEc (Hons), Dip ED, Dip FP, CPA, FAICD, FAMI
Independent non-executive Director
Appointed 12 February 2009

Mr Armstrong is Chairman of the MyState Limited Board's Group Corporate Governance and Remuneration Committee and is a member of the Group Audit Committee. He is a former Chairman of connectfinancial and Teachers, Police and Nurses Credit Union. Mr Armstrong was appointed a Director of MyState Financial and subsidiary companies on 1 July 1998 and is a Director of the Gourmet Club Pty Ltd. He was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009 and a Director of The Rock Building Society Limited in December 2011. Mr Armstrong is President of Tennis Tasmania and a Member Representative to Tennis Australia.

Robert L Gordon

BSc, MIFA, MAICD, FAIM
Independent non-executive Director
Appointed 12 February 2009

Mr Gordon is the Managing Director of Forestry Tasmania. He has been a company director for sixteen years including six years as Chairman of connectfinancial. Mr Gordon was appointed as a Director of MyState Financial on 1 July 1998. He is Chairman of MyState Financial Community Foundation Limited, a Director of the Gourmet Club Pty Ltd and was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009. He is a member of the MyState Limited Board's Group Risk and Group Nomination Committees. Mr Gordon was appointed a Director of The Rock Building Society Limited in December 2011.

Miles L Hampton

BEc (Hons), FCIS, FCPA, FAICD
Independent non-executive Director
Appointed 12 February 2009

Mr Hampton has been a Director of Tasmanian Perpetual Trustees Limited since July 2006. He was appointed a Director of MyState Financial and subsidiary companies in September 2009 and was appointed a Director of The Rock Building Society Limited in December 2011. Mr Hampton is Chairman of MyState Limited Board's Group Risk Committee and is a member of the Group Audit Committee. Mr Hampton was Managing Director of agribusiness and real estate public company, Roberts Limited from 1987 until 2006. He is currently a Director of Australian Pharmaceutical Industries Ltd, Forestry Tasmania, the Van Diemen's Land Company, Tasman Farms Limited and is Chairman of the Tasmanian Water and Sewerage Corporations and the Mather Foundation. Mr Hampton has previously been a Director of public companies Ruralco Holdings Ltd, Wentworth Holdings Ltd, HMA Ltd and Gibsons Ltd and was a Director of Impact Fertilisers Pty Ltd.

Colin M Hollingsworth

CPA, MAICD, FAMI
Independent non-executive Director
Appointed 12 February 2009

Mr Hollingsworth was General Manager, Corporate Services, TAFE Tasmania from1998 until April 2008. He is an experienced company director and former Chairman and Director of both CPS and Island State Credit Unions. Mr Hollingsworth was appointed a Director of MyState Financial on 1 July 2007. He is a Director of The Gourmet Club Pty Ltd and was appointed as a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009. Mr Hollingsworth is Chairman of MyState Limited Board's Group Audit Committee and a member of the Group Corporate Governance and Remuneration Committee. He was appointed a Director of The Rock Building Society Limited in December 2011.

Stephen E Lonie
B Com, MBA, FCA, FFin, FAICD, FIMCA
Independent non-executive Director
Appointed 12 December 2012

Mr Lonie was a former partner of the international accounting and consulting firm KPMG and now practices as an independent management consultant. Currently, he is Chairman of Central Queensland mining group, Jellinbah Resources Pty Ltd and is a non-executive Director of Corporate Travel Management Ltd. Mr Lonie was formally Chairman of The Rock Building Society Ltd and remains as a non-executive Director of the Company following the acquisition by MyState Limited. Mr Lonie is a member of MyState Limited Board's Group Audit and Group Corporate Governance and Remuneration Committees.

Sarah Merridew
BEc, FCA, FAICD
Independent non-executive Director
Appointed 12 February 2009

Mrs Merridew is a non-executive Director of Tasmanian Railway and the Tasmanian Water and Sewerage Corporations. She is Honorary Treasurer of the Royal Flying Doctor Service Tasmanian Section and actively involved with other community organisations. Mrs Merridew was formerly a Director of Tasmanian Public Finance Corporation and a partner of Deloitte Touche Tohmatsu. She is an experienced company director and has extensive experience in providing audit, risk management and business advisory services to the public and private sectors. Mrs Merridew was appointed a Director of MyState Financial and subsidiaries on 22 September 2009 and a Director of Tasmanian Perpetual Trustees on 11 December 2001, following her previous appointment to the Board of Perpetual Trustees Tasmania Limited. She was a Director of Tasmanian Banking Services Limited from 2005 until 2009. She is a member of MyState Limited Board's Group Risk and Group Corporate Governance and Remuneration Committees. Mrs Merridew was appointed a Director of The Rock Building Society Limited in December 2011.

Ian G Mansbridge
CPA, FCIS, FCIM
Independent non-executive Director
Appointed 12 February 2009

Mr Mansbridge's career has included positions as Managing Director of Sandhurst Trustees Ltd, Managing Director of National Mortgage Market Corporation, Managing Director of Elders Rural Bank (Rural Bank) and General Manager of Bendigo Bank. He has been National President of the Trustee Corporations of Australia, a Director of Tasmanian Banking Services and Chair of the National Stock Exchange of Australia Ltd. He is currently a Director of Australian Friendly Society, Sandhurst Trustees Ltd and Goulburn-Murray Water. He was appointed a Director of Tasmanian Perpetual Trustees Ltd in March 2004, and MyState Financial on 22 September 2009. He is a member of MyState Limited Board's Group Risk and the Group Nomination Committees. Mr Mansbridge was appointed a Director of The Rock Building Society Limited in December 2011.

Paul K M Viney
B Bus FCPA, FCSA, FCIS, CFTP, MAICD
Company Secretary/Chief Financial Officer
Appointed 8 October 2008

Mr Viney was appointed Company Secretary and Chief Financial Officer of MyState Limited on 11 January 2010 and Secretary of the MyState Financial Group of companies on 24 November 2009. He was previously appointed Company Secretary of MyState Limited on 8 October 2008. Mr Viney was appointed Company Secretary and Chief Financial Officer of Tasmanian Perpetual Trustees Limited in July 2003. He was Secretary of Tasmanian Banking Services Limited from July 2003 until 10 August 2009. Prior to joining Tasmanian Perpetual Trustees, Mr Viney was General Manager Corporate, Chief Financial Officer and Company Secretary for Harris & Company Limited, a Director of The Examiner Newspaper Pty Ltd, Group Treasurer of the Australian Cement Group of Companies, Manager Corporate Banking for Tasmania Bank, Assistant Commissioner for Corporate Affairs in Tasmania and Assistant Accountant for James Hardie Packaging. He has had extensive experience in finance, accounting and company secretarial roles. Mr Viney was appointed Secretary of The Rock Building Society Limited in December 2011.

Corporate Governance

The Board of Directors and Management of MyState Limited recognise the importance of good Corporate Governance and are committed to maintaining and enhancing the highest standards across the Group - good governance is not considered to be just a matter for the Board and Management, rather a culture entrenched Company-wide.

These governance standards are of paramount importance as MyState Limited is both a listed company and an entity operating within the highly regulated financial services sector, overseen by APRA, ASIC, ASX, Austrac and others.

The Board is responsible to its Shareholders for the performance of the Company and strives to enhance the interests of Shareholders and other stakeholders including employees and regulators. Details of the Company's Corporate Governance policies are available on the Company's website at www.mystatelimited.com.au and may be accessed via the 'Corporate Governance' section.

The Company's Corporate Governance policies are continually under review due to the ever changing regulatory environment and the desire for the Company to operate at the highest governance levels possible.

The Company is pleased to report continuing full compliance with each of the following ASX Corporate Governance Principles and Recommendations:

1. **Lay solid foundations for management and oversight**
   Establish and disclose the respective roles and responsibilities of Board and Management.

2. **Structure the Board to add value**
   Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

3. **Promote ethical and responsible decision-making**
   Actively promote ethical and responsible decision-making.

4. **Safeguard integrity in financial reporting**
   Have a structure to independently verify and safeguard the integrity of the Company's financial reporting.

5. **Make timely and balanced disclosure**
   Promote timely and balanced disclosure of all material matters concerning the Company.

6. **Respect the rights of Shareholders**
   Respect the rights of Shareholders and facilitate the effective exercise of those rights.

7. **Recognise and manage risk**
   Establish a sound system of risk oversight, management and internal control.

8. **Remunerate fairly and responsibly**
   Ensure the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Upon listing in September 2009, MyState Limited fully complied with the ASX Principles of Good Corporate Governance and Best Practice Recommendations. Since that time, the Company has continued to review and enhance its policies and procedures to demonstrate its compliance with the Principles of Good Corporate Governance, and at 30 June 2012, can report full compliance.

In addressing the challenges posed by the most recent changes to the Corporate Governance Principles, MyState Limited's Board has a well established formal Diversity Policy and has further progressed many diversity related initiatives across the Group during the current reporting period. The Diversity Policy is underpinned by a comprehensive set of measureable diversity objectives which encompass gender diversity targets at both a Board and workplace level.

The Board's Group Nomination Committee Charter includes a requirement to regularly review the proportion of women employed at all levels of the Company. In addition, diversity is specifically considered in Board succession planning. Similarly, the Board Renewal and Evaluation Policy addresses the new requirements - specifically, the mix of skills and diversity which the Board is looking for in its membership.

During the reporting period, the Board also continued to refine and enhance its Committee structures so as to achieve greater alignment and less duplication and overlap of Committee functions and responsibilities.

Board of Directors

Role of the Board

The Board of Directors is accountable to Shareholders for the overall performance and governance of the Company.

The Board has developed the following suite of policy documents which clearly establish the relationship between the Board and Management and describe their respective roles and responsibilities in a manner consistent with ASX Principles:

- the Role and Composition of the Board;
- the Role, Skills and Attributes of the Chairman;
- the Role and Skills of Individual Directors; and
- the Role of the Managing Director/Chief Executive Officer.

These documents are available on the Corporate Governance section of the Company's website.

Fundamentally, the Board is responsible for:

- determining corporate policy;
- setting the Company's goals and strategic direction including identification and analysis of merger, acquisition and investment opportunities for the Group in accordance with the Strategic Plan;
- assessing and monitoring performance against budgets and strategic plans; and,
- monitoring the management of the business.

The Board also ensures the appropriate integrated controls, systems and procedures are in place to identify, assess, monitor and manage material business risks and to ensure compliance with all regulatory and prudential requirements.

The Board is responsible for the appointment of the Managing Director, sets his/her remuneration and monitors his/her performance annually.

The Board also reviews and approves the Senior Executive structure of the Company, their appointment and remuneration and annually monitors their performance, with recommendations brought forward by the Managing Director.

The Managing Director is responsible to the Board for the day-to-day operation of the Company.

Board Structure

The Board currently comprises eight non-executive Directors, including the Chairman, together with one executive Director, namely the Managing Director.

The names, terms of office and individual skills, experience and expertise profile of each of the Board members are set out on pages 34 to 36 of this Annual Report.

The Company's Constitution contains provisions relating to the retirement and appointment of Directors at the Annual General Meeting. The Constitution also contains provisions which allow the Board to vary the number of non-executive Directors within certain limitations.

Director Independence

Directors are expected to bring independent views and judgement to the Board's deliberations as well as a strong understanding of the Group's core businesses. The Board includes a majority of non-executive independent Directors, a non-executive independent Chairman and has different persons filling the roles of Chairman and Chief Executive Officer/Managing Director.

The Board has developed a set of 'Independent Director Standards'. In defining the characteristics of an independent Director, the Board uses ASX Principles together with its own consideration of the Company's operations and business, applying appropriate materiality thresholds on a case-by-case basis with reference to each Director and having regard to both quantitative and qualitative principles.

The Independent Director Standards are available on the Company's website.

To qualify as being 'independent', a Director must, in the opinion of the Board, be independent of Management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of his/her unfettered and independent judgement.

Information about any such businesses or relationships, including any related financial or other details, is assessed by the Board to determine whether the relationship could, or could reasonably be perceived to, materially interfere with the exercise of a Director's unfettered and independent judgment. In determining whether an interest or relationship is considered to interfere with a Director's independence, the Board adopts a conservative approach to materiality.

The Board considers that, among other things, Executive positions, substantial shareholdings, acting as a material professional advisor or consultant, having material business relationships, serving as a long-term Director, being affiliated with or employed by a present or former auditor of the Company, being a material supplier or customer, or having a material contractual relationship are all matters to be considered in determining Director independence.

The Board has reviewed the position and associations of each of the Directors in office at the date of this Annual Report and considers that all eight of the current non-executive Directors are independent.

The Board assesses the independence of new Directors upon appointment and reviews their independence and the independence of the other Directors, as appropriate. Where a Director's independence status changes, the Company has procedures in place to provide a timely disclosure to the market of the change.

Board Skills, Knowledge and Experience

The Board, as currently constituted, has a sound knowledge and understanding of the financial services industry and has the range of competencies considered appropriate to the needs of the business.

Each year the Board, under the sponsorship of the Group Nomination Committee, reviews the key competencies required for optimal composition of the Board, having regard to the Company's activities in the financial services sector and the diversity, skills, knowledge and experience collectively required of its Directors. Assessment by the Committee aims to confirm that there is a close alignment between optimal Board composition and the competencies of the Board as currently constituted.

The Directors of MyState Limited understand the need to structure the Board in such a way that it:

- has a proper understanding of and competence to deal with the current and emerging issues of the business;
- exercises independent judgement;
- encourages enhanced performance of the Company; and,
- can effectively review and challenge the performance of Management.

The Australian Prudential Regulation Authority (APRA) has in place Prudential Standards that require Directors, Senior Management and auditors of an authorised deposit-taking institution to be assessed to determine whether or not they have the appropriate skills, experience and knowledge to perform their role. They also need to be able to establish that they have acted with honesty and integrity.

A 'Fit and Proper' Policy that meets the requirements of the Prudential Standard has been approved by the Board and implemented by the Company. All 'responsible persons', as defined by the Prudential Standard, have been assessed as meeting the criteria to ensure they are 'fit and proper'.

Board, Committee and Director Performance Evaluation

The Board Renewal and Evaluation Policy governs the process of regular review of its overall effectiveness with the aim of maintaining an energised, proactive and effective Board.

The Policy is available on the Company's website. Pursuant to the Policy, the Group Nomination Committee is responsible for strengthening the governance framework of the Company through an on-going assessment of the composition and effectiveness of the Board as a whole. This includes developing and recommending to the Board effective processes for annually reviewing and assessing the performance of:

- the Board as a whole;
- Board Committees; and,
- the Chairman and each of the Directors.

An annual and detailed internal assessment is made of the Board's performance in meeting its various responsibilities. The Chairman undertakes a pivotal role in this process. The Group Nomination Committee also reviews a Board Skills Assessment matrix completed annually by Directors to assist the Board Succession Planning process. This review is designed to assist with deliberations regarding the Board's performance as a whole.

This internal process is combined with an independent external review by Board performance consulting specialists conducted at least every three years, most recently finalised in 2010. A further review is being conducted in 2012.

Plans for those areas identified for further improvement as a result of the evaluation process are developed where required, with the Board agreeing on which recommendations are to be implemented, when it is proposed to do so and who is to take responsibility for their implementation.

The Group Nomination Committee also annually reviews the Company's adherence to the Board Renewal and Evaluation Policy and reports to the Board in this regard.

The annual performance evaluation for the Board, its respective committees and the individual Directors has been conducted during the current financial year in accordance with the process disclosed in this Annual Report.

Board Renewal and Succession Planning

Board renewal and succession planning matters in the period immediately post merger (for 2009, 2010 and 2011) are detailed in the Company's Constitution, which is available from ASIC and has also been published to the ASX Company Announcements Platform for MyState Limited (ASX Code; MYS).

Recommendations for the appointment of new Directors are made by the Board's Group Nomination Committee for consideration by the Board as a whole.

If it becomes necessary to appoint a new Director to fill a vacancy on the Board, or to complement the existing Board, potential candidates are identified and assessed against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. This assessment extends to attention to the diversity needs of the Board, including gender diversity.

On occasion, professional intermediaries can be used to assist with the identification and assessment of potential Director Candidates.

The Company has developed a comprehensive Board Skills Assessment matrix that is used to assess the skills of existing Directors and potential Director Candidates.

A Director, selected and appointed by the Board, is required to retire in accordance with the Constitution of the Company at the next Annual General Meeting and is eligible for election by Shareholders at that Annual General Meeting.

Non-executive Directors will retire once they have served a maximum of 3, three year terms after first being elected by Shareholders.

The appointment of a new Director by the Board is formalised with a detailed letter of appointment from the Chairman which sets out the key conditions of their appointment including such matters as their term of appointment, duties, rights, responsibilities, time commitments, expectations of the role and remuneration.

Induction and Continuing Education

Management, working with the Board, provides a comprehensive induction programme for new Directors which canvas the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programme, its respective Codes of Conduct, its management structure, its internal and external audit programmes and Directors' rights, duties and responsibilities. These processes are designed to ensure new Directors fully understand their role and are able to operate effectively from the date of their appointment.

To assist Directors to gain a broader understanding of the Company, Management also regularly conducts additional presentations for Directors about the Company and the factors impacting, or likely to impact, on its businesses.

Directors are also encouraged to personally keep up-to-date on topical issues.

Meetings of Directors

The Board currently meets formally at least eleven times a year and on other occasions, as required. Senior Management attend and make presentations at Board meetings as considered appropriate and are available for questioning by Directors.

The Board also provides time for discussion at each meeting without Management being present.

The Board also holds annual strategic planning sessions with Management, to review and re-assess the Company's five year strategic plan focussed on underpinning the long term profitable growth of the Company.

The number of Board meetings and each Director's attendance at those meetings for the financial year ended 30 June 2012 is set out in the Directors' Report on page 67 of this Annual Report.

All Directors have unrestricted access to all employees of the Company and, subject to the law, access to all Company records and information held by employees and external advisers. The Board receives regular detailed financial and operational reports from Senior Management to enable it to carry out its duties.

Consistent with ASX Principles, each Director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a Director or as a member of a Board Committee. The Company will reimburse the Director for the reasonable expense of obtaining that advice.

Conflicts of Interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Group. This is a matter for on-going consideration by all Directors, and any Director who has a material personal interest in a matter relating to the Group's affairs must notify the other Directors of that interest.

The Group's corporate governance standards provide that when a potential conflict of interest arises, the Director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances, the Director concerned takes no part in discussions and exercises no influence over other members of the Board.

Board Committees

Board Committees assist the Board in the oversight and control of the Company.

Each Committee operates under a formal Charter approved by the Board under which authority is delegated by the Board and which set out matters relevant to the composition, responsibilities and administration of those Committees. The Charters are reviewed at least annually.

During the reporting period, the Board continued to refine and enhance its Committee structures so as to achieve greater alignment and less duplication and overlap of Committee functions and responsibilities. The Committee governance structure encompassing all Committee Charters is available on the Company's website.

The performance of each Committee is reviewed annually by the respective Committee and then reported to the Board.

Minutes of Committee meetings and Committee recommendations are provided to the Board.

Each Committee member (including the Chairperson of the Committee) is appointed by the Board of Directors, following consideration of recommendations from the Group Nomination Committee. Membership of each Committee is reviewed by the Board on an annual basis.

All Committees are comprised of non-executive members of the Board, with the majority of members being independent Directors, based on the assessment of the Board under its Independent Director Standards.

The Chairperson of each Committee may call a meeting of the relevant Committee at any time, or if so requested by any member of the Committee.

Each Committee develops and maintains an annual 'Program of Events', which details major items of business to be considered at set points throughout the year, to support both the Committee's and the Board's activities.

Each Committee is empowered, with the prior approval of the Chairman of the Board, to consult experts at the expense of the Company where the Committee considers it necessary to carry out its duties.

The Chairman of the Board as well as each Director is entitled to attend meetings of all Board Committees.

Group Audit Committee

The Board has established a Group Audit Committee that assists the Directors in discharging the Board's responsibilities of oversight and governance in relation to financial and audit matters.

The Committee is comprised of at least four non-executive Directors and at least one member should have professional accounting, or professional financial management expertise. Members will be financially literate, or become financially literate within a reasonable period of time after appointment to the Committee. The Chairman of the Committee must be an independent non-executive Director. The Chairman of the Board of Directors and the Chairman of the Group Risk Committee are precluded from being the Chairman of the Group Audit Committee.

The Committee meets at least four times per annum and otherwise as required. Two of the Committee meetings must be prior to Board meetings at which the Group's consolidated half year and annual financial reports are adopted.

The Group Audit Committee is comprised of Mr C M Hollingsworth (Chairman), Mr P D Armstrong, Mr M L Hampton and Mr S E Lonie. Details of Committee member's respective skills and qualifications are set out on pages 34 to 36 of this Annual Report. The number of Committee meetings that were held over the reporting period and the attendance of Committee members (both current and those retiring during the course of the reporting period) at these meetings are set out on page 67 of this Annual Report.

Pursuant to its Charter, the Group Audit Committee is responsible for reviewing and making recommendations to the Board on:

- the integrity of the Company's financial reporting, in particular the half year and annual financial reports;
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group;
- application of accounting policies;
- the systems for internal control established by Management and the Board;
- the quality, adequacy and effectiveness of the external auditor and coordinates its operation with the internal audit function;
- the respective scope of both the external and internal audit, particularly the identified risk areas and whether all material risks and financial reporting requirements are covered; and,
- whether the external auditor is fit and proper for APRA purposes.

The Committee also:

- oversees the procedures for the selection and appointment (or removal) of the external and internal auditors;
- oversees and assesses the effectiveness and independence of the external and internal auditors;
- evaluates and monitors the Company's exposure to fraud;
- establishes and maintains the Company's Whistleblower Protection Policy and related processes; and,
- actively monitors compliance with relevant laws, including the *Corporations Act*, trustee company legislation, taxation laws, the requirements of ASIC, APRA and ASX listing and business rules. The Group Risk Committee also has oversight of compliance with other laws and there may be some overlap.

The Managing Director, Chief Financial Officer/Company Secretary, Chief Risk Officer, Senior Manager Legal and Compliance, internal auditors and external auditors are invited to attend meetings on a regular basis, as required.

The members of the Committee also meet with both external and internal auditors without Management personnel being present at least once per annum. These meetings address, amongst other things, whether the external or internal auditors (as the case may be) have received co-operation from Management and whether there have been any impediments to carrying out their respective audits. The internal and external auditors have a direct line of communication with the Chairman of the Group Audit Committee.

Group Risk Committee

The Board has established a Group Risk Committee that assists the Directors in discharging the Board's responsibilities to set the risk appetite, promote awareness of a risk-based culture, oversee the risk profile and recommend the Risk Management Framework of the MyState Limited Group to the Board.

The Committee is comprised of at least four non-executive Directors. The Chairman of the Committee must be an independent non-executive Director.

The Committee meets at least four times per annum and otherwise as required. The Group Risk Committee is comprised of Mr M L Hampton (Chairman), Mrs S Merridew, Mr R L Gordon and Mr I G Mansbridge. Details of Committee member's respective skills and qualifications are set out on pages 34 to 36. The number of Committee meetings that were held over the reporting period and the attendance of Committee members (both current and those retiring during the course of the reporting period) at these meetings are set out on page 67 of this Annual Report.

Under its Charter, the Group Risk Committee:

- makes recommendations to the Board on the parameters of the Group's risk management strategy;
- monitors the risk profile and oversees inherent market, liquidity, balance sheet, credit, operational and compliance risk management;
- assists the Board in the management of compliance obligations including overseeing APRA statutory reporting requirements pertaining to risk matters;

- ensures that the key business and financial risks and compliance requirements not covered by the activities of other Board Committees (such as monitoring the Company's performance against the Compliance Plans for the Managed Investment Schemes) are identified and assessed; and,
- ensures that appropriate controls are in place to effectively manage current and future risks and compliance requirements.

The Managing Director and Senior Manager Risk attend meetings on a regular basis, as required.

Group Corporate Governance and Remuneration Committee

The Board has established a Group Corporate Governance and Remuneration Committee that assists the Directors in discharging the Board's responsibilities in relation to Corporate Governance and Remuneration Policy.

The Committee is comprised of at least three non-executive Directors; the majority of which are independent. The Chairman of the Committee must be an independent non-executive Director.

The Group Corporate Governance and Remuneration Committee is comprised of Mr P D Armstrong (Chairman), Mr R L Gordon, Mr C M Hollingsworth, Mr S E Lonie and Mrs S Merridew. Details of Committee member's respective skills and qualifications are set out on pages 34 to 36 of this Annual Report. The number of Committee meetings that were held over the reporting period and the attendance of Committee members (both current and those retiring during the course of the reporting period) at these meetings are set out on page 63 of this Annual Report.

Under its Charter, the Group Corporate Governance and Remuneration Committee's primary remuneration related responsibilities are reviewing and making recommendations to the Board on:

- Remuneration Policy and arrangements for Directors;
- the remuneration and review of performance of the Managing Director, other Senior Executives and other persons whose activities may in the Committee's opinion, affect the financial soundness of the institution and any other persons specified by APRA;
- Diversity Policy formulation and oversight (noting the Group Nomination Committee's obligations under ASX Principles);
- the general 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; and,
- matters such as a Company Share Scheme or other incentive schemes for Senior Executives and staff.

Formal performance evaluations have been undertaken for the Managing Director and Senior Executives during the current financial year in accordance with the process disclosed in this Annual Report.

These performance evaluation processes are also consistent with ASX Principles.

The Committee also:

- reviews and makes recommendations to the Board in respect of best practice Corporate Governance policy and procedures to ensure that the Company adopts and adheres to the highest standards of corporate governance which are embodied within the Company's Corporate Code of Conduct and other policies relating to ethical conduct;
- consults with the Board and Management regarding the negotiation and ratification of industrial agreements or contracts for senior staff;
- ensures compliance with relevant Company policies and legal requirements of employment (i.e. Workplace Health and Safety, Anti Discrimination etc); and,
- monitors programmes in place to ensure Company staff have skills in place to competently perform their roles, including a review of the Company's succession plan.

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 Senior Executive is directly involved in deciding their own remuneration.

The Group Corporate Governance and Remuneration Committee has deliberated at length over revised remuneration practices during the course of the year, to ensure the Company's Policy and practices are fully compliant with all applicable laws and regulatory guidelines and clearly fall within the Community's expectations of appropriate remuneration and reward practices.

A copy of the Company's Remuneration Policy is available on the Company's website and the ASX Announcements Platform.

Group Nomination Committee

The Board has established a Group Nomination Committee whose primary roles are to ensure that the Company undertakes an on-going assessment of the composition and effectiveness of the Board and manages the formal process used for the selection and appointment of new Directors.

The Committee and the Board are committed to ensuring there is a transparent procedure for the selection, appointment and re-appointment of Directors to the Board. The Committee is responsible for making recommendations to the Board regarding:

- appropriate nomination policies and practices in light of best practice, regulatory developments and the needs of the Company;
- the size, composition and skills of the Board appropriate to meet the needs of the Company;
- the necessary and desirable competencies of Directors;
- Board succession plans, including the succession of the Chairman and specific nominations for Directorship appointments to maintain an appropriate mix of skills, experience, expertise and diversity on the Board;
- appropriate policies and strategies to address Board diversity and to monitor the implementation of those policies (noting the Group Corporate Governance and Remuneration Committee has primary responsibility for the Diversity Policy);
- formulating strategies on Board gender diversity and diversity in general (which includes age, ethnicity, culture and religion);
- the development of effective processes for the evaluation of the performance of the Board, its Committees, the Chairman and each of the Directors;
- the appointment and re-election of Directors;
- effective new Director induction processes for both Company responsibilities and off-balance sheet responsibilities; and,
- reporting disclosures in relation to nomination and Board performance to meet the Board's disclosure objectives and all relevant statutory, regulatory requirements.

The Committee is comprised of at least three non-executive Directors, the majority of which are independent. The Chairman of the Board is the Chairman of the Committee and must be an independent non-executive Director.

The Group Nomination Committee is comprised of Dr M J Vertigan AC (Chairman), Mr R L Gordon and Mr I G Mansbridge. Details of Committee member's respective skills and qualifications are set out on pages 34 to 36 of this Annual Report. The number of Committee meetings that were held over the reporting period and the attendance of Committee members (both current and those retiring during the course of the reporting period) at these meetings are set out on page 63 of this Annual Report.

Diversity

The Board approved the Company's Diversity Policy in February 2011, representing 'early adoption' of the related amendments to the ASX Corporate Governance Principles and Recommendations published on 30 June 2010. This early adoption clearly reflects the Company's commitment to the principles of diversity and that it both strongly recognises and appreciates the benefits that flow from fostering a balanced and diverse workforce - one which embraces differences in age, gender, culture and physical ability.

The Diversity Policy applies to all Companies within the Group and is available on the Company's website.

The Company is strongly focused on attracting and retaining the most talented people. As part of this recruitment and retention strategy, diversity remains an important consideration throughout all levels of the organisation, including the Board.

Diversity at Board Level:

In order to facilitate greater gender diversity at the Board level, the Diversity Policy requires:

- the Company to implement an appointment process for future Directors that takes diversity of background into account to fit and enhance the Board Skills Matrix (in addition to previous Board and leadership experience and candidates' skills and experience in a variety of specified fields); and,
- the selection process for Board appointments must involve the following steps (including where the Company engages an external recruitment agency to identify and assess candidates):
  - a short-list identifying potential candidates for the appointment must be compiled and should include at least one female candidate, subject to availability of suitable qualified candidates; and,
  - if, at the end of the selection process, a female candidate is not selected, the Board must be satisfied that there are objective reasons to support its determination.

Diversity in the Workplace:

In order to facilitate greater gender diversity in Management and leadership roles, the Diversity Policy requires:

- the Managing Director to have reference to the Policy in selecting and assessing candidates and in presenting recommendations to the Board regarding appointments to the Senior Executive team; and,
- the Board to also consider gender diversity and the objectives of the Policy when considering those recommendations.

In addition, the Policy requires the Company to:

- implement policies which address impediments to gender diversity in the workplace and review their availability and utilisation;
- monitor the effectiveness of and continue to expand on, existing initiatives designed to identify, support and develop talented women with leadership potential; and,
- continue to identify new ways to entrench diversity as a cultural priority across the Company.

Gender Diversity:

At the 30 June 2012, women account for 70% (30 June 2011: 69%) of the Group's workforce and gender diversity by role within the Group sat at the following levels with percentages representative of women placed in all roles available at that job level:

Role Category	Female Representation % (As at 30 June 2012)	Female Representation % (As at 30 June 2011)
Directors	12.50%	10.00%
General Managers	14.00%	Nil%
Senior Managers	27.00%	22.00%
Managers	48.00%	52.00%
Specialist Roles	68.00%	68.00%
Generalist Roles	80.00%	83.00%

The Board acknowledges that there is currently some evidence of inequity in the representation of women at the Senior Manager level and above but notes an increase in female representation at each of these levels by comparison to the financial year ended 30 June 2011. The Board also considers the Company to be very well catered for in terms of gender diversity in all other levels of Management. Further development of this talented pool of female employees will continue to be targeted through such Company initiatives as the Company's Leadership Development Program.

The Company is committed to identifying and implementing innovative ways to improve and better meet the needs of talented women within the Company's workforce. These initiatives should see many of the Company's current Management female employees well-skilled and capable of applying for and progressing to any Senior and General Manager positions, which may arise in the future.

However, it is important to note that the Group will still adhere to its Recruitment and Selection Policy and that the most suitable applicant for the role will always be successful, regardless of gender. The challenge is ensuring the Company, as an employer, positions female employees well so as to be considered for positions that arise and which appropriate gender balances, where possible, is achieved when short listing applicants.

Diversity Objectives and Strategies:

The Diversity Policy provides that each year the Board will set measurable objectives with a view to progressing towards a balanced representation of women at a Board and Senior Executive level and that performance against these objectives will be reviewed annually by the Group Corporate Governance and Remuneration Committee.

The Company's gender diversity strategy places emphasis on developing talented women and is not simply about increasing the number of women in the workforce. It seeks to ensure an on-going focus to provide support and development for women throughout their careers.

The Board's current set of measurable objectives are detailed in the table below:

Measurable Diversity Objectives – Achievement Goal		
Objective 1:	Flexible work practices procedure to be approved by the Group Corporate Governance and Remuneration Committee. **Update:** No specific flexible work practices procedure has been developed to date. However flexible work practices have been embedded in the Company's Enterprise Agreement, as well as in supporting Human Resource Policies and Procedures. It is considered that the relevant Enterprise Agreement provisions address this area of focus and that flexibility built into individual Policies and Procedures is a specific and potentially more suitable approach than a more broad and generic Flexible Work Practices policy.	By June 2011
Objective 2:	Establish partnership/sponsorship/membership with an external body promoting a women's leadership initiative. **Update:** Whilst a formal 'partnership' has not been developed, the Company has actively promoted internally and has had strong attendance at forums conducted by "Women and Leadership Australia". Attendance at these sessions has been well received by participants.	By June 2011
Objective 3:	The Group to expand the scope of the Company's Succession Planning programme to identify high potential female managers and develop specific strategies to enhance the skills and experience of these managers, to prepare them to take on Senior/Executive Management roles. The Senior Manager People and Development to report annually to the Group Corporate Governance and Remuneration Committee on the success of this initiative. **Update:** Talented women have been targeted in the Company's 2011/2012 Leadership Development programme. A high proportion of the participants who successfully obtained the Diploma of Management were women (20 out of 30 attendees). Whilst this programme is aligned to the Company's Succession Plan initiatives, no specific favour has been given to women on the plan. Rather a commitment has been given to all identified on the plan to develop and position them for future promotion. Finding an appropriate gender balance in leadership positions has been taken into account when developing this plan which has very high female representation.	Annually from June 2011

Measurable Diversity Objectives – Achievement Goal		
Objective 4:	The Company to implement an internal mentoring programme which aims to increase opportunities for female employees in management or professional positions and from the Company's Future Leaders programme to have access to Senior Managers and (for women in Senior Management) Directors. **Update:** This objective will be progressed throughout the upcoming financial year.	June 2013
Objective 5:	Gender diversity target - Aim to increase the percentage of women in Senior Management positions (those positions either in the Company's Executive or reporting directly to the Company Executive) as vacancies arise, subject to identification of candidates with appropriate skills. **Update:** Strong improvements have been delivered in the current financial year with both indicators approaching target levels. It is envisaged that these ratios will remain relatively stable through the financial year ended 30 June 2013 noting some opportunity for further improvement exists through natural attrition.	Female participation % by June 2013: - General Managers 15% - Senior Managers 33%
Objective 6	Gender diversity target - The Board to develop a succession plan with an aim of increasing the representation of women on the Board. **Update:** This target will be worked on during 2012/13, with reference to Board succession activities generally.	Female participation by June 2013: 25%

Whilst it is difficult to set clear targets when the Company cannot predict natural attrition, nor changes to structure that may arise in the future, the Board believes that the targets set above are where the Company needs to be by the designated time and considers that the targets are realistic and achievable.

Other Diversity Initiatives:

In addition to its targeted gender related diversity initiatives, the Company is also currently proactively undertaking a number of other specific diversity initiatives, all of which the Board believe enhances the Company's ability to strategically diversify its workforce. Some of these include:

- on-the-job training placement, in association with Commonwealth Rehabilitation Services, to assist people recovering from physical and minor mental disabilities to gain work experience and aid in the process of transitioning back into the workforce. This may in some cases lead to permanent employment opportunity where such opportunity arises and participants are suitable for placement;
- multi-purposes facilities in new and renovated buildings to provide a safe, private and comfortable environment for individuals needing to partake in activities such as breast feeding or prayer;
- phased-in retirement schemes to aid those nearing retirement age to transition into retirement slowly allowing the Group to retain critical skills and knowledge whilst allowing the employee more control over their retirement by phasing into part-time employment, rather than making the difficult decision to go from full-time to no work at all; and,
- part-time and job shared positions to aid in obtaining and retaining talented employees who are unable to commit to full-time employment due to many and varied commitments in their home lives including family, religion and commitment to community development opportunities.

Conduct and Ethics

The pursuit of excellence in all areas of activity has been embraced by the Board, with the highest ethical standards expected from its own members, Management and staff in all dealings, a respect for the privacy of customers and observance of the law.

The Board has ensured that a Code of Conduct is in place for all subsidiary company operations within the MyState Limited Group to guide the Directors and each employee of the Group, and promote high ethical and professional standards, and responsible decision-making.

The Code of Conduct clarifies the standard of behaviour that is expected of anyone who is employed by or works for the Company and all subsidiaries, including Directors and employees (both permanent and temporary), contractors and consultants, customers, Shareholders, investors, suppliers and the community.

Pursuant to the Code, employees and Directors are expected to:

- act with honesty, integrity, decency, respect and responsibility at all times;
- respect and comply with laws, regulations, policies and procedures;
- respect confidentiality and privacy;
- properly use Company assets, information and facilities;
- value and maintain professionalism;
- take all reasonable action to avoid conflicts of interest and disclose any conflict of interest that cannot be avoided;
- act in the best interests of Shareholders; and,
- contribute to the Group's reputation as a good corporate citizen.

The Code of Conduct is consistent with ASX Principles and the Code is available on the Corporate Governance section of the Company's website.

In the event that a potential conflict of interest arises, Directors are required to disclose their interest and withdraw from all deliberations concerning the matter.

The Board observes due care in relation to loans from the Company or any Fund to Directors and Management and their associates. Fees paid to companies or partnerships related to Directors are in strict accordance with accepted commercial practice.

The Company has a Whistleblower Protection Policy for confidential reporting of unacceptable or undesirable conduct. The Whistleblower Protection Policy is designed to encourage employees to confidently and responsibly (anonymously if they wish) raise any concerns and report instances of unethical, fraudulent, non-compliant, suspicious or improper conduct without being subject to victimisation, harassment or discriminatory treatment.

More specifically, the purpose of this Policy is to:

- encourage the reporting of matters that may cause financial or non-financial loss to the Company or damage to the Company's reputation;
- enable the Company to effectively deal with reports from Whistleblowers in a way that will protect the identity of the Whistleblower and provide for the secure storage of the information provided;
- formalise the Company's commitment to absolute confidentiality and fairness in dealing with all matters raised;
- establish the protocols and procedures for supporting and protecting Whistleblowers who report violations in good faith against reprisal by any person internal or external to the entity;
- provide for the appropriate infrastructure including the appointment of a 'Whistleblower Protection Officer' and a 'Whistleblower Investigations Officer' and alternative means of reporting; and,
- help to ensure the Company, Directors and employees maintain the highest standards of ethical behaviour and integrity at all times.

The Company will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) of any person taking reprisals against them.

Financial Reporting

Consistent with ASX Principles, the Company's financial report preparation and approval process for the financial year ended 30 June 2012, involved both the Managing Director and Chief Financial Officer providing a written statement, to the best of their knowledge and belief, that:

- the financial records of the Company and its controlled entities for the financial year ended 30 June 2012 (Financial Period) have been properly maintained in accordance with section 286 of the *Corporations Act*;
- the financial statements and the notes referred to in section 295(3)(b) of the *Corporations Act* for the Financial Period comply with the accounting standards and other mandatory professional reporting requirements; and,
- the Company's financial report presents a true and fair view, in all material respects, of the Company's financial condition and operating results.

In addition, the Company has in place a process whereby the Managing Director and the Chief Financial Officer state to the Board in writing that the financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Remuneration Policies

Details on the Company's remuneration policies and practices are set out in the Remuneration Report which forms part of the Directors' Report attached to the Annual Report. The Remuneration Report includes details of remuneration of Directors and other Key Management Personnel of the Company and details of the Company's Executive Long-Term Incentive Plan.

The Group Corporate Governance and Remuneration Committee assist the Directors in discharging the Board's responsibilities in relation to human resource and remuneration policy.

Non-executive Directors

In accordance with best practice corporate governance, the remuneration of non-executive Directors is structured separately from that of Executive Directors and Senior Executives.

The Company's non-executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The Board reviews its fees to ensure the Company's non-executive Directors 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 non-executive Directors.

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

Non-executive Directors do not receive any shares, options or other securities in addition to their remuneration and are not eligible to participate in the Company's Employee Share Plan or any other incentive plan. They do not receive any retirement benefits (other than compulsory superannuation).

The aggregate remuneration paid to all the non-executive Directors (inclusive of statutory superannuation) may not exceed the $750,000 amount fixed by Shareholders at the May 2009 General Meeting of Shareholders. This 'fee pool' is only available to non-executive Directors, as Board membership is taken into account in determining the remuneration paid to executive Directors as part of their normal employment conditions.

The non-executive Directors currently receive $77,500 each per annum inclusive of statutory superannuation. The Chairman is paid an additional amount of $77,500 per annum inclusive of statutory superannuation.

Board Committee Chairmen are paid an additional amount of $12,000 (Group Audit), $9,000 (Group Risk) and $7,000 (Group Corporate Governance and Remuneration and Group Nomination), per annum inclusive of statutory superannuation.

Details of the remuneration of each Director are set out in the Remuneration Report on pages 69 to 83 in this Annual Report and in Note 42 of the financial statements.

The structure and disclosure of the Company's remuneration of non-executive Directors is consistent with ASX Principles.

Executive Directors and Senior Executives

The fundamental objective of the Company's Remuneration Policy is to foster and 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 delivering long-term sustainable financial security through:

- appropriately balanced measures of performance weighted towards long-term Shareholder interests;
- variable performance based pay for Executives involving a long-term incentive plan subject to an extended period of performance assessment;
- 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,
- structuring short-term and long-term incentive performance criteria within the overall Risk Management Framework of the Company.

Based on the above guiding principles, the Managing Director and Senior Executives of the Company are remunerated on the basis of a reward structure that reflects their contribution to Company performance. Each receives a fixed component of remuneration, together with a variable component which depends upon the achievement of short-term incentive goals set annually for each Executive.

An equity based long-term incentive component was established by way of approval of an Executive long-term incentive plan in September 2009, which is based on the concept of reward for sustained superior performance over rolling three year periods through the allocation of fully paid shares in the Company.

These arrangements reflect contemporary remuneration practices and are consistent with ASX Principles. Further details are set out in the Remuneration Report on pages 69 to 83 of this Annual Report and in Note 42 of the financial statements.

A copy of the Company's Remuneration Policy is available on the Company's website and has also been posted to the ASX Company Announcements Platform.

Risk Identification and Management

Consistent with ASX Principles, the Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. These include:

- guidelines and limits for approval of operational, capital expenditure and investments;
- a Risk Management Policy with regular review of individual business unit risks as well as strategic risks facing the Company;
- a Risk Management Framework, Risk Appetite Statement and Risk Management processes that are aligned to strategy, normal business operations and corporate values to ensure the desired risk culture is achieved and maintained.
- a comprehensive annual insurance programme;
- policies and procedures for the management of financial risk and treasury operations including movements in interest rates;
- a formal planning process of preparing five year rolling strategic plans each year;

- annual budgeting and monthly reporting systems for all business units which enable the monitoring of progress against performance targets and the evaluation of trends; and
- disaster recovery and business continuity management systems for all key business operations.

Management is ultimately responsible to the Board for the system of internal control and risk management. Both the Group Audit Committee and the Group Risk Committee assist the Board in monitoring these issues.

MyState Limited has different firms providing internal and external audit services. Deloitte continues to provide outsourced internal audit services and monitor the internal control framework of the Company.

The Group Audit Committee approves the strategic internal audit plan with the intention that planned audit activities are aligned to business risks. Internal audit reports are provided to the Group Audit Committee at scheduled meetings.

Enterprise Risk Management Framework

MyState Limited defines risk as *"the effect of uncertainty on objectives".* The Group's Enterprise Risk Management Framework is based on Australian Standard *AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines* (AS/NZS ISO 31000) and provides the foundations and organisational arrangements adopted by the Group in respect to Risk Management.

The Framework is designed to ensure all employees take all reasonable steps in the identification, assessment, monitoring and management of risk within the MyState Group to help facilitate it to achieve its strategic and business objectives.

Objectives

In accordance with AS/NZS ISO 31000, MyState Limited takes an integrated approach to Risk Management and as such, the framework aims to:

- provide guidance for the context in which risk management within the Group should be considered;
- ensure appropriate communication and consultation at each stage of the Risk Management process;
- ensure risk identification is an integral part of the management of the Group;
- ensure risk levels are analysed according to accepted standards;
- establish criteria for the evaluation of risks;
- provide guidance for the appropriate treatment of risks;
- ensure appropriate records of the Group's identified risks are kept; and

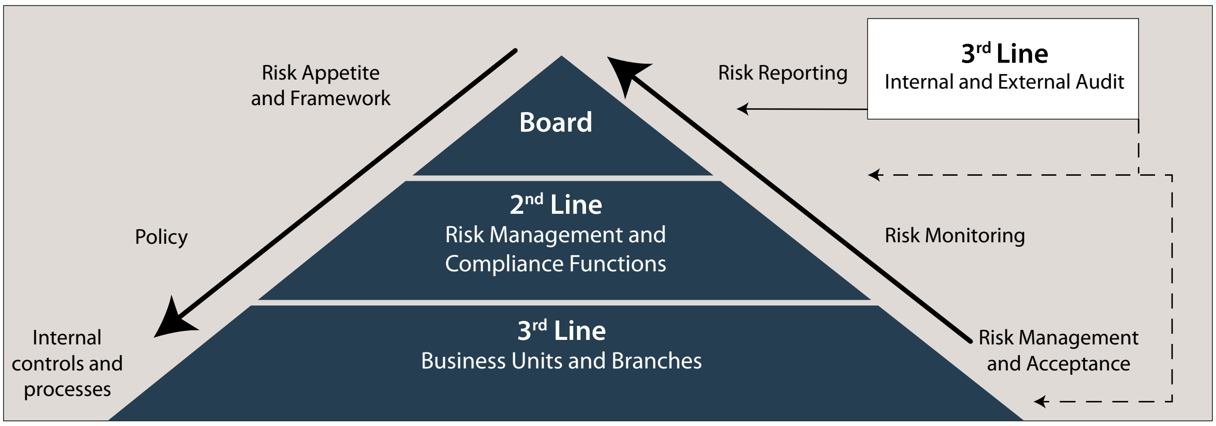


Figure 1 – MyState Limited three lines of defence model

1st Line of defence
Individual business units are responsible for identifying, evaluating and managing the risks that originate in their respective business lines within the Risk Appetite Statements and policies.

2nd Line of defence
The Risk Management and Compliance Functions are responsible for independent monitoring and oversight.

3rd Line of defence
Internal and external audit independently reviews and tests business unit compliance with risk policies and procedures, and regularly assesses the overall effectiveness of the Risk Management Framework.

- ensure the risk management system is subject to appropriate monitoring and review.

In addition, MyState Limited has included the following objective as an adjunct to the Australian Standard to ensure all Group strategic initiatives and business activities are achieved:

- approve and continually maintain the Risk Appetite Statements to ensure the Group's strategic initiatives and business activities are within the boundaries of activity that the Board intends, as set within the Risk Appetite Statements.

Risk Principles

MyState Limited's overall approach to risk management is based on 'the three lines of defence' model (Figure 1), which supports the relationship between the individual business units, the risk management and compliance functions, internal and external audit and the Board.

The Framework is designed to ensure all risk management activity within the Group is linked to its business strategy and operations. The Risk Management Policy, Framework and process is underpinned by responsibilities and functions driven from the Board level down to operational levels, covering all aspects of risk, including business, credit, legal & regulatory, liquidity, market, operational, reputation and strategic risks. In addition, specific details and responsibilities for managing each category of risk are contained in relevant policy, procedures, processes and work instructions.

Specific Accountabilities

Risk management within MyState Limited is part of everyday decision making at all levels. As such, all employees are expected to accept and be accountable for all risk management activities relevant to their respective business units and role.

Further to the responsibilities detailed above and in the Risk Management Policy, the following specific accountabilities apply:

The **Board** is responsible for ensuring that risks to MyState Limited's continued success and viability are properly identified and managed. To meet this responsibility the Board has approved the Risk Management Policy, Risk Management Framework, Risk Appetite Statements and Risk Management processes and charges the Group Risk Committee with the responsibility of ensuring there are adequate resources, processes and systems in place to enable these policies and principles to function as intended.

The **Group Risk Committee (GRC)** is responsible for recommending the Risk Management Policy, Framework, Strategies, Risk Appetite and Risk Management processes of the Group to the Board for approval. The GRC is also responsible for receiving and reviewing reports from Management concerning the Group's risk management strategies and activities and for overseeing the risk management process. The GRC may also make recommendations as to the Group's principles, strategies, policies and processes for managing risk.

The **Managing Director (MD)** must demonstrate and communicate a genuine commitment to the risk management principles approved by the Board and ensures adequate funding is dedicated to the operation of the Risk Management Framework and to the appropriate treatment of risks. In appointing a Risk Manager, the MD must ensure that the position has sufficient authority to carry out the duties contained within and has clear and independent reporting lines available to them to prevent the possibility of any perceived or real conflicts of interest.

Members of the **Senior Executive** must demonstrate and communicate genuine support to the Risk Management principles adopted by MyState Limited by:

(a) ensuring appropriate resources are available to enable employees to fully engage in risk management processes;

(b) monitoring and reviewing the risk management activities of direct reports;

(c) promoting and encouraging a risk aware culture; and,

(d) actively participating in the risk management process, including ensuring that risks are appropriately analysed, evaluated and, where necessary, treated.

The **Chief Risk Officer (CRO)** is a member of the Senior Executive and reports to the Managing Director but also has direct and unfettered access to the Chairman of the GRC and the External Auditor.

Whilst normal line management and in turn, all employees retain responsibility for risk management within the Group, the CRO provides an alternative avenue for identification of risks for example, other than through normal line management, which is particularly important if line management is involved in the risk event. This will also assist in early 'in confidence' notification of concerns, for example in relation to internal fraud, without the risk of alerting the parties concerned or exposure of the reporting employee.

In addition to the responsibilities charged to the Senior Executive, the CRO is responsible for:

(a) ensuring a Risk Management Framework appropriate for the Group's activities and risk appetite is maintained and reviewed at the intervals specified later in this Framework;

(b) establishing and maintaining the risk management monitoring and reporting processes necessary to ensure continual improvement;

(c) establishing and reviewing the processes and procedures for implementing the principles of the Risk Management Framework and Risk Appetite Statements;

(d) promoting a risk aware culture;

(e) advising and assisting internal and external stakeholders with regards to the Risk Management Policy, Risk Management Framework and Risk Appetite Statements;

(f) encouraging and promoting communication throughout the risk management process; and,

(g) defining qualitative and quantitative risk measurement and risk management systems.

All **Managers** are responsible for:

(a) the identification of risks associated with the operation of their business unit or branch and evaluation of those risks at the business unit level;

(b) ensuring those risks identified are evaluated and communicated to the Chief Risk Officer;

(c) reporting on the effectiveness of risk treatments; and,

(d) promoting risk awareness to employees.

All **Employees** (including Directors, Senior Executive and Managers) are responsible for:

(a) ensuring their activities are within designated risk management guidelines, as detailed in this Risk Management Framework;

(b) reporting perceived untreated risks; and,

(c) maintaining awareness that risk is inherent in all activities and adopting MyState Limited's appetite for risk as articulated by the Board and as defined in the Risk Management Policy, Risk Appetite Statements, this Framework and all policies, procedures, work instructions and system standards.

Internal Audit is outsourced and provides:

(a) independent testing and verification of the effectiveness of policies, procedures, work instructions and associated branch and business unit compliance;

(b) validates the Risk Management Framework and provides assurance that the risk management systems are functioning as intended;

(c) provides reports to Management and the Group Audit Committee (GAC) in respect to the Internal Audit Plan approved by the GAC and in turn the Board;

(d) has free and unfettered access to all operations within the MyState Limited Group; and,

(e) is independent of the External Auditor.

Risk Limits

Risk limits for liquidity, market, credit and interest rate risk are set and monitored by the relevant Asset and Liability Committee's (ALCO's) and Management Credit Committees within the parameters approved by the Board. Risk limits are also articulated in policy, procedure, processes and work instructions.

All areas of the business are expected to continually monitor and assess their own performance with respect to risk management, to ensure they are operating within the risk limits, risk appetite and risk tolerances set by the Board.

Internal Controls

To support the Framework, MyState Limited has a series of robust internal controls built into core business applications and articulated in policy, procedure, processes and work instructions across all aspects of the business. It also has strong internal support functions in place including Company Secretariat; Risk (which together with the responsibility for operation of the Framework assumes responsibility for fraud risk management and credit risk oversight); Legal and Compliance; Finance; Treasury; Credit; Loan Operations; Collections; Product Development and Research; Technology; Wealth Management and Trustees Services; Brands and Communications and People and Culture. This ensures the efficiency and effectiveness of controls is evaluated in all new and amended systems, processes or products or where external and internal factors impact the operating environment (e.g. changes in organisation structure, new legislation, mergers and acquisitions, growth).

Risk Management Systems

MyState Limited's risk management systems rely on accurate, reliable and timely information to support risk management decisions at all levels. These requirements cross a varied range of the business including market and credit risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, regulatory reporting, as well as accounting and processing systems and those systems supporting normal business operations.

Data reconciliation is undertaken to ensure the integrity of the information used and ensure appropriate security controls are established, maintained and monitored around all systems. Back-up and recovery procedures are defined and documented, and business continuity and disaster recovery plans are documented and communicated to promote awareness, resilience and minimise the impact of an incident.

Categories of Risk

MyState Limited categorises risk into the general categories detailed below. In addition to the Risk Management Policy and Framework, each category has specific risk management systems in place.

Business Risk is the risk of financial loss due to unexpected movements in volume, profit margin and operating expenses (excluding risks elsewhere defined) arising from unexpected changes in the business environment.

Business risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- strategic planning;
- asset and Liability Committees (ALCOs) with established reporting requirements;
- dedicated product development and research function;
- dedicated business information function; and,
- appointment of responsible managers and officers.

Credit Risk is the risk of financial loss resulting from the failure of a MyState Limited customer or counterparty to honour or fully perform the terms of a loan or contract.

Credit risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Management Credit Committees with specific credit risk charters and delegated authorities to approve higher risk and larger loan exposures;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
- lending delegations;
- dedicated loans operations function;
- dedicated collections function;
- dedicated credit risk analyst function within the Risk business unit;

- measuring and reporting of key risk indicators to the ALCOs, Management Credit Committees and Group Risk Committee;
- reporting of large exposures as required by Prudential Standard APS 221 to the ALCOs, Management Credit Committees and Group Risk Committee;
- appointment of responsible managers; and,
- credit provisioning.

In addition to the above and to ensure compliance with the requirements of APS 221, the risk management function:

- compiles and provides credit risk management reports to the Management Credit Committees;
- continually reviews, updates and amends credit risk reporting requirements; and,
- documents new credit risk management procedures where required.

Legal and Regulatory Risk is the risk that MyState Limited's business is affected by changes in laws and regulations, or by existing laws and regulations, that it had not properly taken into account.

Includes the possible financial or reputation loss resulting from an action by a court, regulator or legislative body.

Legal and regulatory risk management within the Group includes but is not limited to:

- advice and direction from the independent Legal and Compliance function;
- compliance management, breach and Risk Management Incident (RMI) reporting via an internal compliance and risk system;
- quarterly reporting to the Australian Prudential Regulation Authority (APRA) in respect to the Group's standardised approach to credit and operational risk;
- lodgement of an annual declaration to APRA from the Managing Director and endorsed by the Board of Directors attesting that, for the financial year past:
  (a) the Board and management have identified the key risks facing the Authorised Deposit-Taking Institutions (ADI's);
  (b) the Board and Management have established systems to monitor and manage those risks including, where appropriate, by setting and requiring adherence to a series of prudent limits, and by adequate and timely reporting processes;
  (c) these risk management systems are operating effectively and are adequate having regard to the risks they are designed to control; and
  (d) the risk management systems descriptions provided to APRA are accurate and current;
- formal due diligence and verification processes, including attestations from Management and External Auditors regarding the Group's financial statements;
- Corporate Governance Framework and associated committees;
- business continuity management;
- compliance programmes and systems;
- Employee Codes of Conduct;
- Whistleblower Protection Policy;
- Anti-Money Laundering and Counter-Terrorism Policy;
- Complaints Handling Policy; and,
- active management of relationships with regulators.

Liquidity Risk is the risk that MyState Limited has insufficient capacity to fund increases in assets, or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt.

Liquidity risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
- Capital Management Policies, which include the MyState Financial and The Rock Internal Capital Adequacy and Assessment Plans (ICAAP);
- Liquidity Management Policies;
- treasury risk management software;
- Value at Risk (VaR) and Earnings at Risk (EaR) limits;
- stress and scenario testing; and,
- funding plans.

Market Risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as interest rates, foreign exchange rates, commodity prices and equity prices. This includes interest rate risk – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

Market Risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
- treasury risk management software;
- Value at Risk (VaR) and Earnings at Risk (EaR) limits;
- stress and scenario testing;
- net interest income at risk limits; and,
- funding plan.

Operational Risk is the risk of loss resulting from inadequate or failed internal process, people and systems, or from external events. This is a very broad risk category and includes specifics risks such as non-compliance with policy and procedure, employment practices and workplace safety, breaches of relevant legislation, damage to physical assets, business disruption, system failures etc.

Operational risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Comprehensive Group Insurance Programme;
- dedicated and independent Risk business unit;
- dedicated and independent Legal and Compliance business unit;
- business continuity management;
- business continuity testing and crisis management training;
- incident management and breach reporting;
- Employee Codes of Conduct;
- Workplace Health and Safety Policy;
- Remuneration Policy;
- Outsourcing Services Policy;
- Market Disclosure and Communications Policy;
- Delegations Policies;
- Share Trading Policy;
- Whistleblower Protection Policy;
- Complaints Handling Policy and procedures;
- Fraud and Corruption Control Policy;
- capital allocations for operational risk; and,
- loss, event and near-miss data collection and analysis.

Reputation Risk is the risk of loss caused by damage to brand image or adverse perception of MyState Limited held by the public, Shareholders, investors, regulators, or rating agencies that may directly or indirectly impact earnings, capital adequacy or value.

Reputational risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Market Disclosure and Communications Policy;
- Fit and Proper Policy;
- Board Evaluation Policy;
- Delegations Policies;
- Share Trading Policy;
- dedicated Brand and Communications business unit;
- business continuity management and disaster recovery planning;
- Whistleblower Protection Policy;
- Complaints Handling Policy and procedures;
- Fraud and Corruption Control Policy; and,
- Anti-Money Laundering and Counter Terrorism (AML/CTF) Policy.

Strategic Risk is the risk of loss arising from a failure in MyState Limited's strategies.

Strategic risk management within the Group includes, but is not limited to:

- Corporate Governance Framework and associated committees;
- strategic planning;
- dedicated Product Development and Research function; and
- dedicated Business Information function.

Risk Culture

MyState Limited places great emphasis on growing and developing a sound risk culture and recognises an awareness and appreciation of risk amongst employees and Management is more likely to lead to the pursuit of sustainable policies and business practices which are within the Group's risk appetite and which do not put the operations of the Group under unnecessary strain. In this regard, MyState Limited believes risk culture can become a key business driver.

In order to develop the desired risk culture, MyState Limited aims to create a workplace where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted.

MyState Limited's corporate ambition, purpose and values are key considerations in determining risk appetite and also in ensuring the desired risk culture is achieved and maintained.

All levels of management within the Group are expected to take an active role in leading MyState Limited through the cultural change to improve the focus on risk management.

Risk Appetite Statement

MyState Limited has developed a set of Risk Appetite Statements which collectively form the Group's Risk Appetite Statement, which is aligned with its corporate values, strategic plan and existing business objectives.

Risk Appetite represents the amount of risk the Group is prepared to pursue or take to achieve its strategic objectives.

MyState Limited's Risk Appetite is articulated via a set of Risk Appetite Statements which are measured against key risk indicators and risk tolerance to ensure all risk taking activity is conducted within the boundaries of activities that the Board intend for the Group.

Alignment of Risk Management Objectives

MyState Limited ensures alignment between organisational and risk management objectives and strategies by ensuring it's risk management processes are incorporated into all strategic planning activities.

The Chief Risk Officer attends all ALCO, Credit Committee, Executive, Group Risk Committee, Group Audit Committee and Group Human Resources and Governance Committee meetings to ensure the Risk Management Framework is considered during all key business decisions.

Audit, Governance and Independence

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company has implemented policies and procedures to monitor the independence and competence of the Company's external auditors.

Appointment of Auditors

The Company's external auditors for the financial year were Wise Lord and Ferguson. The effectiveness, performance and independence of the external auditor is annually reviewed by the Group Audit Committee. If it becomes necessary to replace the external auditor for performance or independence reasons, the Group Audit Committee will then formalise a procedure for the selection and appointment of a new external auditor.

Independence Declaration

The *Corporations Act* requires external auditors to make an annual independence declaration, addressed to the Board of Directors, declaring that the auditors have maintained their independence in accordance with the *Corporations Act 2001* and the rules of the professional accounting bodies.

Wise Lord and Ferguson's existing policy requires that its audit teams provide such a declaration and a declaration was provided to the Group Audit Committee and the Board for the financial year ended 30 June 2012. The independence declaration forms part of the Directors' Report and is set out on page 68 of this Annual Report.

Rotation of lead External Audit Partners

In accordance with the *Corporations Act*, Wise Lord and Ferguson has a policy for the rotation of the lead audit partner for their clients. The lead audit partner for the Company will be rotated from 1 July 2014 and an orderly succession plan has been agreed with Wise Lord and Ferguson.

Restrictions on the performance of non-audit services by external Auditor

In accordance with the *Corporations Act*, prior approval of the Group Audit Committee is required for the provision of any non-audit services to the Company or its businesses by the external auditor. The Group Audit Committee has also adopted guidelines to assist in identifying the types of services that may compromise the independence of the external auditor.

Examples of services that could potentially compromise independence include valuation services and internal audit services.

The Group Audit Committee has assessed the other services provided by Wise Lord and Ferguson in the financial year and has concluded that the auditor's independence has not been compromised.

Remuneration of External Auditor

Information about the total remuneration of the external auditor, including details of remuneration for any non-audit services, is set out in Note 43 of the financial statements.

Attendance of external auditor at Annual General Meeting

Consistent with ASX Principles, Wise Lord and Ferguson attend and are available to answer questions at the Company's Annual General Meeting about the conduct of the audit and the preparation and content of the Auditor's Report.

Share Trading

The Company's Constitution allows Directors to acquire shares in the Company. In addition, the Board encourages Directors, Senior Executives and employees to own MyState Limited shares to further align their interests with the interests of Shareholders. Details of Directors' shareholdings are set out in the Directors' Report under the heading 'Directors' Interests' on page 67 of this Annual Report.

The Company undertook a comprehensive 'best practice' review and update of its Share Trading Policy during 2011 and the revised Policy is available on the Company's website.

The Share Trading Policy:

- provides a summary of the insider trading prohibition and sets out the specific requirements in relation to the buying, selling or otherwise dealing in the Company's shares, or shares in other companies;
- establishes procedures relating to buying and selling shares that provides protection to the Company, Directors and employees so as to ensure they do not abuse, and do not place themselves under suspicion of abusing, inside information that they have or may be thought to have, especially in periods leading up to an announcement of the Company's results; and,
- explains the type of conduct that is prohibited under the *Corporations Act*.

The Company's Share Trading Policy specifically regulates share dealings by the following defined 'Designated Persons':

- Directors and other Key Management Personnel as defined by the *Corporations Act* and published in the Company's Remuneration Report;
- all members of the Executive Team ('ET'), to be constituted by the Managing Director and as notified to the ASX from time to time;
- all direct reports of members of the ET;

- all staff employed by:
  - Secretariat
  - Finance
  - Treasury
  - Risk
  - Legal and Compliance; and,
- other persons specified from time to time by the Managing Director, Chief Financial Officer/Company Secretary.

The Share Trading Policy further aims to ensure all Directors, employees and contractors are aware of the requirements to comply with insider trading prohibitions while in possession of unpublished price-sensitive information about:

- MyState Limited ; or,
- in certain circumstances, about another company where, through an association with MyState Limited, unpublished price-sensitive information is obtained about that company.

Price-sensitive information is information which a reasonable person would expect to have a material effect on the price or value of securities.

Accordingly, under the Share Trading Policy, Designated Persons must not deal in MyState Limited shares if the Designated Person is in possession of unpublished information that, if generally available, might have a material effect on the price or value of the Company's shares or influence investors in deciding whether or not to buy or sell the shares. Subject always to this, the Board has established a policy that Designated Persons may only buy, sell or otherwise deal in the Company's shares during the following window periods:

- in the period between three days and two months after the release of the Company's half yearly results to the ASX;
- in the period between three days after the release of the Company's annual results to the ASX and two months after the close of the Company's Annual General Meeting; and,
- at such other times as the Board permits.

Designated Persons must notify the Company Secretary:

- before they or a relative buy, sell or otherwise deal in MyState Limited shares during a window period; and,
- if the proposed purchase, sale or other dealing does not occur within the relevant window period as previously notified to the Company Secretary.

In these notifications, the Designated Person must declare that, at the time of the proposed purchase, sale or other dealing in MyState Limited shares, they will not be in possession of any price sensitive information relating to MyState which is not generally available.

In addition, members of the Executive Team may only buy, sell or otherwise deal in MyState shares during a window period if they have obtained the prior approval of the Chairman of the Board.

In exceptional circumstances and only after being granted approval, Designated Persons may trade in MyState shares outside the approved trading windows where, for example, there is severe financial hardship suffered by them or where required to do so by law. Approval will only be granted if the request is accompanied by sufficient evidence that the proposed purchase, sale or other dealing in MyState Limited shares is the only reasonable course of action available in the circumstances, the Designated Person does not possess any price-sensitive information and a declaration to this effect is made.

The Company's Share Trading Policy clearly prohibits the hedging of any economic exposure to MyState Limited shares whether that relates to unvested entitlements under the Executive Long-Term Incentive Plan or to shares owned outright.

Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market and has adopted a comprehensive continuous disclosure and communications policy covering all announcements to the Australian Securities Exchange.

The Company is openly and transparently committed to complying with its continuous disclosure obligations under ASX Listing Rules and the *Corporations Act* and by doing so ensuring that all Shareholders and investors have equal and timely access to material information concerning the Company including its financial position, performance, ownership and governance.

The Company's Market Disclosure and Communications Policy is consistent with ASX Principles and sets out the measures adopted by the Company to ensure its continuous disclosure obligations are met.

The Policy attributes accountability at a Senior Executive level for that compliance. In particular, the Policy sets out how information will be identified, considered for disclosure and then (if necessary) disclosed by the Company to the market.

The Company's Market Disclosure and Communications Policy is available on the Company's website.

Pursuant to the Policy, announcements made by the Company must be timely, factual, not omit material information and be expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Policy is designed to:

- provide advice on the requirements for disclosure of information to the market;
- maintain the market integrity and market efficiency of the Company's securities;
- ensure timely and accurate information is provided equally to all Shareholders and market participants regarding the Company including its financial situation, performance, ownership, strategies, activities and governance;
- ensure channels for disseminating information are adopted which are fair, timely and cost-efficient; and,
- ensure the Company does not communicate material price, or value sensitive information to any external party prior to that information being disclosed to all Shareholders and market participants in compliance with its continuous disclosure obligations.

The Company's website contains a direct link via 'Shareholder Information', to the ASX Company Announcements Platform which provides access to such publications as annual financial reports, half year results, notices of meeting, media releases and analyst and investor briefings, with the latter released prior to or simultaneously with the commencement of the briefing.

The Board is responsible for reviewing material information and determining what information must be disclosed and ensuring that the Company complies with all disclosure obligations, including responsibility for ensuring adequate processes are in place for the identification of market sensitive information and the maintenance of the Company's insider lists of people in possession of this information. The Company Secretary liaises with the Managing Director and the Chairman in relation to all continuous disclosure matters.

The Company Secretary is the nominated disclosure officer and has responsibility for overseeing and coordinating disclosure of information to the Australian Securities Exchange and administering the Policy.

The Board regularly evaluates the Policy to ensure it is effective in providing accurate and timely disclosure in accordance with the Company's disclosure obligations and it remains consistent with best practice in the market place.

The Group Risk Committee also annually reviews the Company's adherence to Policy.

Communications with Shareholders

The Company recognises the importance of effective, forthright, clear and transparent communication as a key plank in building Shareholder value.

To prosper and achieve growth, the Company must (among other things) earn the trust of our employees, customers, suppliers, the community and security holders by being forthright in its communications and consistently delivering on its commitments.

The Company is accordingly committed to delivering communications that are informative and in plain, easily understood language so all its stakeholders can find the information they need, read it, understand it and use it in a useful and practical way.

The Board is committed to monitoring on-going developments that may improve the Company's Shareholder communication practices, including technological developments, regulatory changes and the continuing development of market place 'best practice' and (whenever reasonably practicable) to implement changes to the Company's communication protocols to reflect any such developments.

The Company's website is a pivotal plank in the Company's communication strategy with Shareholders and the market. It has been designed to enable information to be obtained in a clear and readily accessible manner. The Company's website has a dedicated Corporate Governance section which supplements the communication to Shareholders in the Annual Report regarding the Company's corporate governance policies and practices.

The Company posts all reports, Australian Securities Exchange and media releases, copies of significant business presentations and speeches on the Company's website.

In addition to its formal disclosure obligations under ASX Listing Rules, the Company's communications strategy promotes regular communication of information to Shareholders through a range of other forums and publications. These include:

- the Company's Annual General Meeting and accompanying notices and explanatory memoranda;
- the Chairman's address at the Annual General Meeting;
- distribution of the annual and half yearly reports;
- publishing a financial calendar on its website detailing target dates for the release of half year and full year results, other financial information, Shareholder meetings and business briefings; and,
- trading updates and market/investor briefings.

The Company recognises the importance of the relationship between the Company and investors and analysts. From time to time, the Company conducts analyst and investor briefings. In these cases the following protocols will apply:

- no information which could be expected to have a material effect on the price or value of the Company's securities will be disclosed at these briefings unless it has been previously or is simultaneously released to the market; if material information of the kind outlined above is inadvertently released it will immediately be released to the market via the securities exchange and be available on the Company's website;
- questions at briefings that deal with material information not previously disclosed will not be answered; and,
- the Company will ensure a copy of the presentation material is available on the Company's website.

Where requested to do so, the Company may review analysts' research reports but will confine comments to factual matters and material previously disclosed. The Company may comment on analysts' earnings estimate to the extent of:

- acknowledging the current range of estimates;
- questioning an analyst's assumptions or sensitivities if the analyst's estimate is significantly at variance from current market range estimates; and,
- advising factual errors where data is already in the public domain.

Forecast information will not be provided by the Company unless it has already been disclosed to the market.

Annual General Meeting (AGM):

The Company's AGM is a major forum for Shareholders to ask questions about the performance of the Company and also provides an opportunity for Shareholders to provide feedback to the Company about information provided to Shareholders.

The Board encourages and welcomes Shareholder attendance at, and participation in, the AGM at which the external auditor is available to answer Shareholder questions about the conduct of the audit and preparation and content of the Independent Audit Report.

Shareholders are encouraged to use this opportunity to ask questions of the Board and the external auditor.

The 2012 Notice of Annual General Meeting will be provided to all Shareholders, posted to the ASX Company Announcements Platform and posted on the Company's website.

For Shareholders unable to attend, an AGM Question Form will accompany the Notice of Meeting, giving Shareholders the opportunity to forward questions and comments to the Company or the external auditor prior to the AGM.

Additional Company Policies

In addition to the policies and procedures already discussed above, the Company has also implemented a wide range of policies forming part of its broader governance documentation suite. Where appropriate, these policies are supplemented by supporting Company procedures and guidance releases designed to ensure that the requisite standards of operation are maintained. Copies of key policies are available on the Corporate Governance section of the Company's website.

Directors' Report

Your Directors' present their report on MyState Limited ACN 133 623 962 (the Company) for the financial year ended 30 June 2012.

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:

Michael J Vertigan AC

BEc(Hons), PhD, Hon LLD, FAICD

Chairman and independent non-executive Director

Appointed 8 October 2008

G John Gilbert

B Com, FAICD, FAMI

Managing Director - Executive Director

Appointed 10 December 2009

Nicholas L d'Antoine

MAICD

Independent non-executive Director

Appointed 12 February 2009

(Resigned 30 September 2011)

Peter D Armstrong

BEc(Hons), DipED, Dip FP, CPA, FAICD, FAMI

Independent non-executive Director

Appointed 12 February 2009

Robert L Gordon

BSc, MIFA, MAICD, FAIM

Independent non-executive Director

Appointed 12 February 2009

Tim M Gourlay

Dip Teach TTC, Grad Cert Mgmt, MAICD

Independent non-executive Director

Appointed 12 February 2009

(Resigned 25 October 2011)

Miles L Hampton

BEc(Hons), FCIS, FCPA, FAICD

Independent non-executive Director

Appointed 12 February 2009

Colin M Hollingsworth

CPA, MAICD, FAMI

Independent non-executive Director

Appointed 12 February 2009

Stephen E Lonie

B Com. MBA, FCA, FFin, FAICD, FIMA

Independent non-executive Director

Appointed 12 December 2011

Ian G Mansbridge

CPA, FCIS, FCIM

Independent non-executive Director

Appointed 12 February 2009

Sarah Merridew

BEc, FCA, FAICD

Independent non-executive Director

Appointed 12 February 2009

Anthony B Reidy

FAICD, MFIA, JP

Independent non-executive Director

Appointed 8 October 2008

(Resigned 25 October 2011)

Paul K M Viney

B Bus FCPA, FCSA, FCIS, CFTP, MAICD

Company Secretary/Chief Financial Officer

Appointed 8 October 2008

More information is set out on pages 34-36 of this Annual Report.

Headquartered in Tasmania, its diverse business operations cover:

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

Principal Activities

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

MyState Limited , MyState Financial and The Rock Building Society are regulated by the Australian Prudential Regulation Authority (APRA) and MyState Limited was enabled under Tasmanian legislation to own an authorised trustee company, namely Tasmanian Perpetual Trustees. MyState Financial, The Rock Building Society and Tasmanian Perpetual Trustees hold Australian Financial Services Licences issued by Australian Securities and Investments Commission (ASIC). Tasmanian Perpetual Trustees acts as the Responsible Entity for and manages 13 Managed Investment Schemes which include Cash Funds, Income Funds and Investment Growth Funds.

Consolidated Results

The consolidated net profit for the year after income tax expense was $23,383,844 (2011: $22,019,846)

Dividends

The amounts paid or declared by way of dividend by the Company since the commencement of the financial year were:

(a) a final fully franked dividend of 15 cents per share declared for the year ended 30 June 2011 to be paid on 7 October 2011.

(b) an interim fully franked dividend of 14 cents per share for the year ended 30 June 2012 paid 9 December 2011.

(c) a final fully franked dividend of 14 cents per share declared for the year ended 30 June 2012 to be paid on 4 October 2012.

Further details are set out in Note 11 of the financial statements.

Review and Results of Operations

Profit after tax for the year ended 30 June 2012 increased by 6.2% to $23,383,844 million, compared to the 2011 result of $22,019,846 million. This year's result included profit from The Rock Building Society for the seven month period post the merger with MyState Limited. Earnings per share at 29.91 cents, down 8.4% on the prior period, but based on the expanded number of shares.

This result was achieved in a period of intense competition and reflects the continued progress being made in delivering the cost synergies and revenue gains from the merger of MyState Financial and Tasmanian Perpetual Trustees in September 2009 and also the early stages of synergy achievement following the merger with The Rock in December 2011. The results also confirm the strengths of MyState Limited's brands and ability to win business and maintain strong customer loyalty through the delivery of exceptional customer service and highly competitive offerings.

The result contains one-off costs flowing from The Rock merger implementation, associated with restructuring and redevelopment of the business.

The Group has continued to take market share from local competitors, with the MyState Financial home lending portfolio growing by greater than national system growth and the household deposit portfolio also growing by greater than national system growth. Importantly, MyState Financial has managed to achieve this result while still maintaining a healthy average net interest margin within a very competitive environment.

Despite more difficult economic conditions, the MyState Financial 30 day secured loan arrears is still sitting at less than 1% by value, far less than that reported by major and second tier banks. Continuing high credit quality is testimony to the Group's rigorous credit assessment processes as well as the quality of on-going customer relationship management.

MyState Financial's net interest margin has declined slightly over the past 12 months. The second half year was negatively impacted by higher deposit rates in an aggressive funding market combined with rapid lending rate repricing, following on from Reserve Bank cash rate decreases.

The Rock home lending portfolio grew by slightly more than national system growth levels. The household deposit portfolio has shown encouraging signs of growth as The Rock places greater focus on this important source of funding.

Despite more difficult economic conditions, The Rock's 30 day secured loan arrears is less than 1% by value - an excellent result considering difficult economic conditions reported in some areas of Queensland. Continuing high credit quality is testimony to the on-going quality of credit assessment processes for both broker sourced and home market sourced loans.

The Rock's net interest margin has been under pressure over the past seven months since the merger, due to highly competitive wholesale funding markets on which The Rock has historically been reliant. Higher deposit rates in this aggressive funding market combined with rapid lending rate repricing, following on from Reserve Bank cash rate decreases, have presented challenges to the business.

Revenues in Tasmanian Perpetual Trustees are stable as is the retail managed funds portfolio at approximately $930 million, whilst wealth management funds under advice remains constant at around $700 million.

The Group's liquidity Risk Management Framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained.

The Group's capital management policy is to be conservatively capitalised and to maintain diverse funding sources in order to support business initiatives, whilst maintaining counterparty and client confidence.

The Group is subject to minimum capital requirements required by APRA and as at 30 June 2012, had a Tier 1 capital ratio above 14%. APRA requires all ADIs to have a minimum ratio of capital to risk weighted assets. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The Group's internal capital policy set by the Board requires capital floors above this regulatory required level. The Group has met all of its capital requirements throughout the year.

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 review and results of operations 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 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 MyState Limited Group is not subject to significant environmental regulation.

Directors' Meetings

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

MyState Limited Directors' Meetings 2011/2012

	Board Meetings		Group Audit Committee Meetings		Group Risk Committee Meetings		Group Corporate Governance and Remuneration Committee Meetings		Group Nomination Committee Meetings		Group Mergers and Acquisitions Committee Meetings(*)	
	A	B	A	B	A	B	A	B	A	B	A	B
M J Vertigan	12	13	-	-	-	-	-	-	2	2	-	-
P D Armstrong	13	13	7	7	-	-	5	5	-	-	-	-
N L D'Antoine*	4	4	-	-	1	1	2	5	-	-	-	-
R L Gordon***	13	13	-	-	-	-	5	5	1	1	2	2
T M Gourlay*	5	5	-	-	1	1	-	-	1	2	-	-
M L Hampton	13	13	6	7	4	4	-	-	-	-	1	2
C M Hollingsworth***	13	13	7	7	4	4	2	2	-	-	2	2
S E Lonie **and***	5	5	4	4	-	-	1	2	-	-	-	-
I G Mansbridge***	12	13	-	-	4	4	-	-	1	1	2	2
S Merridew***	12	13	3	3	2	2	1	2	1	2	2	2
A B Reidy*	4	5	-	-	-	-	3	3	1	2	-	-
G J Gilbert	13	13	-	-	-	-	-	-	-	-	-	-

* Denotes resignation of Directors 30 September 2011 and 25 October 2011
** New Appointment of Director
*** Change in Committee Membership
(*) Committee Disbanded following November Board Meeting

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
M J Vertigan	-	25,000	-	449,661
P D Armstrong	387	774	-	-
N L d'Antoine (1)	29,920	80,600	81,644	1,019,926
G J Gilbert	-	-	-	-
R L Gordon	387	-	-	-
T M Gourlay (2)	387	387	-	-
M L Hampton	-	600,000	-	-
C M Hollingsworth	3,000	7,274	-	-
S E Lonie (3)	-	40,000	-	-
I G Mansbridge	-	170,000	-	-
S Merridew	4,000	20,000	-	-
A B Reidy (2)	387	387	-	-

(1) Resigned as a Director 30 September 2011
(2) Resigned as a Director 25 October 2011
(3) Appointed as a Director 12 December 2011

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 terms of the policy prohibits disclosure of details of the amount of the insurance cover and the premium paid.

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

Non-Audit Services

During the year Wise Lord and Ferguson, the Company's auditor has performed certain other services in addition to their statutory duties. Further details are set out in Note 43 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 auditor independence as they related to technical disclosure issues.

Auditor's Independence Declaration to the Directors

In relation to our audit of the financial report for the consolidated group for the financial year ended 30 June 2012, 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 and Ferguson

Hobart
28 August 2012

Remuneration Report

MyState Limited (the Company) is a non-operating holding Company and is a major listed diversified Group formed in September 2009 to effect the merger of MyState Financial, an authorised deposit-taking institution and Tasmanian Perpetual Trustees, a trustee and wealth management Company.

In December 2011, the Company acquired The Rock Building Society Limited, also an authorised deposit-taking institution.

This Remuneration Report forms part of the Directors' Report and outlines the Director and Executive remuneration arrangements of MyState Limited for the year ended 30 June 2012 in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report, Key Management Personnel (KMP) is 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.

Group Corporate Governance and Remuneration Committee

The Board has established a Group Corporate Governance and Remuneration Committee (GCGRC) that assists the Directors in discharging the Board's responsibilities in relation to Remuneration Policy by reviewing and making recommendations to the Board on:

- remuneration policy and arrangements for Directors;
- the remuneration and review of performance of the Managing Director and other Senior Executives;
- matters such as the Company's Employee Share Scheme or other incentive schemes for Senior Executives and staff; and,
- the general remuneration policy and practices of the Company, having regard to comparative remuneration in the financial services industry and independent advice, including an assessment of the Remuneration Policy's effectiveness and compliance with the requirements of APRA Prudential Standards.

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 Senior Executive is directly involved in deciding their own remuneration.

The GCGRC has engaged a remuneration consultant who has provided a recommendation to the Board containing a declaration stating whether the recommendation has been made without any undue influence from the KMP to whom the recommendation relates.

The Board is satisfied that any remuneration recommendation was made free from undue influence by KMP to whom the recommendation related.

The GCGRC has continued to enhance remuneration practices during the course of the year, to ensure the Company's Policy and practices are fully compliant with all applicable laws and regulatory guidelines and clearly fall within the Community's expectations of appropriate remuneration and reward practices.

Remuneration Philosophy

The fundamental objective of the Company's Remuneration Policy is to foster and 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 delivering long-term sustainable financial security through:

- appropriately balanced measures of performance weighted KPI's aimed towards long-term Shareholder interests;
- variable performance based pay for Executives involving a Long-Term Incentive Plan subject to an extended period of performance assessment;
- 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.

Details of key management personnel

The key management personnel of MyState Limited in office during the year and up to the date of this report were as follows:

Directors

M J Vertigan AC	Chairman (non-executive appointed 8 October 2008)
G J Gilbert	Joint Chief Executive Officer until 27 November 2009 Chief Executive Officer from 28 November 2009 until 10 December 2009 Managing Director (Executive, appointed10 December 2009)
P D Armstrong	Director (non-executive, appointed 12 February 2009)
N L d'Antoine	Director (non-executive, appointed 12 February 2009 - resigned 30 September 2011)
R L Gordon	Director (non-executive, appointed 12 February 2009)
T M Gourlay	Director (non-executive, appointed 12 February 2009 - resigned 25 October 2011)
M L Hampton	Director (non-executive, appointed 12 February 2009)
C M Hollingsworth	Director (non-executive, appointed 12 February 2009)
S E Lonie	Director (non-executive, appointed 12 December 2011)
I G Mansbridge	Director (non-executive, appointed 12 February 2009)
S Merridew	Director (non-executive, appointed 12 February 2009)
A B Reidy	Director (non-executive, appointed 8 October 2008 - resigned 25 October 2011)

Executives

D E Benbow	General Manager – Wealth Management and Trustee Services (appointed 11 January 2010)
T M Rutherford	General Manager – Technology and Operations (appointed 11 January 2010)
D W Turner	General Manager – Retail Banking and Distribution (appointed 11 January 2010 - resigned 6 July 2012)
P K M Viney	Chief Financial Officer and Company Secretary (appointed 11 January 2010) Company Secretary from 8 October 2008
N Whish-Wilson	Chief Risk Officer (appointed 27 October 2011)

Consequences of performance on Shareholder Wealth

In considering the consolidated entity's performance and benefits for Shareholder wealth, the GCGRC has regard to the following indices:

Indicator	2012	2011	Change %	2010	Change %
Profit after income tax	$23,383,844	$22,019,846	6.19%	$17,341,323	26.98%
Earnings per share	29.91 cents	32.65 cents	8.39%	27.46 cents	18.90%
Dividends paid	$19,564,402	$16,522,942	18.41 %	$13,482,212	22.55%
Change in share price [1]	$3.05	$3.51	13.11 %	$3.12	12.5%
Return of capital	Nil	Nil		Nil	

[1] See share price chart below

Share price movements for MyState Limited since listing are illustrated in the graph below.

The consolidated entity 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 and Long-Term Incentive Plan 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.

Non-executive Director Remuneration

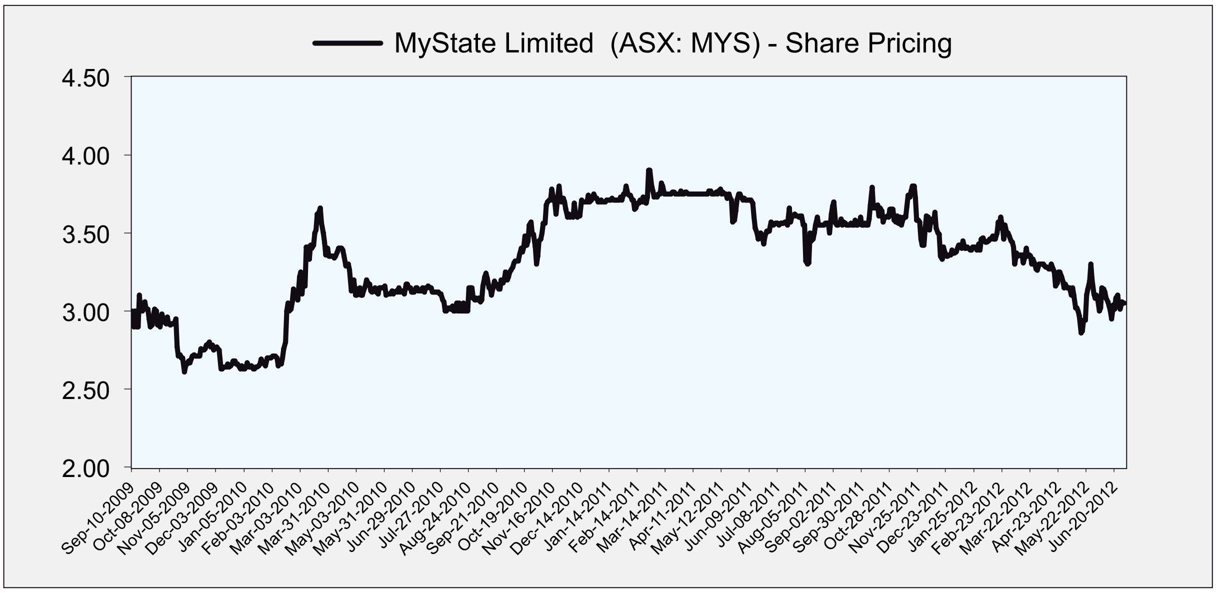
The Company's non-executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non-executive Directors reflect the demands on and responsibilities of those Directors.

The Board reviews its fees to ensure the Company's non-executive Directors 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 non-executive Directors.

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

Non-executive Directors do not receive any shares, options or other securities in addition to their remuneration and are not eligible to participate in the Company's Employee Share Plan or any other incentive plan. They do not receive any retirement benefits (other than compulsory superannuation).

The aggregate remuneration paid to all the non-executive Directors (inclusive of statutory superannuation) may not exceed the $750,000 amount fixed by Shareholders at the May 2009 General Meeting of Shareholders. This 'fee pool' is only available to non-executive Directors, as Board



membership is taken into account in determining the remuneration paid to Executive Directors as part of their normal employment conditions.

The non-executive Directors currently receive $77,500 each per annum inclusive of statutory superannuation. The Chairman is paid an additional amount of $77,500 per annum inclusive of statutory superannuation.

Board Committee Chairmen are paid an additional amount of $12,000 (Group Audit), $9,000 (Group Risk) and $7,000 (Group Corporate Governance and Remuneration and Group Nomination) per annum inclusive of statutory and superannuation.

Managing Director and Executive Remuneration

i. Key Management Personnel Remuneration Policy

The primary responsibility of the GCGRC of the Board of Directors of the Company is in recommending to the Board remuneration policy and arrangements for Directors, the Managing Director and other Executives, as well as the general remuneration practices of the Company, having regard to comparative remuneration in the financial services industry and independent advice.

To assist in achieving these objectives, the GCGRC links the nature and amount of the Managing Director's and Executives' emoluments to the Company's financial and operational performance. The remuneration of the Managing Director and Executives is comprised of three components, being:

- Fixed Annual Remuneration (inclusive of superannuation and fringe benefits) (FAR);
- Cash based Short-Term Incentive (STI); and,
- Executive Long-Term Incentive Plan (ELTIP).

ii. Fixed Annual Remuneration

The FAR is paid by way of cash salary, superannuation and fringe benefits and is reviewed annually by the GCGRC. In addition, external consultants provide analysis and advice to ensure Executives' remuneration is competitive in the marketplace. The total employment cost of any remuneration package, including fringe benefits tax, is taken into account in determining an employee's FAR.

iii. Cash based Short-Term Incentive

The STI is calculated as a percentage of the FAR and is payable annually in respect of each financial year as cash and/or superannuation contributions. The following percentages are used:

- Managing Director - up to 30% and based upon Key Performance Indicators (KPI's) to be agreed with the Board; and,
- other Executives - up to 15% and based upon KPI's to be agreed between the Executive and the Managing Director with reference to those applicable to the Managing Director.

Upon receipt of external advice, the Board has resolved to increase these amounts from 1 July 2012:

- Managing Director - up to 50% and based upon Key Performance Indicators (KPI's) to be agreed with the Board; and,
- other Executives - up to 30% and based upon KPI's to be agreed between the Executive and the Managing Director with reference to those applicable to the Managing Director.

In all cases, there is no fixed minimum payment amount and nil payment may be made where apropriate. Maximum payments in line with percentages outlined above are as follows:

Name	STI %	STI FAR	STI Minimum	STI Maximum
G J Gilbert	50%	$650,000	$0	$325,000
P K M Viney	30%	$320,000	$0	$96,000
N Whish-Wilson	30%	$250,000	$0	$75,000
D E Benbow	30%	$295,000	$0	$88,500
T M Rutherford	30%	$295,000	$0	$88,500

STI = Short-Term Incentive
FAR = Fixed Annual Reward

Payment is made in accordance with performance, based on the below breakdown of the maximum STI payment:

- Financial - 50%
- Strategic - 20%
- Risk Management - 10%
- Staff/Community Engagement - 10%
- Leadership 10%

Payment is conditional upon the achievement of strategic, financial, organisational, operational and individual performance criteria during the financial year under review and tailored to the respective role.

Each year the GCGRC sets the KPI's for the Managing Director who, in turn and in consultation with the GCGRC and the Board, sets KPI's for Executives. The GCGRC selects performance objectives which provide a robust link between Executive reward and the key drivers of Long-Term Shareholder value.

The KPI's generally are measures relating to the Company and the individual and include financial, strategic, operational 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 performance.

The financial performance objectives are profit after tax and cost income, compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, compliance and support of the Company's risk management policies and compliance culture, customer satisfaction and staff development.

After the end of the financial year, the Chairman assesses the actual performance of the Company and the Managing Director against the KPIs set at the beginning of the financial year. Based upon that assessment, a recommendation is made to the GCGRC as to the STI payment.

After the end of the financial year, the Managing Director assesses the actual performance of the Company and the Executives against their KPIs set at the beginning of the financial year. Based upon that assessment a recommendation is made by the GCGRC as to the STI payment.

The GCGRC recommends the STI payments to be made to the Managing Director and Executives for approval by the Board. Payment of an STI to the Managing Director or Executives is at the complete discretion of the Board and can be adjusted downwards, to zero if necessary, to protect the financial soundness of the Company, i.e. to, at a minimum, ensure that no breach of capital adequacy or liquidity policy thresholds occurs.

The Board also has discretion to adjust the STI payment down (potentially to zero) in the event the Managing Director or an Executive commits a serious breach of duty.

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.

iv. Executive Long-Term Incentive Plan

The ELTIP was established by the Board to encourage the Executive Management team, comprising the Managing Director, General Managers, Chief Financial Officer/Company Secretary and Chief Risk Officer, 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 Executive Management team 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 the members of the Executive Management team 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 Executive Management team.

The percentages used are as follows:

- for the Managing Director - 50%; and,
- for the General Managers, Chief Financial Officer/ Company Secretary and Chief Risk Officer - 30%.

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 offer date.

In order for the shares to vest in each eligible member of the Executive Management team, 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 relevant performance period. The performance criteria to apply over the performance period are as follows:

- 2009 and 2010 ELTIP offers made - growth in Earnings Per Share outcomes (EPS) and Total Shareholder Return (TSR) with the respective measures weighted equally; and,
- 2011 ELTIP offer made and 2012 offer yet to be made - growth in TSR.

ELTIP performance assessment will be measured against the performance of companies sized by market capitalisation within the S&P/ASX 300 Index (the benchmark group).

Any reward payable to any member of the Executive Team under any ELTIP offer is subject to reassessment and possible forfeiture, if the results on which the ELTIP reward was based are subsequently found to have been the subject of deliberate management misstatement.

The ELTIP provides for an independent Trustee to acquire and hold shares. 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 three years) and once the Board resolves to notify the Trustee to issue entitlements under the relevant ELTIP Offer.

Vesting of shares to the Managing Director or Executives is at the complete discretion of the Board and can be adjusted downwards, to zero if necessary, to protect the financial soundness of the Company, i.e. to, at a minimum ensure that no breach of capital adequacy or liquidity policy thresholds occurs.

The Trustee will allocate any shares to each member of the Executive Management team in accordance with their entitlement under the ELTIP. Any shares to be allocated to the Managing Director under this Plan require Shareholder prior approval in accordance with ASX Listing Rules. The Trustee will hold the shares which have been allocated on behalf of the Executive Management team member.

The Executive Management team 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;
- leaving the employment of the Company;
- the Board giving permission for a transfer or sale to occur; or,
- a specified event occurring (e.g. 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, shares will be released only if the separation is due to a Qualifying Reason or is at the initiation of the Company without cause. 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. If either of these occur within the three year performance period, shares will be allocated on a pro-rata basis by bringing the qualifying date forward to the date of separation.

During the period that allocated shares are held by the Trustee, the Executive Management team 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.

On accepting an ELTIP offer made by MyState Limited, Executives are required to agree 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 as such will involve disciplinary action and the risk of dismissal under the terms of the Executive's contract.

a) 2009 ELTIP offer and 2010 ELTIP offer

The 2009 ELTIP Offer applies to the three year performance period commencing 1 July 2009 and ending on 30 July 2012. At the time of generation of this Report an assessment of performance of the period was not complete.

ELTIP performance assessment for the 2009 Offer will be measured against the performance of the companies sized by market capitalisation within the S&P/ASX 300 Index (the 2009 benchmark group).

The 2010 ELTIP offer applies to the three year performance period commencing 1 July 2010 and ending on 30 June 2013.

ELTIP performance assessment for the 2010 Offer will be measured against the performance of companies sized by market capitalisation within the S&P/ASX 300 Index (the 2010 benchmark group).

In respect of each of these respective ELTIP offers, any reward payable to any member of the Executive team will be calculated as follows:

- 50% of the ELTIP reward for the performance period will be based upon, the comparison of the actual MyState Limited EPS growth achieved with that of the benchmark group and will be payable on the following basis:
  - below the mid-point percentage EPS growth – 0% reward
  - at the 50th percentile – 50% of the applicable reward
  - between the 50th percentile and the 75th percentile EPS growth – 2% for every 1 percentile above the 50th percentile
  - above the 75th percentile – 100% of the applicable reward
  - no reward will be payable if EPS growth is negative, irrespective of the benchmark group performance.
  - MyState Limited EPS baseline for calculation of the 2009 ELTIP offer is to be 23.32cps
  - MyState Limited EPS baseline for calculation of the 2010 ELTIP offer is to be 27.46cps
- 50% of the ELTIP reward for the performance period will be based upon the comparison of the actual MyState Limited TSR growth compared to the benchmark group and will be payable on the following basis:
  - below the mid-point percentage TSR growth – 0% reward
  - at the 50th percentile – 50% of the applicable reward
  - between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile
  - above the 75th percentile – 100% of the applicable reward
  - no reward will be payable if TSR is negative, irrespective of the benchmark group performance
  - MyState Limited share price baseline for TSR calculation for the 2009 ELTIP offer is $2.70
  - MyState Limited share price baseline for TSR calculation for the 2010 ELTIP offer is $3.12

b) 2011 ELTIP offer

The 2011 ELTIP offer applies to the three year performance period commencing 1 July 2011 and ending on 30 June 2014.

ELTIP performance assessment for the 2011 Offer will be measured against the performance of companies sized by market capitalisation within the S&P/ASX 300 Index (the 2011 benchmark group).

In respect of each of these respective ELTIP offers, any reward payable to any member of the Executive Team will be calculated as follows:

- 100% of the ELTIP reward for the performance period will be based upon the comparison of the actual MyState Limited TSR growth compared to the benchmark group and will be payable on the following basis:
  - below the mid-point percentage TSR growth – 0% reward
  - at the 50th percentile – 50% of the applicable reward

- between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile
- above the 75th percentile – 100% of the applicable reward
- no reward will be payable if TSR is negative irrespective of the benchmark group performance
- MyState Limited share price baseline for TSR calculation for the 2011 ELTIP offer is $3.55

The MyState Limited Board has determined that 100% of any future ELTIP reward will be determined based totally upon TSR, as was the case with 2011 offers. This differs from the 2009 and 2010 Offers, which provided for 50% of the ELTIP reward to be determined based upon 50% TSR weighting and 50% EPS. The Board resolved to move to the TSR only mechanism for 2011 and onwards (as reflected in the revised Remuneration Policy lodged with ASX). The Board is monitoring the 2009 and 2010 Offers potential valuations to ensure the Executives are treated equitably over time.

Details of offers made under the 2009 ELTIP are as follows:

	Managing Director	Other Executives
Date of offer ('Grant' date)	30 June 2010	30 June 2010
Performance period	1 July 2009 – 30 June 2012	11 January 2010 – 30 June 2012
Maximum number of shares that may be allocated under the offer	71,884	56,581
Value of the offer	$225,000	$177,098
Share price used in the calculations of the offer	$3.13	$3.13

Details of offers made under the 2010 ELTIP are as follows:

	Managing Director	Other Executives
Date of offer ('Grant' date)	29 March 2011	29 March 2011
Performance period	1 July 2010 – 30 June 2013	1 July 2010 – 30 June 2013
Maximum number of shares that may be allocated under the offer	59,840	104,731
Value of the offer	$225,000	$393,789
Share price used in the calculations of the offer	$3.76	$3.76

Details of offers made under the 2011 ELTIP are as follows:

	Managing Director	Other Executives
Date of offer ('Grant' date)	2 November 2011	6 September 2011
Performance period	1 July 2011 - 30 June 2014	1 July 2011 - 30 June 2014
Maximum number of shares that may be allocated under the offer	65,677	88,403
Value of the offer	$235,125	$316,482
Share price used in the calculations of the offer	$3.58	$3.58

v. Terms of Employment

The policy of the Company is to:

- employ the Managing Director and Senior Executives on continuing employment arrangements i.e. no fixed term;
- provide a maximum termination payment of 12 months of base salary unless a breach of duty or grave misconduct has occurred. This figure will be reduced to a maximum of 9 months of base salary as at 1 January 2014. Where termination occurs at the initiation of the company, no notice period is required;
- where the termination is initiated by the Company, STI and ELTIP entitlements, assessed in accordance with the remuneration policy, will be paid for any pro-rata period of a year up to the termination date, unless a breach of duty or grave misconduct has occurred, and with due consideration to thresholds outlined in the *Corporations Act*;
- engage an Executive on a fixed term contract under specific circumstances only; and,
- the contract of an Executive may be terminated by the Company or Managing Director without notice.

The Managing Director is employed under an individual contract of employment.

Contract Terms and Conditions

Title	Terms	Explanation
Managing Director	Commencement Date	14 December 2009
G J Gilbert	Contract Term	Three year term from 14 December 2009 plus a further two year term by agreement between the parties
	Fixed Annual Remuneration	$650,000 per year (Subject to on-going annual market based review mechanisms)
	Termination Provisions	The contract may be terminated by the Company or the Managing Director without notice. A termination payment of six months FAR or the balance of the contract term, whichever is greater. An STI payment for the year in which the termination takes effect equivalent to 100% of that year's applicable STI. The number of shares calculated on a pro-rata basis according to the number of days in the performance period under any current Long-Term Incentive Plan (ELTIP) agreement up to the date the termination takes effect. The additional incentive plan payments will be subject to compliance with all regulatory and legal requirements and if necessary, the approval of the Shareholders in general meeting, subject to Shareholder approval, if over one year of FAR.

The Chief Financial Officer/Company Secretary, Chief Risk Officer and General Managers are employed under individual contracts of employment.

Contract Terms and Conditions

Title	Terms	Explanation
General Manager Wealth Management and Trustee Services	Commencement Date	11 January 2010
D E Benbow	Contract Term	No Fixed Term
	Fixed Annual Remuneration	$295,000 per year [1]
	Termination Provisions	12 months FAR plus STI for current year and pro-rata ELTIP for current offers [2]
General Manager Technology and Operations	Commencement Date	11 January 2010
T M Rutherford	Contract Term	No Fixed Term
	Fixed Annual Remuneration	$295,000 per year [1]
	Termination Provisions	12 months FAR plus STI for current year and pro-rata ELTIP for current offers [2]
General Manager Retail Banking and Distribution	Commencement Date	11 January 2010
D W Turner [3]	Contract Term	No Fixed Term
	Fixed Annual Remuneration	$310,000 per year [1]
	Termination Provisions	12 months FAR plus STI for current year and pro-rata ELTIP for current offers [2]
Chief Financial Officer and Company Secretary	Commencement Date	11 January 2010
P K M Viney	Contract Term	No Fixed Term
	Fixed Annual Remuneration	$320,000 per year [1]
	Termination Provisions	12 months FAR plus STI for current year and pro-rata ELTIP for current offers [2]
Chief Risk Officer	Commencement Date	27 October 2011
N Whish-Wilson	Contract Term	No Fixed Term
	Fixed Annual Remuneration	$250,000 per year [1]
	Termination Provisions	12 months FAR plus STI for current year and pro-rata ELTIP for current offers [2]

The contracts may be terminated by the Company or the Executive without notice.

[1] Subject to on-going annual market based review mechanisms

[2] Subject to Shareholder approval, if over 1 year FAR

[3] Mr Turner resigned 6 July 2012

Remuneration of Key Management Personnel

		Salary and Fees	Cash Bonus [1], [2]	Non-Monetary Benefits	Post Employment Superannuation	Termination Benefits	Share Based Payment [1]	Total
non-executive Directors		$	$	$	$	$	$	$
M J Vertigan AC	**2012**	**139,778**	**-**	**-**	**12,580**	**-**	**-**	**152,358**
	2011	118,939	-	-	10,704	-	-	129,643
P D Armstrong	**2012**	**65,726**	**-**	**-**	**14,417**	**-**	**-**	**80,143**
	2011	56,244	-	-	13,564	-	-	69,808
N L d'Antoine [3]	**2012**	**14,181**	**-**	**-**	**1,276**	**-**	**-**	**15,457**
	2011	19,447	-	-	50,001	-	-	69,448
R L Gordon	**2012**	**67,660**	**-**	**-**	**6,089**	**-**	**-**	**73,749**
	2011	59,470	-	-	5,352	-	-	64,822
T M Gourlay [4]	**2012**	**14,300**	**-**	**-**	**5,396**	**-**	**-**	**19,696**
	2011	45,469	-	-	19,353	-	-	64,822
M L Hampton	**2012**	**61,418**	**-**	**-**	**20,099**	**-**	**-**	**81,517**
	2011	47,058	-	-	22,750	-	-	69,808
C M Hollingsworth	**2012**	**35,502**			**48,112**			**83,614**
	2011	21,188	-	-	48,621	-	-	69,809
S E Lonie [5]	**2012**	**40,089**			**3,608**			**43,697**
	2011	-	-	-	-	-	-	-
I G Mansbridge	**2012**	**69,828**	**-**	**-**	**6,284**	**-**	**-**	**76,112**
	2011	63,024	-	-	5,672	-	-	68,696
S Merridew	**2012**	**67,660**	**-**	**-**	**6,089**	**-**	**-**	**73,749**
	2011	59,470	-	-	5,352	-	-	64,822
A B Reidy [4]	**2012**	**14,480**			**5,216**			**19,696**
	2011	46,137	-	-	18,685	-	-	64,822
Sub Total	**2012**	**590,622**	**-**	**-**	**129,166**	**-**	**-**	**719,788**
Non Executive Directors' Remuneration:	2011	536,446	-	-	200,054	-	-	736,500

Remuneration of Key Management Personnel

		Salary and Fees	Cash Bonus [1], [2]	Non-Monetary Benefits	Post Employment Superannuation	Termination Benefits	Share Based Payment [1]	Total
Executive Director		$	$	$	$	$	$	$
G J Gilbert	**2012**	**497,521**	**195,000**	**12,079**	**63,414**	**-**	**159,830**	**927,844**
	2011	410,667	141,075	11,681	62,858		75,629	701,910
Executives								
D E Benbow	**2012**	**224,526**	**44,251**	**6,000**	**50,236**	**-**	**46,816**	**371,829**
	2011	215,847	38,654	6,000	38,348	-	17,117	315,966
T M Rutherford	**2012**	**246,215**	**44,251**	**7,711**	**26,836**	**-**	**46,816**	**371,829**
	2011	225,256	38,654	6,191	27,638	-	17,117	314,856
D W Turner [6]	**2012**	**250,085**	**-**	**9517**	**26,504**	**363,809**	**-9,898**	**640,016**
	2011	218,495	38,654	11,587	30,367	-	17,117	316,220
P K M Viney	**2012**	**297,712**	**48,001**	**-**	**31,114**	**-**	**51,199**	**428,026**
	2011	253,127	42,274	-	32,169	-	18,719	346,289
N Whish Wilson [7]	**2012**	**150,293**	**-**	**5,105**	**13,986**	**-**	**-**	**169,384**
Sub Total Executive	**2012**	**1,666,352**	**331,503**	**40,412**	**212,090**	**363,809**	**294,763**	**2,908,929**
Remuneration [8]	2011	1,575,077	337,965	40,458	220,128	315,183	176,010	2,664,821
Total	**2012**	**2,256,974**	**331,503**	**40,412**	**341,256**	**363,809**	**294,763**	**3,628,717**
	2011	2,111,523	337,965	40,458	420,182	315,183	176,010	3,401,321

(1) These amounts are estimates of remuneration and will only vest to the Managing Director or Executive when certain performance criteria are met. The fair value of shares is calculated at the date of grant and is allocated to each reporting period evenly 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. As these figures are accrual accounting based and not a reflection of actual cash paid, negative figures can result in the event of accrual reversals being recorded.

(2) The maximum amount, in respect of the 2011/12 financial year STI offers, has been accrued on the basis that it is probable that the Executive Management team will meet their respective KPI's for the period. Any adjustments between the actual amounts to be paid as determined by the GCGRC and Board and the amounts accrued will be adjusted and disclosed in the MyState Limited financial statements for 2013. In addition, the disclosed amounts include satisfaction of prior year STI obligations.

(3) Mr d'Antoine resigned on 30 September 2011.

(4) Mr Gourlay and Mr Reidy resigned on 25 October 2011.

(5) Mr Lonie appointed on 12 December 2011. The remuneration disclosed was paid by the Company after Mr Lonie's appointment to the Board from the date on which he became a KMP. Prior to his appointment as a Director of the Company, Mr Lonie was Chairman of The Rock Building Society Limited (ROK). In the period from 1 July 2011 to the date of acquisition of ROK, he received remuneration of $68,288 from ROK. Following the acquisition of ROK, no further payments were made by that Company to its Directors, including Mr Lonie.

(6) Mr Turner resigned 6 July 2012.

(7) Mrs Whish-Wilson appointed Chief Risk Officer on 27 October 2011. The remuneration disclosed is for the period from the date of appointment until 30 June 2012, being the period that Mrs Whish-Wilson met the definition of a KMP.

(8) Totals in respect of the year ended 30 June 2011 do not necessarily equal the sum of amounts disclosed for 2011 for individuals specified in the 2012 report, as different individuals were specified in the 2011 Remuneration Report.

The following transitional short and long-term incentive arrangements apply to the Managing Director and Executives:

STI/ELTIP allocations during 2011/12 Financial Year

During the 2011/12 financial year, the Managing Director and Executives were paid their STI entitlement in respect of the 2010/11 financial year. Details of the amounts paid and forfeited are set-out in the accompanying tables.

Determination of the STI entitlements for the 2011/12 financial year has not yet occurred and payment has not taken place, at the date of this report.

The offer made under the 2009 ELTIP to the Managing Director and Executives has not yet crystallised, as the Board has not completed the assessment of the performance period to allow a determination for final entitlements.

The following transitional Short and Long-Term incentive arrangements apply to the Managing Director and Executives:

Maximum STI available for the 2011/12 Financial Year

Title	STI % of FAR	Notes
Managing Director - G J Gilbert	30%	STI rate specified in 14 December 2009 contract
General Manager - Wealth Management and Trustee Services - D E Benbow	15%	STI rate specified in 11 January 2012 contract
General Manager - Technology and Operations T M Rutherford	15%	STI rate specified in 11 January 2012 contract
General Manager - Retail Banking and Distribution D W Turner (1)	15%	STI rate specified in 11 January 2012 contract
CFO / Company Secretary - P K M Viney	15%	STI rate specified in 11 January 2012 contract
Chief Risk Officer - N Whish-Wilson	15%	STI rate specified in 11 January 2012 contract

STI/ELTIP Offers made in 2009/10 Year

Name	STI		ELTIP	
Managing Director	**Awarded %**	**Forfeited %**	**Awarded %**	**Forfeited %**
G J Gilbert	100	0	n.a.	n.a.
Other Executives	**Paid %**	**Forfeited %**	**Awarded %**	**Forfeited %**
D E Benbow	100	0	n.a.	n.a.
T M Rutherford	100	0	n.a.	n.a.
D W Turner (1)	100	0	n.a.	100
P K M Viney	100	0	n.a.	n.a.

STI/ELTIP Offers made in 2010/11 Year

Name	STI		ELTIP	
Managing Director	**Awarded %**	**Forfeited %**	**Awarded %**	**Forfeited %**
G J Gilbert	100	n.a.	n.a.	n.a.
Other Executives	**Paid %**	**Forfeited %**	**Awarded %**	**Forfeited %**
D E Benbow	100	n.a.	n.a.	n.a.
T M Rutherford	100	n.a.	n.a.	n.a.
D W Turner (1)	100	n.a.	n.a.	100
P K M Viney	100	n.a.	n.a.	n.a.
N Whish-Wilson (2)	100	n.a.	n.a.	n.a

STI/ELTIP Offers made in 2011/12 Year

Name	STI		ELTIP	
Managing Director	**Awarded %**	**Forfeited %**	**Awarded %**	**Forfeited %**
G J Gilbert	n.a.	n.a.	n.a.	n.a.
Other Executives	**Paid %**	**Forfeited %**	**Awarded %**	**Forfeited %**
D E Benbow	n.a.	n.a.	n.a.	n.a.
T M Rutherford	n.a.	n.a.	n.a.	n.a.
D W Turner (1)	n.a.	100	n.a.	100
P K M Viney	n.a.	n.a.	n.a.	n.a.
N Whish-Wilson (2)	n.a.	n.a.	n.a.	n.a

(1) Mr Turner resigned 6 July 2012

(2) Mrs Whish-Wilson appointed on 27 October 2011

STI Contractual Arrangements Going Forward

Title	STI % of FAR	Notes
Managing Director - G J Gilbert	50%	Based upon KPI's to be agreed with the Board
General Manager – Wealth Management and Trustee Services - D E Benbow	30%	Based upon KPI's to be agreed between the Executive and the Managing Director in consultation with the GCGRS and The Board with reference to those applicable to the Managing Director
General Manager – Technology and Operations - T M Rutherford	30%	Based upon KPI's to be agreed between the Executive and the Managing Director in consultation with the GCGRS and The Board with reference to those applicable to the Managing Director
Chief Financial Officer and Company Secretary - P K M Viney	30%	Based upon KPI's to be agreed between the Executive and the Managing Director in consultation with the GCGRS and The Board with reference to those applicable to the Managing Director
Chief Risk Officer - N Whish-Wilson	30%	Based upon KPI's to be agreed between the Executive and the Managing Director in consultation with the GCGRS and The Board with reference to those applicable to the Managing Director

Signed in accordance with the resolution of the Directors.

M J Vertigan AC
Chairman

G J Gilbert
Managing Director

Hobart
Dated this 28 August 2012

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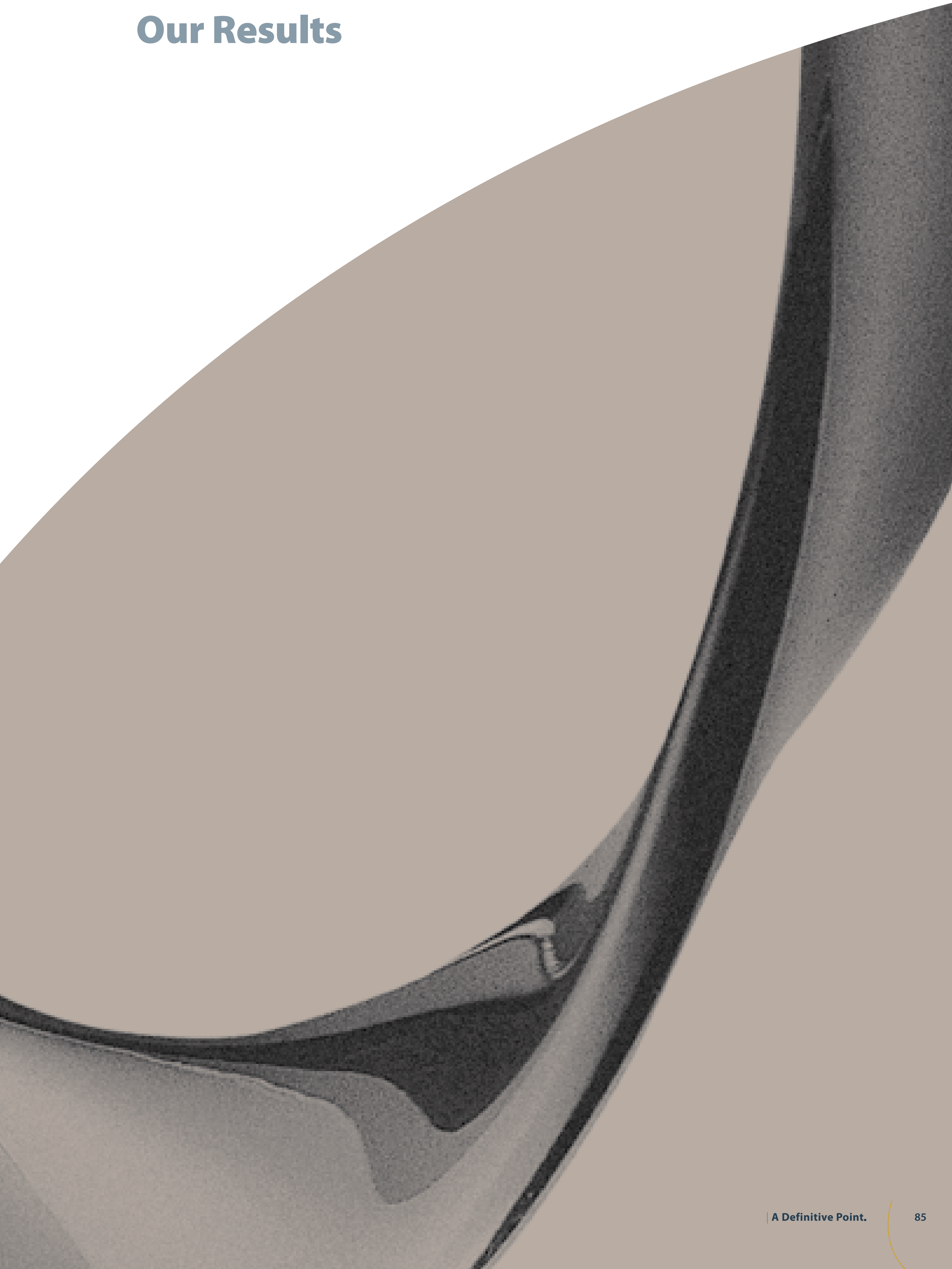
Our Results



Income Statement

For the Financial Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
Interest income	3	**202,985,412**	151,680,743	**114,953**	81,858
Interest expense	3	**(123,965,569)**	(84,074,437)	**-**	-
Net interest margin		**79,019,843**	67,606,306	**114,953**	81,858
Other revenue	4	**38,464,487**	35,675,196	**26,735,595**	22,808,779
Other expenses	5	**(79,927,858)**	(68,366,146)	**(9,361,169)**	(6,368,038)
Profit before bad and doubtful debts and income tax		**37,556,472**	34,915,356	**17,489,379**	16,522,599
Less bad and doubtful debts	18 (b)	**(3,395,317)**	(3,990,872)	**-**	-
Profit before income tax expense	6	**34,161,155**	30,924,484	**17,489,379**	16,522,599
Income tax expense/(benefit)	8	**10,777,311**	8,904,638	**(84,297)**	(428,268)
Net profit after income tax		**23,383,844**	22,019,846	**17,573,676**	16,950,867
Basic earnings per share (cents per share)	13	**29.91**	32.65		
Diluted earnings per share (cents per share)	13	**29.91**	32.65		

The accompanying Notes form part of these financial statements.

Statement of Comprehensive Income

For the Financial Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
Net profit after income tax		**23,383,844**	22,019,846	**17,573,676**	16,950,867
Other comprehensive income/(expense):					
Cashflow hedge movements		**(2,862,560)**	78,273	**-**	-
Net fair value gains on available for sale financial assets		**147,916**	428,764	**-**	-
Fair value revaluation of land and buildings		**-**	176,321	**-**	-
Income tax expense/(benefit) on other comprehensive income		**814,099**	(205,007)	**-**	-
Total other comprehensive income/(expenses) for the period		**(1,900,545)**	478,351	**-**	-
Total comprehensive income for the period		**21,483,299**	22,498,197	**17,573,676**	16,950,867
Total comprehensive income for the period is attributable to:					
Ordinary equity holders of MyState Limited		**21,483,299**	22,498,197	**17,573,676**	16,950,867
Total comprehensive income for the period		**21,483,299**	22,498,197	**17,573,676**	16,950,867

The accompanying Notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
ASSETS					
Cash and cash equivalents	14	**70,003,205**	34,970,545	**1,392,279**	29,422
Available for sale financial assets	16	**402,069,712**	269,168,902	**-**	-
Receivables	17	**26,634,785**	15,145,969	**3,215,129**	4,672,672
Loans at amortised cost	18	**3,056,519,377**	1,854,540,236	**-**	-
Other investments	20	**5,020,527**	4,520,527	**237,511,172**	170,527,844
Assets classified as held for sale	21	**-**	5,625,000	**-**	-
Property, plant and equipment	22	**17,018,854**	8,083,636	**-**	-
Tax assets	9	**9,072,072**	5,832,281	**1,410,098**	1,423,141
Other assets	23	**36,194**	36,194	**-**	-
Intangible assets and goodwill	24	**70,827,736**	48,830,553	**-**	-
TOTAL ASSETS		**3,657,202,462**	2,246,753,843	**243,528,678**	176,653,079
LIABILITIES					
Deposits	25	**2,236,655,207**	1,496,596,212	**-**	-
Interest bearing loans and borrowings	26	**1,079,420,919**	507,130,202	**-**	-
Payables and other liabilities	27	**50,172,549**	29,829,111	**2,254,266**	1,555,091
Derivatives	28	**7,343,468**	-	**-**	-
Tax liabilities	10	**3,545,404**	3,707,978	**2,154,018**	1,527,886
Provisions	29	**6,187,666**	4,889,348	**561,409**	377,751
TOTAL LIABILITIES		**3,383,325,213**	2,042,152,851	**4,969,693**	3,460,728
NET ASSETS		**273,877,249**	204,600,992	**238,558,985**	173,192,351
EQUITY					
Share capital	30	**131,785,926**	64,701,212	**237,714,081**	170,629,367
Retained earnings	31	**141,094,004**	137,274,562	**319,218**	2,309,944
Asset revaluation reserve	31	**2,340,314**	2,340,314	**-**	-
Employee equity benefits reserve	31	**525,686**	253,040	**525,686**	253,040
Hedging reserve	31	**(2,004,087)**	-	**-**	-
Net unrealised gains reserve	31	**135,406**	31,864	**-**	-
TOTAL EQUITY		**273,877,249**	204,600,992	**238,558,985**	173,192,351

The accompanying Notes form part of these financial statements.

Statement of Changes in Equity

For the Financial Year Ended 30 June 2012

MyState Limited

Consolidated	Share Capital	Retained Earnings	Attributable to equity holders of the company Asset Revaluation Reserve	Employee Equity Benefit Reserve	Hedging Reserve	Net Unrealised Gains Reserve	Total
	$	$	$	$	$	$	$
At 1 July 2010	64,623,801	131,777,658	2,216,890	90,226	(54,791)	(268,272)	198,385,512
Net profit after income tax	-	22,019,846	-	-	-	-	22,019,846
Other comprehensive income (net of tax)	-	-	123,424	-	54,791	300,136	478,351
Total comprehensive income for the period	-	22,019,846	123,424	-	54,791	300,136	22,498,197
Equity issued under employee share scheme	77,411	-	-	-	-	-	77,411
Share based payment expense recognised	-	-	-	162,814	-	-	162,814
Dividends paid	-	(16,522,942)	-	-	-	-	(16,522,942)
At 30 June 2011	64,701,212	137,274,562	2,340,314	253,040	-	31,864	204,600,992
At 1 July 2011	64,701,212	137,274,562	2,340,314	253,040	-	31,864	**204,600,992**
Net profit after income tax	-	23,383,844	-	-	-	-	**23,383,844**
Other comprehensive income/(expense) (net of tax)	-	-	-	-	(2,004,087)	103,542	**(1,900,545)**
Total comprehensive income for the period	-	23,383,844	-	-	(2,004,087)	103,542	**21,483,299**
Equity issued to acquire the issued capital of The Rock Building Society Limited	66,983,328	-	-	-	-	-	**66,983,328**
Costs of issuing equity	(20,905)	-	-	-	-	-	**(20,905)**
Equity issued under employee share scheme	86,980	-	-	-	-	-	**86,980**
Share based payment expense recognised	-	-	-	307,957	-	-	**307,957**
Equity issued under Executive long term incentive plan	35,311	-	-	(35,311)	-	-	**-**
Dividends paid	-	(19,564,402)	-	-	-	-	**(19,564,402)**
At 30 June 2012	**131,785,926**	**141,094,004**	**2,340,314**	**525,686**	**(2,004,087)**	**135,406**	**273,877,249**

The accompanying Notes form part of these financial statements.

Statement of Changes in Equity *continued*

For the Financial Year Ended 30 June 2012

MyState Limited

		Attributable to equity holders of the company					
Company	**Share Capital $**	**Retained Earnings $**	**Asset Revaluation Reserve $**	**Employee Equity Benefit Reserve $**	**Hedging Reserve $**	**Net Unrealised Gains Reserve $**	**Total $**
At 1 July 2010	170,551,956	1,882,019	-	90,226	-	-	172,524,201
Net profit after income tax	-	16,950,867	-	-	-	-	16,950,867
Total comprehensive income for the period	-	16,950,867	-	-	-	-	16,950,867
Equity issued under employee share scheme	77,411	-	-	-	-	-	77,411
Share based payment expense recognised	-	-	-	162,814	-	-	162,814
Dividends paid	-	(16,522,942)	-	-	-	-	(16,522,942)
At 30 June 2011	170,629,367	2,309,944	-	253,040	-	-	173,192,351
At 1 July 2011	170,629,367	2,309,944	-	253,040	-	-	**173,192,351**
Net profit after income tax	-	17,573,676	-	-	-	-	**17,573,676**
Total comprehensive income for the period	-	17,573,676	-	-	-	-	**17,573,676**
Equity issued to acquire the issued capital of The Rock Building Society Limited	66,983,328	-	-	-	-	-	**66,983,328**
Costs of issuing equity	(20,905)	-	-	-	-	-	**(20,905)**
Equity issued under employee share scheme	86,980	-	-	-	-	-	**86,980**
Share based payment expense recognised	-	-	-	307,957	-	-	**307,957**
Equity issued under Executive long term incentive plan	35,311	-	-	(35,311)	-	-	**-**
Dividends paid	-	(19,564,402)	-	-	-	-	**(19,564,402)**
At 30 June 2012	**237,714,081**	**319,218**	**-**	**525,686**	**-**	**-**	**238,558,985**

The accompanying Notes form part of these financial statements.

Statement of Cash Flows

For the Financial Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
Cash flows from operating activities					
Interest received		**196,084,411**	145,658,347	**114,953**	81,858
Interest paid		**(119,278,758)**	(83,121,261)	**-**	-
Fees and commissions received		**33,910,581**	33,509,091	**7,317,673**	10,017,584
Other non-interest income received		**949,140**	356,841	**-**	104
Payments to suppliers and employees		**(82,072,126)**	(62,585,506)	**(8,917,503)**	(4,569,954)
Dividends received		**719,611**	1,161,224	**-**	-
Income tax paid		**(8,807,426)**	(10,815,851)	**(8,615,330)**	(13,595,317)
Net income tax contributions received from subsidiaries		**-**	-	**8,171,122**	16,007,216
Net cash flows from/(used in) operating activities	32 (c)	**21,505,433**	24,162,885	**(1,929,085)**	7,941,491
Cash flows from investing activities					
Cash acquired on the acquisition of The Rock Building Society Limited (ROK)		**58,355,363**	-	**-**	-
Dividend paid to the former Shareholders of the ROK	44	**(1,509,700)**	-	**-**	-
Net (increase) in loans to customers		**(177,398,078)**	(145,744,180)	**-**	-
Net movement in amounts due from other financial institutions		**(13,801,394)**	(42,060,611)	**-**	-
Dividend received		**-**	-	**19,560,758**	16,522,594
Acquisition of investments		**(500,000)**	-	**-**	-
Disposals of investments		**-**	30,000	**-**	-
Purchase of intangible assets		**(688,905)**	(847,192)	**-**	-
Disposal of property, plant and equipment		**1,737,619**	18,410	**-**	-
Purchase of property, plant and equipment		**(7,204,184)**	(214,569)	**-**	-
Net cash flows from/(used in) investing activities		**(141,009,279)**	(188,818,142)	**19,560,758**	16,522,594
Cash flows from financing activities					
Net increase in deposits		**151,678,699**	9,917,472	**-**	-
Net (increase)/decrease in loans to related entities		**-**	-	**3,208,606**	(7,989,232)
Net increase in amounts due to other financial institutions		**22,335,229**	169,384,162	**-**	-
Employee share issue		**86,980**	77,411	**86,980**	77,411
Dividends paid	11	**(19,564,402)**	(16,522,942)	**(19,564,402)**	(16,522,942)
Net cash flows from/(used in) financing activities		**154,536,506**	162,856,103	**(16,268,816)**	(24,434,763)
Net increase/(decrease) in cash held		**35,032,660**	(1,799,154)	**1,362,857**	29,322
Cash at beginning of financial year		**34,970,545**	36,769,699	**29,422**	100
Closing cash carried forward	32 (a)	**70,003,205**	34,970,545	**1,392,279**	29,422

The accompanying Notes form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

1 Summary of significant Accounting Policies

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, including applicable 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 2012. 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 2011.

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"	MyState Financial Limited and the entities it controlled at the end of, or during the period;
"TPT"	Tasmanian Perpetual Trustees Limited;
"ROK"	The Rock Building Society Limited and the entities it controlled at the end of, or during the period;
the "Acquisition"	the acquisition of ROK by the Company;
the "period"	the year ended 30 June 2012; and,
the "comparative period"	the year ended 30 June 2011.

During the period the Company acquired all of the issued capital of The Rock Building Society Limited pursuant to a scheme of arrangement approved by the shareholders of ROK. The Company issued its shares to the former shareholders of ROK in exchange for their interest in ROK. The acquisition was effected on 1 December 2011. The results and cash flows of the consolidated entity for the period include the contributions from ROK since the acquisition date. The Rock Building Society Limited controls a number of entities. The results and cashflows of these entities are included within the contribution from ROK. These entities are The Rockhampton Custodian and Management Company Proprietary Limited, RBS Trust 2005-1, RBS Trust 2007-1, RBS Warehouse Trust No.2 and RBS Trust 2009R.

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 other 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 Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

(d) New accounting standards, amendments and interpretations that are not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the consolidated entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report. The consolidated entity will adopt these standards on their effective date.

AASB 9 Financial Instruments was issued in December 2009 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It was further amended by AASB 2010-7. It provides revised guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 Financial Instruments: Recognition and Measurement.

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but, upon realisation those accumulated changes in value are not recycled to the income statement. Changes in the fair value of all other financial assets at fair value are reported in the income statement.

1 Summary of significant Accounting Policies (continued)

AASB 9 must be initially applied in the financial year ending 30 June 2014, with early adoption permitted. Upon adoption, the classification of a financial asset must be assessed based on the facts at the date of initial application, and that classification is to be applied retrospectively. The consolidated entity has not yet determined the potential effect of the standard.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income (AASB 101) was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 July 2012. This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassifiable adjustments). The consolidated entity has determined that the standard will have minimal effect.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124) was issued in July 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It makes amendments to remove individual key management personnel disclosure requirements from AASB 124. The consolidated entity has not yet determined the potential effect of the standard.

AASB 12 Disclosure of Interest in Other Entities was issued in August 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It introduces new disclosures about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entitles and subsidiaries with non controlling interests. The consolidated entity has not yet determined the potential effect of the standard.

AASB 13 Fair Value Measurement was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It establishes a single source of guidance for determining the fair value of assets and liabilities and expands the disclosure requirements for items carried at fair value requiring information on the assumptions made and qualitative impact of those assumptions on the fair value determined. The consolidated entity has not yet determined the potential effect of the standard.

The principal accounting policies adopted in the preparation of the Financial Report are set out in the following sections.

(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.

Securitisations

Securitised positions are held through a number of Special Purpose Entities (SPE's). As the consolidated entity is exposed to the majority of the residual risk associated with these SPE's, their underlying assets, liabilities, revenues and expenses are reported in the consolidated entity's Statement of Financial Position and Income Statement.

When assessing whether the consolidated entity controls (and therefore consolidates) an SPE, judgement is required about risks and rewards as well as the consolidated entity's ability to make operational decisions for the SPE. The range of factors that are considered in assessing control include whether:

- the majority of the benefits of an SPEs activities are obtained;
- the majority of the residual ownership risks related to the SPEs assets are obtained;
- the decision making powers of the SPE vest with the consolidated entity; and
- the SPEs activities are being conducted on behalf of the consolidated entity and according to its specific business needs.

1 Summary of significant Accounting Policies (continued)

(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));

- impairment losses on goodwill (see Notes 1(m) and 24); and

- determining the fair value of the assets and liabilities acquired in the acquisition of the ROK (see Note 44).

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 36.

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.

Held-to-maturity 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.

1 Summary of significant Accounting Policies (continued)

(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.

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.

1 Summary of significant Accounting Policies (continued)

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 life's are:

Buildings	2.50%	(2011: 2.50%)
Office furniture and fittings	15.00% - 20.00%	(2011: 15.00%)
Building fit-out (owned buildings)	6.67% - 25%	(2011: 25.00%)
Office equipment	25.00%	(2011: 25.00%)
Computer hardware	33.33%	(2011: 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 24.

(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. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. Certain costs directly incurred in acquiring and developing software are capitalised and amortised over the estimated useful life, usually a period of three years.

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.

1 Summary of significant Accounting Policies (continued)

(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.

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

Contributions are made by the 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.

(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:

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

1 Summary of significant Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

1 Summary of significant Accounting Policies (continued)

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.

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, Tasmanian Perpetual Trustees Limited, MyState Financial Limited, The Gourmet Club Proprietary Limited and Connect Asset Management Proprietary Limited elected to form a tax consolidated group with effect from 17 September 2009. During the period, The Rock Building Society Limited became a member of this Group as at the date of the acquisition. The head company is MyState Limited.

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 8.

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 profit or loss, 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 profit and loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, 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 profit or loss.

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 profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to profit or loss 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 profit or loss, 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.

(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 7. Information about products and services and geographical segments are based on the financial information used to produce the consolidated entity's financial statements.

1 Summary of significant Accounting Policies (continued)

(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').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and, (ii) the number of shares that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at reporting date. No expense is recognised for shares that do not ultimately vest.

Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting is fulfilled, provided that all other conditions are satisfied.

2 Change in Accounting Policies

There have been no changes in accounting policies which have been applied in this period. However, the consolidated entity has revised the methods that it uses to apply the "effective interest rate method" in order to recognise interest income, as detailed below. The change has been applied prospectively from the commencement of the period.

Loan Origination Costs and Loan Application Fees

Costs and revenues that are incurred or arise solely and directly as a consequence of recognising a loan asset are now recognised as components in the calculation of the effective interest rate method in relation to originated loans. Such costs and revenues include payments to brokers for sourcing loans, ongoing commission payments to brokers and loan application fee income. They therefore affect the interest recognised in relation to this portfolio of loans. The average life and interest recognition pattern of loans in the relevant loan portfolios is reviewed annually to ensure the amortisation methodology for loan origination costs and fees is appropriate.

The revised method is considered appropriate because of recent changes in the economic circumstances of the consolidated entity. MSF traditionally received loan application fee income, which, to a large extent offset the loan origination costs which were incurred. The resulting balance of net cost was considered to be minor and immaterial. Market pressures have, in recent time, meant that loan application fee income is not generated to the extent that it was. Additionally, the acquisition of the ROK has increased the proportion of loan assets sourced through broker networks and therefore an increase in the level of related costs that are incurred. The ROK has and continues to source a higher proportion of loan assets than MSF through such sources.

The consequence of these economic changes is that the quantum of affected costs in the consolidated entity has risen to the level that it is considered appropriate to revise the methods for accounting for them in order to more fully and correctly apply the existing accounting policy.

The effect of the revised method is to increase/(decrease) the following amounts reported for the period:

	30 June 2012
	$
Interest Income	(2,030,412)
Other expenses	(3,403,220)
Profit before income tax	1,372,808
Income tax expense	411,842
Profit after income tax	960,966

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
3 Interest income and interest expense					
Interest income					
Loans, other than commercial		**175,043,849**	132,413,841	**-**	-
Cash flow hedges		**3,165,640**	-	**-**	-
Commercial loans		**4,170,759**	3,918,150	**-**	-
Deposits with other financial institutions		**20,605,164**	15,348,752	**114,953**	81,858
Total interest income		**202,985,412**	151,680,743	**114,953**	81,858
Interest expense					
Interest on deposits		**80,036,769**	61,661,072	**-**	-
Interest due to other financial institutions		**42,012,242**	22,413,365	**-**	-
Derivatives - net of interest received		**1,916,558**	-	**-**	-
Total interest expense		**123,965,569**	84,074,437	**-**	-
4 Other revenue					
Revenue from operating activities					
Bad debts recovered		**1,143,131**	824,606	**-**	-
Loan fee income		**2,548,606**	2,942,057	**-**	-
Other fees		**11,755,216**	9,933,283	**52,239**	-
Management fees		**8,659,147**	8,732,338	**-**	-
Commissions		**9,463,491**	8,672,841	**-**	-
Estate administration		**2,668,145**	3,161,446	**-**	-
Dividends received from subsidiaries		**-**	-	**19,560,758**	16,522,594
Intercompany management fees		**-**	-	**7,122,598**	6,286,081
Other income		**1,507,140**	247,401	**-**	104
Total revenue from operating activities		**37,744,876**	34,513,972	**26,735,595**	22,808,779
Revenue from non-operating activities					
Dividends:					
- Other corporations		**719,611**	1,161,224	**-**	-
Total revenue from non-operating activities		**719,611**	1,161,224	**-**	-
Total other revenue		**38,464,487**	35,675,196	**26,735,595**	22,808,779

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
5 Expenses					
Personnel costs		**38,523,351**	32,793,804	**3,696,124**	3,360,040
Marketing costs		**3,107,570**	2,916,106	**14,849**	21,404
Governance costs [(1)]		**5,744,244**	2,721,093	**4,765,484**	2,167,137
Technology costs		**7,731,597**	6,296,634	**22,123**	2,741
Occupancy costs		**5,308,292**	4,092,851	**43,938**	6,369
Administration costs		**19,512,804**	19,545,658	**818,651**	810,347
Total expenses		**79,927,858**	68,366,146	**9,361,169**	6,368,038
[(1)] Includes costs incurred for the Acquisition of ROK (see Note 6(ii)).					
6 Profit before income tax expense					
Profit before income tax expense includes the following specific revenues and expenses:					
(i) Revenue					
Special dividend from Cuscal Limited		**245,449**	712,845	**-**	-
(ii) Expenses					
Costs incurred for the Acquisition of ROK		**2,071,378**	-	**2,071,378**	-
Termination payments		**1,091,132**	201,593	**281,469**	342,410
Impairment loss on properties	21	**-**	359,869	**-**	-
Loss on disposal of property, plant and equipment		**862,497**	-	**-**	-
Operating lease payments		**1,328,689**	646,110	**79,077**	6,473
Supervision levy		**98,304**	78,291	**-**	-
Auditors' remuneration	43	**508,402**	387,238	**121,224**	68,118
Depreciation of property, plant and equipment:					
- Depreciation of plant and equipment	22	**1,053,554**	901,799	**-**	-
- Depreciation of buildings	22	**675,518**	1,260,232	**-**	-
Total depreciation of property, plant and equipment		**1,729,072**	2,162,031	**-**	-
Amortisation of intangible assets:					
- Amortisation of software	24	**1,100,269**	397,496	**-**	-
- Amortisation of CUTD licence	24	**13,997**	157,085	**-**	-
- Amortisation of RMBS setup costs	24	**323,226**	157,923	**-**	-
Total amortisation of intangible assets		**1,437,492**	712,504	**-**	-
Total depreciation and amortisation expenses		**3,166,564**	2,874,535	**-**	-

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

7 Segment Financial information

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

MyState Financial (MSF) is a broad based financial institution. It is an authorised deposit taking institution (ADI) operating predominantly in Tasmania. Its product offerings include lending encompassing mortgage; personal; overdraft; line of credit and commercial products; transactional savings accounts; and, fixed term deposits.

Tasmanian Perpetual Trustees (TPT) is a Tasmanian based provider of financial products and trustee services. 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 Australian Financial Services Licence. TPT holds over $900 million in funds under management on behalf of personal, business and wholesale investors as the responsible entity for 13 managed investment schemes.

The Rock Building Society (ROK) is a broad based financial institution. It is an ADI operating predominantly in Queensland. It provides a range of products and services, including home loans, term deposits, savings accounts, insurance and online financial products through its branch, mini-branch, ATM and mortgage broker networks.

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.

	MSF	ROK	TPT	Corporate and consolidation adjustment	Consolidated Total
Year ended 30 June 2012	$	$	$	$	$
Interest revenue	159,037,036	43,788,127	45,296	114,953	**202,985,412**
Interest expense	91,814,063	32,151,506	-	-	**123,965,569**
Other revenue					
Bad debts recovered	1,142,274	857	-	-	**1,143,131**
Loan fee income	1,661,006	604,792	282,808	-	**2,548,606**
Other fees	8,408,626	2,265,647	1,028,704	52,239	**11,755,216**
Management fees	-	-	8,659,147	-	**8,659,147**
Commissions	4,342,938	411,039	4,709,514	-	**9,463,491**
Estate administration	-	-	2,668,145	-	**2,668,145**
Other income	1,747,627	82,891	5,108	(328,486)	**1,507,140**
Dividends and distributions	719,611	-	-	-	**719,611**
Total other revenue	**18,022,082**	**3,365,226**	**17,353,426**	**(276,247)**	**38,464,487**
Material expenditures					
Termination payments	411,356	225,447	172,860	281,469	**1,091,132**
Loss on disposal of property, plant and equipment	261,550	-	600,947	-	**862,497**
Bad and doubtful debts	3,414,963	(19,646)	-	-	**3,395,317**
Operating lease payments	379,042	518,583	351,987	79,077	**1,328,689**
Depreciation and amortisation	1,335,720	1,436,071	394,773	-	**3,166,564**
Income tax	8,787,661	1,412,706	656,186	(79,242)	**10,777,311**
Segment net profit after income tax	20,583,686	3,288,125	1,504,170	(1,992,137)	**23,383,844**
Segment assets	2,372,175,443	1,206,737,920	30,931,672	47,357,427	**3,657,202,462**
Capital expenditure	3,714,645	3,444,299	45,240	-	**7,204,184**
Total liabilities	2,223,805,534	1,154,960,884	4,182,370	376,425	**3,383,325,213**

7 Segment Financial information (continued)	MSF	ROK	TPT	Corporate and consolidation adjustment	Consolidated Total
Year ended 30 June 2011	**$**	**$**	**$**	**$**	**$**
Interest revenue	151,549,907	-	48,978	81,858	151,680,743
Interest expense	84,074,437	-	-	-	84,074,437
Other revenue					
Bad debts recovered	824,606	-	-	-	824,606
Loan fee income	2,543,258	-	398,799	-	2,942,057
Other fees	8,907,839	-	1,025,444	-	9,933,283
Management fees	-	-	8,732,338	-	8,732,338
Commissions	6,150,977	-	2,521,864	-	8,672,841
Estate administration	-	-	3,161,446	-	3,161,446
Other income	355,657	-	1,080	(109,336)	247,401
Dividends and distributions	1,161,224	-	-	-	1,161,224
Total other revenue	**19,943,561**	**-**	**15,840,971**	**(109,336)**	**35,675,196**
Material expenditures					
Termination payments	(331,367)	-	190,550	342,410	201,593
Impairment loss on properties	288,761	-	71,108	-	359,869
Contractually committed lease payments	141,127	-	225,000	-	366,127
Bad and doubtful debts	3,990,872	-	-	-	3,990,872
Operating lease payments	484,847	-	154,790	6,473	646,110
Depreciation and amortisation	1,876,948	-	997,587	-	2,874,535
Income Tax	8,935,425	-	619,558	(650,345)	8,904,638
Segment net profit after income tax	19,870,951	-	1,561,655	587,240	22,019,846
Segment assets held for sale	3,655,000	-	1,970,000	-	5,625,000
Segment assets	2,183,800,238	-	31,953,890	30,999,715	2,246,753,843
Capital expenditure	190,176	-	24,393	-	214,569
Total liabilities	2,039,954,639	-	3,310,918	(1,112,706)	2,042,152,851

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
8 Income tax				
Income tax expense (benefit)				
The major components of income tax expense /(benefit) are:				
Current tax expense	**9,071,628**	8,819,721	**(296,122)**	(258,004)
Deferred tax expense				
- Decrease/(increase) in deferred tax assets	**924,092**	305,332	**165,903**	273,587
- (Decrease)/increase in deferred tax liabilities	**854,022**	(146,828)	**13,744**	-
Adjustments for current tax of prior years	**161,131**	(1,210,660)	**169,716**	(625,035)
Adjustments for deferred tax of prior years	**(233,562)**	1,137,073	**(137,538)**	181,184
	10,777,311	8,904,638	**(84,297)**	(428,268)
Reconciliation of income tax expense to prima facie tax payable				
Accounting profit/ (loss) before tax	**34,161,155**	30,924,484	**17,489,379**	16,522,599
Prima facie tax at statutory income tax rate of 30% (2011: 30%)	**10,248,347**	9,277,345	**5,246,814**	4,956,780
Tax effect of amounts which are non assessable/(non deductible) in calculating taxable income:				
- Adjustments for current tax of prior years	**(72,654)**	(473,791)	**-**	(625,035)
- Non taxable dividends received	**(215,884)**	(348,367)	**(5,868,227)**	(4,956,778)
- Non deductible ROK Acquisition costs	**480,290**	-	**480,290**	-
- Other adjustments	**337,212**	95,191	**24,648**	15,581
- Adjustments for deferred tax of prior years	**-**	354,260	**32,178**	181,184
Income tax expense/(benefit)	**10,777,311**	8,904,638	**(84,297)**	(428,268)
Weighted average effective tax rates	**32%**	29%	**0%**	-3%

Tax consolidation

(i) Members of the tax consolidation group and the tax sharing arrangement

A tax consolidated group exists between the Company and its wholly owned subsidiaries, Tasmanian Perpetual Trustees Limited, MyState Financial Limited, The Gourmet Club Proprietary Limited, Connect Asset Management Proprietary Limited and The Rock Building Society Limited. 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 liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The consolidated entity 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. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, the head entity also recognises 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.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
8 Income tax (continued)				
Tax consolidation contributions/(distributions)				
MyState Limited has recognised the following amounts as tax consolidation contribution adjustments:				
Total increase to tax payable of the Company			**9,367,822**	16,007,216
Total increase to intercompany assets of the Company			**9,367,822**	16,007,216
9 Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in the Income Statement				
Other	**1,397,531**	11,014	**598,735**	-
Provision for doubtful debts	**1,165,815**	870,130	**-**	-
Depreciation of property, plant and equipment	**1,877,179**	1,292,136	**1,516**	-
Employee provisions	**2,300,028**	1,622,804	**168,423**	113,325
Creditors and accruals	**1,229,757**	666,568	**398,143**	199,912
Carried forward losses	**243,283**	243,500	**243,281**	243,500
Capital losses	**-**	152,515	**-**	-
Other costs to be amortised for tax purposes	**-**	973,614	**-**	866,404
	8,213,593	5,832,281	**1,410,098**	1,423,141
Amounts recognised directly in equity				
Hedging liability	**858,479**	-	**-**	-
	9,072,072	5,832,281	**1,410,098**	1,423,141
Movements				
Opening balance	**5,832,281**	6,950,428	**1,423,141**	1,878,130
Balance transferred in on merger	**4,014,418**	-	**-**	-
Reclassification deferred tax	**(932,354)**	(420,861)	**-**	-
Credited/(charged) to Income Statement	**(924,092)**	(305,332)	**(165,903)**	(273,587)
Credited/(charged) to Equity	**858,479**	(109,270)	**-**	(181,402)
Transfers	**63**	(6,769)	**15,321**	-
Adjustments for deferred tax of prior years	**223,277**	(275,915)	**137,539**	-
Closing balance	**9,072,072**	5,832,281	**1,410,098**	1,423,141

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
10 Tax liabilities				
The deferred tax balance comprises temporary differences attributable to:				
Amounts recognised in the Income Statement				
Other	**50,892**	149,671	**-**	-
Accrued income	**578,713**	419,632	**-**	-
Prepaid expenses	**94,814**	117,735	**13,744**	-
Intangible asset	**56,386**	-	**-**	-
Investments	**-**	69,758	**-**	-
Land and buildings	**876,868**	898,296	**-**	-
	1,657,673	1,655,092	**13,744**	-
Amounts recognised directly in equity				
Land and buildings	**44,379**	-	**-**	-
	44,379	-	**-**	-
	1,702,052	1,655,092	**13,744**	-
Movements				
Opening balance	**1,655,092**	1,393,352	**-**	-
Balance transferred in on Acquisition	**86,300**	-	**-**	-
Reclassification deferred tax asset	**(932,354)**	(420,861)	**-**	-
Charged/(credited) to Income Statement	**854,022**	(146,828)	**13,744**	-
Credited/(charged) to equity	**44,379**	51,620	**-**	-
Adjustments for deferred tax of prior years	**(5,387)**	777,809	**-**	-
Deferred tax closing balance	**1,702,052**	1,655,092	**13,744**	-
Current tax liabilities				
Current tax payable	**1,843,352**	2,052,886	**2,140,274**	1,527,886
Total tax liabilities	**3,545,404**	3,707,978	**2,154,018**	1,527,886

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
11 Dividends				
a) Dividends paid				
2011 Final dividend paid: 15 cents per share (2010: 12.5 cents per share). Payment date: 7 October 2011	**10,119,518**	8,430,243	**10,119,518**	8,430,243
2012 Interim dividend paid: 14 cents per share (2011: 12 cents per share). Payment date: 9 December 2011	**9,444,884**	8,092,699	**9,444,884**	8,092,699
Total dividends paid	**19,564,402**	16,522,942	**19,564,402**	16,522,942
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 28 August 2012, Directors resolved that a final dividend for the 2012 financial year of 14 cents per share, fully franked at the 30 per cent corporate tax rate, be paid (2011: 15 cents per share, 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.				
Final dividend paid	**12,176,860**	10,119,518	**12,176,860**	10,119,518
The payment of the 2012 final dividend reduces the balance of the franking account by:	**5,218,654**	4,336,936	**5,218,654**	4,336,936
12 Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
Franking account balance as at the end of the period at 30% (2011: 30%)	**55,680,626**	51,889,637	**55,680,626**	51,889,637
Franking credits that will arise from the payment of income tax payable at the end of the period	**1,843,352**	2,043,489	**1,843,352**	2,043,489

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	30 June 2012 cents	30 June 2011 cents
13 Earnings per share		
Basic earnings per share	**29.91**	32.65
Diluted earnings per share	**29.91**	32.65
The following reflects the income and share data used in the calculation of basic and diluted earnings per share:		
	$	$
Net Profit	**23,383,844**	22,019,846
	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share:	**78,171,402**	67,434,769

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
14 Cash and cash equivalents				
Cash on hand	**70,003,205**	34,970,545	**1,392,279**	29,422
Total cash and cash equivalents	**70,003,205**	34,970,545	**1,392,279**	29,422
15 Securitisation				
During this period, the consolidated entity securitised residential, mortgage insured home loans, amounting to $93,913,233 (2011: $283,789,837). Subsidiaries holding securitised loans, pursuant to AASB 127 Consolidated and Separate Financial Statements are consolidated and, accordingly, securitised loans are included in the consolidated accounts.				
16 Available for sale financial assets				
Due from banks	**156,318,408**	142,530,471	**-**	-
Due from other non-bank financial institutions	**245,751,304**	126,638,431	**-**	-
Total due from other financial institutions	**402,069,712**	269,168,902	**-**	-
17 Receivables				
Interest receivable	**2,847,978**	2,314,835	**-**	-
Related party receivables				
- Controlled entities within the wholly owned consolidated entity	**-**	-	**3,160,618**	4,475,325
Other receivables	**23,786,807**	12,831,134	**54,511**	197,347
Total receivables	**26,634,785**	15,145,969	**3,215,129**	4,672,672

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
18 Loans held at amortised cost					
(a) Classification					
Residential		**2,804,010,464**	1,591,809,360	**-**	-
Personal		**204,512,949**	220,915,497	**-**	-
Commercial		**49,545,239**	44,715,813	**-**	-
Total loans		**3,058,068,652**	1,857,440,670	**-**	-
Provision for doubtful debts	18 (b)	**(1,549,275)**	(2,900,434)	**-**	-
Total net loans		**3,056,519,377**	1,854,540,236	**-**	-
(b) Provision for doubtful debts					
Specific provision					
Opening balance		**2,900,434**	3,463,943	**-**	-
Balance transferred in on Acquisition		**10,000**	-	**-**	-
Charge/(credit) against profit		**(1,361,159)**	(563,509)	**-**	-
Closing balance		**1,549,275**	2,900,434	**-**	-
Charge to profit for bad and doubtful debts comprises:					
- Bad debts written off directly		**4,756,476**	4,554,381	**-**	-
- Increase/(decrease) in doubtful debts provisions		**(1,361,159)**	(563,509)	**-**	-
Total charge for bad and doubtful debts		**3,395,317**	3,990,872	**-**	-

There are no loans that individually represent 10% or more of shareholders' equity. The acquisition of ROK has resulted in a significant diversification of the geographical location of the consolidated entity's customers. Customers of ROK are predominantly in Queensland. Large proportions are also located in New South Wales and Victoria. The majority of loans are advanced to customers in the State of Tasmania.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
19 Impaired assets					
Non-accrual loans					
With provisions		**4,405,661**	5,251,158	**-**	-
Specific provision for impairment		**(1,549,275)**	(2,879,377)	**-**	-
Net non-accrual loans		**2,856,386**	2,371,781	**-**	-
Restructured loans					
With provisions		**-**	52,644	**-**	-
Specific provision for impairment		**-**	(21,057)	**-**	-
Net restructured loans		**-**	31,587	**-**	-
Specific provision					
Non-accrual loans		**(1,549,275)**	(2,879,377)	**-**	-
Restructured loans		**-**	(21,057)	**-**	-
Total specific provision for impairment	18 (b)	**(1,549,275)**	(2,900,434)	**-**	-
Past due loans		**10,561,162**	5,175,138	**-**	-
Interest recognised on impaired assets		**90,985**	62,098	**-**	-
Interest income forgone on impaired assets		**370,911**	457,528	**-**	-
20 Other investments					
Shares in Cuscal Limited		**3,347,304**	3,347,304	**-**	-
Shares in Credit Union Technology Development Limited		**25,223**	25,223	**-**	-
Debentures in CGU Insurance VACC Limited		**648,000**	648,000	**-**	-
Term deposit at bank		**1,000,000**	500,000	**-**	-
Shares in subsidiaries		**-**	-	**237,511,172**	170,527,844
Total other investments		**5,020,527**	4,520,527	**237,511,172**	170,527,844
21 Assets classified as held for sale					
At 1 July 2011		**5,625,000**	-	**-**	-
Initial classification	22	**-**	5,984,869	**-**	-
Impairment loss recognised on initial classification		**-**	(359,869)	**-**	-
Disposals		**(5,095,212)**	-	**-**	-
Loss on disposal		**(529,788)**	-	**-**	-
Net carrying amount		**-**	5,625,000	**-**	-

Assets classified as held for sale were two freehold properties, located in Hobart, which the consolidated entity sold during the period.

22 Property, plant and equipment

Consolidated Year ended 30 June 2012	Furniture, fittings and equipment at cost $	Leasehold improvements at cost $	Buildings at independent valuation [1] $	Buildings at cost $	Land at independent valuation [1]	Land at cost	Total $
At 1 July 2011, net of accumulated depreciation	771,845	1,816,791	2,845,000	-	2,650,000	-	**8,083,636**
Additions as a result of the Acquisition	2,997,774	136,769	-	1,960,000	-	1,135,000	**6,229,543**
Additions	1,634,677	2,916,353	171,527	2,481,627	-	-	**7,204,184**
Disposals	(7,644)	-	(1,461,793)	-	(1,300,000)	-	**(2,769,437)**
Depreciation charge for the year	(1,053,554)	(561,245)	(88,262)	(26,011)	-	-	**(1,729,072)**
At 30 June 2012, net of accumulated depreciation	**4,343,098**	**4,308,668**	**1,466,472**	**4,415,616**	**1,350,000**	**1,135,000**	**17,018,854**
At 30 June 2012							
Cost or fair value	16,040,611	9,528,029	4,108,047	4,441,627	1,350,000	1,135,000	**36,603,314**
Accumulated depreciation	(11,697,513)	(5,219,361)	(2,641,575)	(26,011)	-	-	**(19,584,460)**
Net carrying amount	**4,343,098**	**4,308,668**	**1,466,472**	**4,415,616**	**1,350,000**	**1,135,000**	**17,018,854**

The Company holds no property plant and equipment. Land and buildings of the consolidated entity are carried at fair value, refer Note 1(k). The carrying values of properties held at the beginning of the period are based on independent valuations conducted by Mr. John Vestakis AAPI, MRICS of AON Valuation Services at 30 June 2011 for financial reporting purposes. The carrying value of properties acquired in the Acquisition is based on their fair value at the date of acquisition.

22 Property, plant and equipment (continued)

Consolidated	Furniture, fittings and equipment at cost	Leasehold improvements at cost	Buildings at independent valuation [1]	Buildings at cost	Land at independent valuation [1]	Land at cost	Total
Year ended 30 June 2011	**$**	**$**	**$**	**$**			**$**
At 1 July 2010, net of accumulated depreciation	1,493,728	2,971,868	6,267,188	-	5,140,000	-	15,872,784
Additions	213,053	1,516	-	-	-	-	214,569
Revaluations	-	-	66,320	-	110,000	-	176,320
Reclassification as assets held for sale	-	-	(3,384,869)	-	(2,600,000)	-	(5,984,869)
Disposals	(33,137)	-	-	-	-	-	(33,137)
Depreciation charge for the year	(901,799)	(1,156,593)	(103,639)	-	-	-	(2,162,031)
At 30 June 2011, net of accumulated depreciation	**771,845**	**1,816,791**	**2,845,000**	**-**	**2,650,000**	**-**	**8,083,636**
At 30 June 2011							
Cost or fair value	8,461,380	6,113,919	2,845,000	-	2,650,000	-	20,070,299
Accumulated depreciation	(7,689,535)	(4,297,128)	-	-	-	-	(11,986,663)
Net carrying amount	**771,845**	**1,816,791**	**2,845,000**	**-**	**2,650,000**	**-**	**8,083,636**

[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: $7,363,506 (2011: $4,343,477).

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
23 Other assets				
Other	**36,194**	36,194	**-**	-
Total other assets	**36,194**	36,194	**-**	-

Consolidated	Goodwill $	Licence fees $	Software $	RMBS setup costs $	Total $
24 Intangible assets and goodwill					
Year ended 30 June 2012					
At 1 July 2011, net of accumulated amortisation	47,757,894	13,078	698,003	361,578	**48,830,553**
Goodwill recognised on Acquisition	17,084,626	-	-	-	**17,084,626**
Additions as a result of the Acquisition	-	-	5,285,496	375,648	**5,661,144**
Additions	-	80,407	608,498	-	**688,905**
Amortisation	-	(13,997)	(1,100,269)	(323,226)	**(1,437,492)**
At 30 June 2012, net of accumulated amortisation	**64,842,520**	**79,488**	**5,491,728**	**414,000**	**70,827,736**
At 30 June 2012					
Cost (gross carrying amount)	64,842,520	2,673,349	16,242,439	7,516,096	**91,274,404**
Accumulated amortisation	-	(2,593,861)	(10,750,711)	(7,102,096)	**(20,446,668)**
Net carrying amount	**64,842,520**	**79,488**	**5,491,728**	**414,000**	**70,827,736**
Year ended 30 June 2011					
At 1 July 2010, net of accumulated amortisation	47,757,894	170,163	723,382	44,426	48,695,865
Additions	-	-	372,117	475,075	847,192
Amortisation	-	(157,085)	(397,496)	(157,923)	(712,504)
At 30 June 2011, net of accumulated amortisation	47,757,894	13,078	698,003	361,578	48,830,553
At 30 June 2011					
Cost (gross carrying amount)	47,757,894	2,592,942	8,209,233	930,191	59,490,260
Accumulated amortisation	-	(2,579,864)	(7,511,230)	(568,613)	(10,659,707)
Net carrying amount	47,757,894	13,078	698,003	361,578	48,830,553

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

24 Intangible assets and goodwill (continued)

For the purpose of impairment testing, goodwill recognised on consolidation is allocated to the consolidated entity's cash-generating units (CGUs) identified according to business segments, which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the period the consolidated entity has recognised goodwill on consolidation arising from the ROK acquisition of $17,084,626, which was allocated on the basis of the expected synergy benefits to the following CGUs: ROK, $11,406,047; and, MSF, $5,678,579.

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

Consolidated	**30 June 2012 $**	30 June 2011 $
Entity		
MSF	**27,647,341**	22,491,617
TPT	**25,789,132**	25,266,277
ROK	**11,406,047**	-
	64,842,520	47,757,894

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 Management and the Board. 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.

MSF value in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2013 approved by the Board. Various cost and expense growth rates have been applied from year two and into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's pre-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Management's assessment of goodwill's value-in-use significantly exceeds the value of goodwill allocated to this CGU. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

TPT value in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2013 approved by the Board. Various cost and expense growth rates have been applied from year two and into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's pre-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Management's assessment of goodwill's value-in-use significantly exceeds the value of goodwill allocated to this CGU. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

ROK value in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2013 approved by the Board. Various cost and expense growth rates have been applied from year two and into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's pre-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Management's assessment of goodwill's value-in-use significantly exceeds the value of goodwill allocated to this CGU. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
25 Deposits				
Deposits	**2,236,655,207**	1,496,596,212	**-**	-
Total deposits	**2,236,655,207**	1,496,596,212	**-**	-

Concentration of liabilities

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

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
26 Interest bearing loans and borrowings				
Due to other financial institutions	**1,079,420,919**	507,130,202	**-**	-
Total Interest bearing loans and borrowings	**1,079,420,919**	507,130,202	**-**	-
27 Payables and other liabilities				
Accounts payable and other creditors	**28,910,705**	13,254,078	**1,528,047**	1,555,091
Related party payables	**-**	-	**726,219**	-
Accrued interest payable	**21,261,844**	16,575,033	**-**	-
Total payables and other liabilities	**50,172,549**	29,829,111	**2,254,266**	1,555,091
28 Derivatives				
Interest rate swap contracts - cash flow hedges	**7,343,468**	-	**-**	-
	7,343,468	-	**-**	-
29 Provisions				
Provision for annual leave	**2,498,014**	2,000,387	**259,280**	212,567
Provision for long service leave	**3,604,652**	2,888,961	**302,129**	165,184
Other provisions	**85,000**	-	**-**	-
	6,187,666	4,889,348	**561,409**	377,751
Current	**4,440,710**	3,656,788	**275,028**	219,107
Non-current	**1,746,956**	1,232,560	**286,381**	158,644
	6,187,666	4,889,348	**561,409**	377,751

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
30 Share Capital				
Issued and paid up capital				
Ordinary shares fully paid	**131,785,926**	64,701,212	**237,714,081**	170,629,367

Consolidated	30 June 2012		30 June 2011	
	Number of shares	**Amount $**	Number of shares	Amount $
Movements in share capital				
Ordinary Shares				
Opening balance	**67,439,158**	**64,701,212**	67,411,055	64,623,801
Share capital issued to acquire ROK	**19,500,408**	**66,983,328**	-	-
Costs of issuing equity	**-**	**(20,905)**	-	-
Shares issued pursuant to the Employee share scheme of the consolidated entity	**24,296**	**86,980**	28,103	77,411
Shares issued under the Executive Long-Term Incentive Plan	**13,711**	**35,311**	-	-
Closing balance	**86,977,573**	**131,785,926**	67,439,158	64,701,212

Company	30 June 2012		30 June 2011	
	Number of shares	**Amount $**	Number of shares	Amount $
Movements in share capital				
Ordinary Shares				
Opening balance	**67,439,158**	**170,629,367**	67,411,055	170,551,956
Share capital issued to acquire ROK	**19,500,408**	**66,983,328**	-	-
Costs of issuing equity	**-**	**(20,905)**	-	-
Shares issued pursuant to the Employee share scheme of the consolidated entity	**24,296**	**86,980**	28,103	77,411
Shares issued under the Executive Long-Term Incentive Plan	**13,711**	**35,311**	-	-
Closing balance	**86,977,573**	**237,714,081**	67,439,158	170,629,367

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.

31 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.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
32 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.				
Cash on hand	**70,003,205**	34,970,545	**1,392,279**	29,422
Total cash and cash equivalents	**70,003,205**	34,970,545	**1,392,279**	29,422
(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				
(vi) Customer loans				
(c) Reconciliation from net profit to net cash flows provided by operating activities:				
Net profit	**23,383,844**	22,019,846	**17,573,676**	16,950,867
Adjustments for				
Depreciation of non-current assets	**1,729,072**	2,162,031	**-**	-
Amortisation of non-current assets	**1,437,492**	712,504	**-**	-
Net loss on sale of non-current assets	**829,497**	-	**-**	-
Dividends received	**-**	-	**(19,560,758)**	(16,522,594)
Changes in assets and liabilities				
Increase in accrued interest	**(122,016)**	(2,292,621)	**-**	-
Decrease/(increase) in receivables	**(1,287,566)**	4,024,088	**142,836**	3,731,539
Decrease in property, plant and & equipment	**-**	14,726	**-**	-
Increase in other assets	**(304,070)**	(51,837)	**-**	-
Decrease in deferred tax assets	**1,214,738**	1,136,416	**13,043**	454,989
Increase/(decrease) in payables	**(7,568,506)**	(1,741,346)	**(47,949)**	1,523,724
Increase in interest payable	**4,686,811**	953,176	**-**	-
Increase in provision for employee benefits	**1,000,240**	695,658	**183,658**	112,267
Decrease in provision for doubtful debts	**(1,361,159)**	(563,509)	**-**	-
Increase/(decrease) in provision for income tax liabilities	**(627,336)**	(2,957,295)	**(541,548)**	1,527,885
Increase/(decrease) in reserves	**(1,505,608)**	51,048	**307,957**	162,814
Net cash flows from operating activities	**21,505,433**	24,162,885	**(1,929,085)**	7,941,491

33 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 treatment 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 with oversight of credit risk exposures by the consolidated entity's Group Risk Committee. The MSF and ROK Asset and Liability Committees (ALCO) monitor credit related activities through regular reporting processes. The roles of funding and oversight of credit are separated. In addition, MSF formed a Credit Committee during the year under review to provide oversight to more significant lending application consideration, approval and review processes.

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.

33 Financial Risk Management (continued)

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

	Equivalent S&P rating		New customers [1]		Existing Customers		
Consolidated	A+ and above	A- and below	Closely monitored [2]	No default [3]	Closely monitored [2]	No default [3]	Total
	$	$	$	$	$	$	$
2012							
Cash and liquid assets	70,003,205	-	-	-	-	-	**70,003,205**
Due from other financial institutions	85,488,163	316,581,549	-	-	-	-	**402,069,712**
Financial assets other than loans and advances	155,491,368	316,581,549	-	-	-	-	**472,072,917**
Gross loans and advances at amortised cost	-	-	2,359,418	777,246,954	28,791,334	2,248,121,671	**3,056,519,377**
Total financial assets	**155,491,368**	**316,581,549**	**2,359,418**	**777,246,954**	**28,791,334**	**2,248,121,671**	**3,528,592,294**
2011							
Cash and liquid assets	34,970,545	-	-	-	-	-	34,970,545
Due from other financial institutions	80,525,503	188,643,399	-	-	-	-	269,168,902
Financial assets other than loans and advances	115,496,048	188,643,399	-	-	-	-	304,139,447
Gross loans and advances at amortised cost	-	-	1,690,272	523,846,518	19,891,656	1,309,111,790	1,854,540,236
Total financial assets	115,496,048	188,643,399	1,690,272	523,846,518	19,891,656	1,309,111,790	2,158,679,683

(1) New customers are counterparties with whom the consolidated entity has traded for less than one year.
(2) Closely monitored customers are customers who have overdue loan repayments in excess of 30 days or overdue overdraft repayments in excess of 14 days.
(3) No default customers are customers that have no history of default, late payments, renegotiated terms or breach of their credit terms.

33 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 cl assified 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.

	Past due but not impaired			Impaired	Total	Fair Value of Collateral Held
Consolidated	31 to 60 days $M	61 to 90 days $M	More than 90 days $M	$M	$M	$M
2012						
Class of financial asset						
Loan assets held at amortised cost	14.52	5.75	6.46	4.41	31.14	41.47
Total	**14.52**	**5.75**	**6.46**	**4.41**	**31.14**	**41.47**
2011						
Class of financial asset						
Loan assets held at amortised cost	9.31	1.62	5.19	5.30	21.42	24.76
Total	9.31	1.62	5.19	5.30	21.42	24.76

MSF and ROK holds 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.

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 MSF and ROK 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 MSF and ROK ALCOs. MSF funding and liquidity management is performed centrally by Treasury, with oversight from MSF and ROK ALCOs. TPT'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 MSF, ROK and TPT 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 conditions. These liquid assets are held to cover both known and contingent funding outflows. The assets are predominately held in the most liquid asset classes such as short dated inter-bank deposits.

MSF and ROK Treasury and TPT Investment Services Division 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.

33 Financial Risk Management (continued)

Liquidity facilities

The consolidated entity has an approved overdraft of $6.5 million and a standby facility of $41.0 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 $10 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, an asset purchase/lease facility of $200,000 and a "within-the-day" facility of $10 million to TPT. These facilities are secured by a negative pledge from TPT not to mortgage or encumber, without the consent of BABL, the freehold properties owned by TPT. None of the facilities were in use at 30 June 2012.

At 30 June 2012, the ConQuest Securities securitisation programme had available a number of support facilities provided by Westpac Banking Corporation, including a $4 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 $155 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 2012, this facility had not been used since the inception of the programme.

A liquidity facility of $3.4 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, these facilities have not been used.

ConQuest 2010-1R Trust has collateral liquidity of $1 million held in a separate account with Westpac Banking Corporation to provide liquidity support. As at 30 June 2012, this facility has not been used. The ConQuest 2010-2 Trust has collateral liquidity of $3.5 million held in a separate account with Westpac Banking Corporation 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. As at 30 June 2012, both facilities had not been used.

A number of facilities are provided to entities controlled by the ROK. The RBS Trust 2005-1 has collateral liquidity of $1.5 million held in a separate account with Westpac Banking Corporation to provide liquidity support which can be used. As at 30 June 2012, this facility has not been used. 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 which can be used. As at 30 June 2012, this facility has not been used.

33 Financial Risk Management (continued)

Liquidity facilities (continued)

The following table summarises the maturity profile of financial assets and liabilities as at 30 June 2012 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.

Consolidated	On demand $	3 months or less $	Between 3 months and 1 year $	Between 1 and 5 years $	More than 5 years $	Total $
2012 Assets						
Available for sale assets	47,800,502	246,790,249	105,051,726	-	2,427,235	**402,069,712**
Receivables	-	26,634,785	-	-	-	**26,634,785**
Loans	137,050,081	17,454,652	62,592,955	156,564,624	2,682,857,065	**3,056,519,377**
Other receivables	4,020,527	1,000,000	-	-	-	**5,020,527**
Total	**188,871,110**	**291,879,686**	**167,644,681**	**156,564,624**	**2,685,284,300**	**3,490,244,401**
Liabilities						
Due to Banks and other financial institutions	2,624,568	381,345,182	383,453,041	-	311,998,128	**1,079,420,919**
Deposits	992,781,164	710,679,481	519,173,326	14,021,236	-	**2,236,655,207**
Payables	-	50,172,549	-	-	-	**50,172,549**
Total	995,405,732	1,142,197,212	902,626,367	14,021,236	311,998,128	**3,366,248,675**
Net mismatch	**(806,534,622)**	**(850,317,526)**	**(734,981,686)**	**142,543,388**	**2,373,286,172**	**123,995,726**
Derivative financial liabilities	**(245,000,000)**	**20,000,000**	**90,000,000**	**135,000,000**	**-**	**-**
2011 Assets						
Available for sale assets	9,001,685	185,989,438	74,177,779	-	-	269,168,902
Receivables	-	15,145,969	-	-	-	15,145,969
Loans	129,666,656	16,970,797	48,867,555	79,197,113	1,579,838,115	1,854,540,236
Other receivables	4,020,527	-	500,000	-	-	4,520,527
Total	142,688,868	218,106,204	123,545,334	79,197,113	1,579,838,115	2,143,375,634
Liabilities						
Due to Banks and other financial institutions	2,436,616	196,945,428	-	-	307,748,158	507,130,202
Deposits	623,814,325	371,054,122	492,877,360	8,850,405	-	1,496,596,212
Payables	-	29,829,111	-	-	-	29,829,111
Total	626,250,941	597,828,661	492,877,360	8,850,405	307,748,158	2,033,555,525
Net mismatch	(483,562,073)	(379,722,457)	(369,332,026)	70,346,708	1,272,089,957	109,820,109

33 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.

	Net profit after tax higher/(lower)	
	2012 $000	2011 $000
Judgements of reasonably possible movements:		
+ 1.0% (100 basis points)	**4,486**	3,182
- 0.5% (50 basis points)	**(2,243)**	(1591)

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.

The consolidated entity recognised income of $1,229,022 (2011: nil) in the Income Statement due to hedge ineffectiveness. At 30 June 2012, the fair value of outstanding derivatives held and designated as cash flow hedges was a liability of $7,343,468 (2011: $nil).

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 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.

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 percent 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.

	MSF		ROK	
	2012 $M	2011 $M	**2012 $M**	2011 $M
Average	**1.136**	0.768	**0.399**	-
Maximum	**1.590**	0.920	**0.219**	-
Minimum	**0.866**	0.650	**0.652**	-

33 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 MyState Limited 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 2012 and the corresponding weighted average effective interest rates.

			Asset and Liability repricing				
Consolidated	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
2012	$	$	$	$	$	$	%
Assets							
Cash and liquid assets	65,082,803	-	-	-	4,920,402	70,003,205	3.82%
Available for sale assets	47,269,238	354,269,210	-	-	531,264	402,069,712	4.53%
Receivables	-	-	-	-	26,634,785	26,634,785	0.00%
Loans	2,385,742,857	257,149,011	413,627,509	-	-	3,056,519,377	6.81%
Other investments	-	1,000,000	-	-	4,020,527	5,020,527	6.10%
Total financial assets	**2,498,094,898**	**612,418,221**	**413,627,509**	**-**	**36,106,978**	**3,560,247,606**	
Liabilities							
Deposits	992,781,164	1,229,852,807	14,021,236	-	-	2,236,655,207	3.92%
Interest bearing liabilities and borrowings	2,624,568	827,719,390	-	249,076,961	-	1,079,420,919	4.87%
Payables and other liabilities	-	-	-	-	50,172,549	50,172,549	0.00%
Total financial liabilities	**995,405,732**	**2,057,572,197**	**14,021,236**	**249,076,961**	**50,172,549**	**3,366,248,675**	
Net mismatch	**1,502,689,166**	**(1,445,153,976)**	**399,606,273**	**(249,076,961)**	**(14,065,571)**	**193,998,931**	
Derivatives	(245,000,000)	110,000,000	135,000,000	-	-	-	
	1,747,689,166	**(1,555,153,976)**	**264,606,273**	**(249,076,961)**	**(14,065,571)**	**193,998,931**	

33 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
2011	$	$	$	$	$	$	%
Assets							
Cash and liquid assets	26,560,475	-	-	-	8,410,070	34,970,545	1.78%
Available for sale assets	5,092,808	263,574,797	-	-	501,297	269,168,902	5.65%
Receivables	-	-	-	-	15,145,969	15,145,969	0.00%
Loans	1,653,535,434	97,222,452	103,782,350	-	-	1,854,540,236	7.35%
Other investments	-	500,000	-	-	4,020,527	4,520,527	0.67%
Total financial assets	1,685,188,717	361,297,249	103,782,350	-	28,077,863	2,178,346,179	
Liabilities							
Deposits	623,814,323	863,931,484	8,850,405	-	-	1,496,596,212	4.13%
Interest bearing liabilities and borrowings	2,436,616	196,945,428	-	307,748,158	-	507,130,202	4.39%
Payables and other liabilities	-	-	-	-	29,829,111	29,829,111	0.00%
Total financial liabilities	626,250,939	1,060,876,912	8,850,405	307,748,158	29,829,111	2,033,555,525	
Net mismatch	1,058,937,778	(699,579,663)	94,931,945	(307,748,158)	(1,751,248)	144,790,654	
Derivatives	-	-	-	-	-	-	0.00%
	1,058,937,778	(699,579,663)	94,931,945	(307,748,158)	(1,751,248)	144,790,654	

33 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.

The consolidated entity's capital management objectives are to:

- 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 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 14.00% (2011: 15.00%), ROK's Level One capital adequacy ratio was 12.46% (2011: 13.35%) and the Group's Level Two ratio was 14.14% (2011: 15.38%).

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 MyState Limited capital management policy set by the Board requires capital floors above this regulatory required level.

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'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, or other special purpose entities at a rate of 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital. MSF's Tier 2 capital includes reserves. Deductions from Tier 2 capital include 50 per cent of investments in subsidiaries.

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.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

34 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.

	2012			2011		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Consolidated	$	$	%	$	$	%
Average assets and interest income						
Interest-earning assets						
Cash and liquid assets	79,008,917	1,380,858	1.75%	43,375,163	540,073	1.25%
Due from other financial institutions	418,029,478	19,224,306	4.60%	243,694,973	14,808,679	6.08%
Loans	2,966,392,149	182,380,248	6.15%	1,779,150,232	136,331,991	7.66%
Total average interest-earning assets	3,463,430,544	202,985,412	5.86%	2,066,220,368	151,680,743	7.34%
Non interest-earning assets						
Property, plant and equipment	21,229,153	-	-	13,173,196	-	-
Other assets	38,845,845	-	-	13,874,505	-	-
Total average non interest earning assets	60,074,998	-	-	27,047,701	-	-
Total average assets	3,523,505,542	202,985,412	5.76%	2,093,268,069	151,680,743	7.25%
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits	2,179,341,446	74,572,170	3.42%	1,447,537,529	58,541,643	4.04%
Due to other financial institutions	234,528,941	9,844,970	4.20%	59,579,450	3,293,005	5.74%
ConQuest Notes and bonds on issue	408,862,045	23,114,877	5.65%	402,697,413	22,239,789	5.52%
Securitisation Notes on issue	435,420,104	16,433,552	3.77%	-	-	-
Total average interest-bearing liabilities	3,258,152,536	123,965,569	3.80%	1,909,814,392	84,074,437	4.40%
Non interest-bearing liabilities						
Other	46,862,901	-	-	33,917,943	-	-
Total average non interest bearing liabilities	46,862,901	-	-	33,917,943	-	-
Total average liabilities	3,305,015,437	123,965,569	3.75%	1,943,732,335	84,074,437	4.33%
Reserves	218,490,105	-	-	149,535,734	-	-
Total average liabilities and reserves	3,523,505,542	123,965,569	3.52%	2,093,268,069	84,074,437	4.02%

35 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 months and 12 months	Due between 1 year and 5 years	Due in over 5 years	No maturity specified	Total
2012	$	$	$	$	$	$	$	$
Assets								
Cash and liquid assets	67,173,270	-	2,829,935	-	-	-	-	**70,003,205**
Due from other financial institutions	47,800,502	-	246,790,249	105,051,726	-	2,427,235	-	**402,069,712**
Receivables	-	-	26,634,785	-	-	-	-	**26,634,785**
Loans	-	106,438,146	17,454,752	62,592,955	156,598,568	2,713,434,956	-	**3,056,519,377**
Other investments	-	-	1,000,000	-	-	-	4,020,527	**5,020,527**
Total financial assets	**114,973,772**	**106,438,146**	**294,709,721**	**167,644,681**	**156,598,568**	**2,715,862,191**	**4,020,527**	**3,560,247,606**
Liabilities								
Deposits	992,781,164	-	710,679,481	519,173,326	14,021,236	-	-	**2,236,655,207**
Due to other financial institutions	2,624,568	-	381,345,182	383,453,051	-	311,998,118	-	**1,079,420,919**
Accounts payable and other liabilities	-	-	50,172,549	-	-	-	-	**50,172,549**
Total financial liabilities	**995,405,732**	**-**	**1,142,197,212**	**902,626,377**	**14,021,236**	**311,998,118**	**-**	**3,366,248,675**
2011								
Assets								
Cash and liquid assets	32,219,492	-	2,751,053	-	-	-	-	34,970,545
Due from other financial institutions	9,001,685	-	185,989,438	74,177,779	-	-	-	269,168,902
Receivables	11,296,157	-	3,849,812	-	-	-	-	15,145,969
Loans	-	108,084,728	16,970,797	48,867,555	79,197,113	1,601,420,043	-	1,854,540,236
Other investments	-	-	-	500,000	-	-	4,020,527	4,520,527
Total financial assets	52,517,334	108,084,728	209,561,100	123,545,334	79,197,113	1,601,420,043	4,020,527	2,178,346,179
Liabilities								
Deposits	623,814,325	-	371,054,122	492,877,362	8,850,403	-	-	1,496,596,212
Due to other financial institutions	2,436,615	-	196,945,428	-	-	307,748,159	-	507,130,202
Accounts payable and other liabilities	-	-	29,829,111	-	-	-	-	29,829,111
Total financial liabilities	626,250,940	-	597,828,661	492,877,362	8,850,403	307,748,159	-	2,033,555,525

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

36 Net fair value

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

Consolidated	2012		2011	
	Carrying value $	**Net fair value $**	Carrying value $	Net fair value $
Assets				
Cash and liquid assets	**70,003,205**	**70,003,205**	34,970,545	34,970,545
Due from other financial institutions	**402,069,712**	**402,069,712**	269,168,902	269,176,482
Receivables	**26,634,785**	**26,634,785**	15,145,969	15,145,969
Loans	**3,056,519,377**	**3,061,011,285**	1,854,540,236	1,854,883,646
Other investments	**5,020,527**	**5,020,527**	4,520,527	4,520,527
Total financial assets	**3,560,247,606**	**3,564,739,514**	2,178,346,179	2,178,697,169
Liabilities				
Deposits	**2,236,655,207**	**2,242,867,196**	1,496,596,212	1,506,199,164
Due to other financial institutions	**1,079,420,919**	**1,079,420,919**	507,130,202	507,130,202
Accounts payable	**50,172,549**	**50,172,549**	29,829,111	29,829,111
Total financial liabilities	**3,366,248,675**	**3,372,460,664**	2,033,555,525	2,043,158,477

The net fair value estimates of 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 or are receivable on demand. 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.

Within the fair value hierarchy, all assets or liabilities are considered to be Level 1, where quoted prices exist in active markets and disclosures comply with this definition.

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
37 Contingent liabilities and expenditure commitments				
(a) Lease expenditure commitments				
(i) Operating leases				
- not later than 1 year	**4,572,449**	3,927,735	**6,473**	6,473
- later than 1 and not later than 5 years	**12,612,183**	13,902,631	**8,091**	15,103
- later than 5 years	**21,611,268**	24,962,557	**-**	-
Total lease expenditure contracted for at balance date	**38,795,900**	42,792,923	**14,564**	21,576

During the period, MSF commenced leasing its new 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.

During the period, the consolidated entity entered into a lease of a property situated in Launceston which will principally be used to house elements of the TPT business. Occupancy of the property is expected to occur prior to December 2012. 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.

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.

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

	Consolidated		Company	
(b) Loans approved but not advanced	**49,769,416**	29,676,689	**-**	-
(c) Undrawn continuing lines of credit	**93,297,567**	90,741,599	**-**	-

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
37 Contingent liabilities and expenditure commitments (continued)				
(d) Performance guarantees	**3,125,986**	3,077,029	**-**	-
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.				
(e) Bank Guarantee	**1,000,000**	500,000	**-**	-
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 (2011: $500,000) as collateral for the guarantee.				
(f) Loan Guarantees	**179,325**	205,860	**-**	-
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.				

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
37 Contingent liabilities and expenditure commitments (continued)				
(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.				

38 Capital and other expenditure commitments

The consolidated entity has entered into a long term lease for a Launceston property. The consolidated entity has a contractual commitment to pay the lessor a 'building levy' of $500,000 prior to occupying the property. It is expected that costs of $250,000 will be incurred on fittings, fixtures and furniture at this property. These amounts are not recognised in the financial report.

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

39 Economic dependency

The consolidated entity has an economic dependency on the following suppliers of services:

(i) Cuscal Limited

Cuscal provides central banking services including overdraft and standby facilities, electronic settlement services and access to chequing, Visa and Redicard.

(ii) Fiserv (ASPAC) Proprietary Limited

Fiserv provides services and maintains the core banking system for MSF.

(iii) First Data International Limited (FDI)

FDI is the provider of the electronic switching network which transfers transactions and settlement details for the EFT, Visa and Redicard systems of MSF.

(iii) Tata Consulting Services

Tata Consulting Services supports the TCS BaNCS system, which provides services and maintains the core banking system for ROK.

Notes to the Financial Statements

For the Year Ended 30 June 2012

MyState Limited

	Notes	Consolidated 30 June 2012 $	Consolidated 30 June 2011 $	Company 30 June 2012 $	Company 30 June 2011 $
40 Employee benefits					
The aggregated employee benefit liability is comprised of the following:					
Bonus		1,328,551	1,123,856	388,140	395,436
Provisions	29	6,102,666	4,889,348	561,409	377,751
Total employee benefits		**7,431,217**	**6,013,204**	**949,549**	**773,187**

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 plans are accumulation schemes, the consolidated entity does not guarantee their performance.

41 Related parties

(i) Ultimate Parent Company

MyState Limited is the ultimate parent company.

(ii) Significant subsidiaries

Name	Country of Incorporation	Ownership interest 30 June 2012 %	Ownership interest 30 June 2011 %
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**	-

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
41 Related parties (continued)				
(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.				
Management fees received	**-**	-	**7,122,598**	6,286,081
Dividends	**-**	-	**19,560,758**	16,522,942
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	**-**	-	**(3,160,618)**	(6,559,316)
Amounts payable	**-**	-	**726,219**	2,083,991
	-	-	**(2,434,399)**	(4,475,325)
(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:				
Management fees received	**8,659,147**	8,732,338	**-**	-
Investments in managed funds				
Balance at year end	**5,786,236**	5,492,855	**-**	-
Distributions received from managed funds	**240,764**	229,696	**-**	-
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:				
Balance at year end	**3,782,233**	-	**3,782,233**	-
Distributions received from managed funds	**52,239**	-	**52,239**	-

41 Related parties (continued)

(iv) Managed Investment Schemes (continued)

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 MyState Financial Limited, in the form of term deposits, totalling $17,500,000 (2011: $17,750,000); and,

- loaned money to ConQuest 2010-2 Trust, in the form of Class B RMBS Notes, totalling $10,030,546 (2011: $9,996,061).

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

(v) MSF

MSF has a controlling interest in Connect Asset Management Proprietary Limited, ConQuest 2007-1 Trust, ConQuest 2010-1R Trust and ConQuest 2010-2 Trust as its wholly owned subsidiaries. Transactions with related parties 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 these transactions with these related parties are as follows:

Connect Asset Management Proprietary Limited

MSF makes payments on behalf of Connect Asset Management Proprietary Limited (CAM), which are reimbursed the following month. At the end of the period, the loan balance totalled $17,222 (2011: $3,243). MSF charges CAM a management fee of $4,120 per month. This fee covers accounting, payroll, computer and occupancy charges. MSF also charges CAM a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest Mortgage Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $316,296 (2011: $213,218).

ConQuest 2007-1 Trust

MSF charges the ConQuest 2007-1 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest 2007-1 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $218,981 (2011: $271,568).

ConQuest 2010-1R Trust

MSF charges the ConQuest 2010-1R Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest 2010-1R Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $238,077 (2011: $253,302).

ConQuest 2010-2 Trust

MSF charges the ConQuest 2010-2 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest 2010-2 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $412,910 (2011: $504,277).

(vi) ROK

ROK has a controlling interest in The Rockhampton Custodian and Management Company Limited, RBS2005-1 Trust, RBS2007-1 Trust, RBS 2009R Trust, and RBS Warehouse Trust #2, as its wholly owned subsidiaries. Transactions with related parties 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 these transactions with these related parties are as follows:

The Rockhampton Custodian and Management Company Limited (RCMC)

RCMC received commission and fees for custodian and management services provided to ROK's securitisation special purpose vehicles, which in turn, are remitted to ROK in return for management services. For the period, the total of these fees was $76,760.

RBS 2005-1 Trust

ROK charges the RBS 2005-1 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2005-1 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $43,463.

RBS 2007-1 Trust

ROK charges the RBS 2007-1 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2007-1 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $53,165.

RBS 2009R Trust

ROK charges the RBS 2009R Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2009R Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $111,880. 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. For the period, the total of the swap interest paid by the RBS 2009R Trust to ROK was $175,907.

RBS Warehouse Trust #2

ROK charges the RBS Warehouse Trust #2 a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2009R Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $535,633. 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. For the period, the total of the swap interest paid by the RBS Warehouse Trust #2 to ROK was $867,740.

42 Key Management Personnel disclosure

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 comprise the non Executive Directors, Managing Director and Executives.

b) Key Management Personnel compensation

The Key Management Personnel compensation comprised:

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
Short-term employee benefits	**2,628,889**	2,489,945	**2,628,889**	2,489,945
Post employment benefits	**341,256**	420,183	**341,256**	420,183
Share-Based payment [(1)]	**294,763**	176,010	**294,763**	176,010
Termination benefits	**363,809**	315,183	**363,809**	315,183
	3,628,717	3,401,321	**3,628,717**	3,401,321

[(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 42 (c).
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, refer Note 1 (ab).

(c) Executive Long-Term Incentive Plan

The Executive Long-Term Incentive Plan (ELTIP) was established by the Board to encourage the executive management team, comprising the Managing Director, General Managers and Chief Financial Officer/Company Secretary, 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 executive management team 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 the members of the executive management team every year, as determined by the Board. The maximum value of the offer is determined as a percentage of the fixed annual remuneration (FAR) of each member of the executive management team. The percentages used are 50% for the Managing Director and 30% for the General Managers and Chief Financial Officer/Company Secretary. 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.

Notes to the Financial Statements

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MyState Limited

42 Key Management Personnel disclosure (continued)

In order for the shares to vest in each eligible member of the executive management team, 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. The Board determined that Total Shareholder Return (TSR) over the relevant performance period would be the sole performance criteria for the offer made in the period (the '2011' offer). For the two offers made prior to the '2011' offer (the '2009' and '2010' offers), growth in Earnings Per Share outcomes (EPS) and TSR over the relevant performance period are the performance criteria with the measures weighted equally.

ELTIP performance assessment will be measured against the performance of the companies sized by market capitalisation within the S&P/ASX 300 Index (the benchmark group).

Any reward payable to any member of the Executive Team under any ELTIP offer is subject to reassessment and possible forfeiture, if the results on which the ELTIP reward was based, are subsequently found to have been the subject of deliberate management misstatement.

Any reward payable to any member of the Executive Team under the three ELTIP offers made (the '2009', '2010' and '2011' offers) will be calculated as follows:

- For the '2009' and '2010' offers, 50% of the ELTIP reward for the performance period will be based upon the comparison of the actual MyState Limited EPS growth achieved with that of the benchmark group and will be payable on the following basis:

  - Below the mid-point percentage EPS growth – 0% reward;
  - At the 50th percentile – 50% of the applicable reward;
  - Between the 50th percentile and the 75th percentile EPS growth – 2% for every 1 percentile above the 50th percentile;
  - Above the 75th percentile – 100% of the applicable reward; and,
  - No reward will be payable if EPS growth is negative irrespective of the benchmark group performance.

- For the '2009' and '2010' offers, 50%, and, for the '2011' offer, 100%, of the ELTIP reward for the performance period will be based upon the comparison of the actual MyState Limited TSR growth compared to the benchmark group and will be payable on the following basis:

  - Below the mid-point percentage TSR growth – 0% reward;
  - At the 50th percentile – 50% of the applicable reward;
  - Between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile;
  - Above the 75th percentile – 100% of the applicable reward; and,
  - No reward will be payable if TSR is negative irrespective of the benchmark group performance.

The ELTIP provides for an independent Trustee to acquire and hold shares. 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 three years) and once the Board resolves to notify the Trustee to issue entitlements under the relevant ELTIP Offer.

Vesting of shares to the Managing Director or Executives is at the complete discretion of the Board and can be adjusted downwards, to zero if necessary, to protect the financial soundness of the Company, i.e. to, at a minimum ensure that no breach of capital adequacy or liquidity policy thresholds occurs.

The Trustee will allocate any shares to each member of the Executive Management Team in accordance with their entitlement under the ELTIP. Any shares to be allocated to the Managing Director under this Plan require shareholder prior approval in accordance with ASX Listing Rules. The Trustee will hold the shares which have been allocated on behalf of the Executive Management Team member.

42 Key Management Personnel disclosure (continued)

The Executive Management Team 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; leaving the employment of the Company; the Board giving permission for a transfer or sale to occur; or a specified event occurring (eg 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, shares will be allocated only if the separation is due to a Qualifying Reason [(2)] or is at the initiation of the Company without cause. If either of these events occurs within the three year performance period, shares will be allocated on a pro-rata basis by bringing the qualifying date forward to the date of separation.

During the period that allocated shares are held by the Trustee, the Executive Management Team 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.

On accepting an ELTIP offer made by the Company, Executives are required to agree not to hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and, as such, will involve disciplinary action and the risk of dismissal under the terms of the Executive's contract.

Details of offers made under the ELTIP are as follows:

	'2011' Offer		'2010' Offer		'2009' Offer	
	Managing Director	**Other Executives**	**Managing Director**	**Other Executives**	**Managing Director**	**Other Executives**
Date of offer ('Grant' date)	2 November 2011	6 September 2011	29 March 2011	29 March 2011	30 June 2010	30 June 2010
Performance period	1/7/2011 to 30/6/2014	1/7/2011 to 30/6/2014	1/7/2010 to 30/6/2013	1/7/2010 to 30/6/2013	1/7/2009 to 30/6/2012	11/1/2010 to 30/6/2012
Maximum number of shares that may be allocated under the offer	65,677	88,403	59,840	104,731	71,884	56,581
Value of the offer	235,125	316,482	225,000	393,789	225,000	177,098
Share price used in the calculations of the offer	$3.58	$3.58	$3.76	$3.76	$3.13	$3.13
EPS baseline used in the offer (cents per share)	-	-	27.46cps	27.46cps	23.32cps	23.32cps
MyState Limited share price baseline for TSR calculation	$3.55	$3.55	$3.12	$3.12	$2.70	$2.70

[(2)] 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.

Notes to the Financial Statements

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MyState Limited

42 Key Management Personnel disclosure (continued)

(d) Shareholdings of Directors and Executives

2012	Balance 1 July 2011	Granted as compensation [4]	Net Change Other [3]	Balance 30 June 2012
Ordinary Shares held in the Company				
Directors				
M J Vertigan AC	20,000	-	5,000	**25,000**
G J Gilbert	-	-	-	**-**
N L d'Antoine	110,520	-	-	**110,520**
P D Armstrong	1,161	-	-	**1,161**
R L Gordon	387	-	-	**387**
T M Gourlay	774	-	-	**774**
M L Hampton	500,000	-	100,000	**600,000**
C M Hollingsworth	10,274	-	-	**10,274**
S E Lonie	-	-	40,000	**40,000**
I G Mansbridge	170,000	-	-	**170,000**
S Merridew	24,000	-	-	**24,000**
A B Reidy	774	-	-	**774**
Executives				
D E Benbow	35,612	-	(35,612)	**-**
T M Rutherford	-	-	-	**-**
D W Turner	387	-	-	**387**
P K M Viney	31,905	-	(31,905)	**-**
N Whish-Wilson [6]	1,491	279	-	**1,770**
Total	**907,285**	**279**	**77,483**	**985,047**

42 Key Management Personnel disclosure (continued)

(d) Shareholdings of Directors and Executives (continued)

2011	Balance 1 July 2010	Granted as compensation [(4)]	Net Change Other [(3)]	Balance 30 June 2011
Ordinary Shares held in the Company				
Directors				
M J Vertigan AC	20,000	-	-	20,000
G J Gilbert	-	-	-	-
N L d'Antoine	110,520	-	-	110,520
P D Armstrong	1,161	-	-	1,161
R L Gordon	387	-	-	387
T M Gourlay	774	-	-	774
M L Hampton	376,312	-	123,688	500,000
C M Hollingsworth	2,274	-	8,000	10,274
I G Mansbridge	170,000	-	-	170,000
S Merridew	19,328	-	4,672	24,000
A B Reidy	774	-	-	774
Executives				
D E Benbow	35,612	-	-	35,612
T M Rutherford	-	-	-	-
D W Turner	387	-	-	387
P K M Viney	31,905	-	-	31,905
Total	**769,434**	**-**	**136,360**	**905,794**

[(3)] No equity transactions with Directors and Executives, other than those arising as payment for compensation, have been entered into with the Company.

[(4)] The amounts disclosed are an estimate of compensation and include a portion that will only vest to the Director or Executive when certain performance criteria are met or a 'Capital Event' occurs, refer Note 42.

[(5)] The shareholdings disclosed for each Director and Executive may include holdings held by related parties. Related parties include close members of the family of the Director or Executive. It also includes entities under joint or several control or significant influence of the Director or Executive and their close family members.

42 Key Management Personnel disclosure (continued)

(e) Loans to key management personnel and their related parties

The following loans were made to KMP during the period. Loans are provided by the consolidated entity through MSF. Terms and conditions of the MSF 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 includes close members of the family of the Director or Executive. It also includes entities under joint or several control or significant influence of the Director or Executive and their close family members.

Details regarding the aggregate of loans made, guaranteed or secured by the consolidated entity to KMP and their related parties are as follows. Details regarding loans outstanding with individual KMP and their related parties are disclosed where the individual's aggregate loan balance exceeded $100,000 at any time in the period:

	Balance at start of year $	Interest charged $	Interest not charged $	Write off $	Balance at end of year $	Highest balance in period $
2012 Key Personnel						
D W Turner	240,194	12,898	-	-	-	240,194
N Whish-Wilson [(6)]	662,529	26,872	-	-	27,071	664,535
Total for Key Management Personnel [(7)]	902,723	39,770	-	-	27,071	
Number of KMP included in the total					1	
2011 Key Personnel						
D W Turner	265,901	14,640	-	-	240,194	265,901
Total for Key Management Personnel	669,640	22,006	-	-	602,460	
Number of KMP included in the total					2	

[(6)] N Whish-Wilson became a KMP on 27 October 2011 when she was promoted to the position of Chief Risk Officer. The amount disclosed for the balance at the start of the year is as at 1 July 2011 and the amount disclosed for interest charged is for the period 1 July 2011 to 30 June 2012.

[(7)] The aggregate balance of loans disclosed at the start of the period differs to the balance at the end of the year disclosed for the comparative period as different individuals were identified as KMP in these periods.

	Consolidated		Company	
	30 June 2012 $	30 June 2011 $	**30 June 2012 $**	30 June 2011 $
43 Auditors' remuneration				
Amounts received or due and receivable by the external auditors Wise, Lord & Ferguson for:				
- Audit of the financial statements of the consolidated entities	**443,012**	287,634	**88,224**	54,015
- Other non-external audit services				
Tax compliance services	**-**	33,933	**-**	-
Assurance related services	**46,500**	17,262	**33,000**	14,103
Audit of loans sold into the securitisation programme	**18,890**	44,330	**-**	-
Other services	**-**	4,079	**-**	-
	65,390	99,604	**33,000**	14,103
Total	**508,402**	387,238	**121,224**	68,118

44 Acquisition of The Rock Building Society Limited

During the period, the Company acquired all of the issued capital of ROK. After obtaining all required regulatory approvals, the consent of the shareholders of ROK and approval by the Supreme Court of Queensland, a scheme of arrangement was implemented. Pursuant to the scheme, the Company issued its share capital to shareholders of ROK as consideration for their interests in the ROK. The date of acquisition, being the date when effective control was achieved, was 1 December 2011.

ROK is a broad based financial institution. It is an authorised deposit taking institution (ADI) operating predominantly in Queensland. The acquisition gives rise to a stronger diversified financial services group and realises the ambitions of both MyState and ROK to expand operations geographically, to secure growth opportunities. The consolidated entity has the additional strength and scale to compete in the financial services sector and continue to provide the standard of products and services which have previously been provided. Operational synergies are expected to deliver cost savings to the consolidated entity over time. Following the acquisition ROK maintains a separate operational structure focused on the needs of regional Queensland and continues the proud traditions of The Rock brand to service the local community and benefit from the substantially increased operational capability and financial stability of the consolidated entity.

Consideration for the acquisition was the issued share capital of the Company. The fair value of these shares was determined by reference to the volume weighted average price of trades executed on the Australian Securities Exchange (ASX) for the Company.

Pursuant to the scheme of arrangement, both the Company and ROK declared interim dividends, payable to their pre-existing shareholders, prior to the acquisition date. These dividends were paid after the date of acquisition. The dividend paid by the ROK is recognised in the value of the liabilities assumed in the Acquisition.

44 Acquisition of The Rock Building Society Limited (continued)

Fair Value of assets and liabilities assumed [1]	
Cash and liquid assets	58,355,363
Available for sale financial assets	118,995,874
Receivables	1,784,006
Loans at amortised cost	1,021,847,025
Property, plant and equipment	6,229,543
Tax assets	4,014,419
Tax receivable	61,648
Other assets	388,182
Intangible assets and goodwill	5,661,144
Total assets	**1,217,337,204**
Liabilities	
Deposits	588,380,296
Interest bearing loans and borrowings	560,231,310
Payables and other liabilities	10,794,980
Derivatives	7,647,538
Tax liabilities	86,300
Provisions	298,078
Total Liabilities	**1,167,438,502**
Net assets	**49,898,702**
Goodwill recognised on the transaction	17,084,626
Purchase Consideration	**66,983,328**
Net cash inflow	
Cash and cash equivalents acquired	58,355,363

[1] The fair values have been determined on a provisional basis, pending the resolution of certain matters. No material changes are expected.

44 Acquisition of The Rock Building Society Limited (continued)

The amounts of revenue and profit of the ROK since the acquisition date included in the consolidated statement of comprehensive income for the period are:

Revenue	47,153,353
Net profit after tax	3,288,125
Profit - Total comprehensive income	1,284,038

Accounting Standard AASB 3 Business Combinations requires the disclosure of the amounts of revenue and profit of the consolidated entity for the period as though all acquisitions that have occurred during the period had occurred at the beginning of the period. These are notional figures as they include revenues and profits that were earnt by acquired entities prior to control being achieved. They have been calculated by combining the full year results of each entity that forms part of the consolidated entity during the period. These amounts are:

Revenue	268,352,439
Net profit after tax	16,784,805
Profit - Total comprehensive income	13,857,612

45 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.

Directors' Declaration

For the Year Ended 30 June 2012

MyState Limited

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 86 to 148 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 2012 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 2012.

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 J Vertigan AC
Chairman

C M Hollingsworth
Director

Hobart
Dated this 28 August 2012

Wise Lord & Ferguson

advice to advantage

Chartered Accountants

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 2012, the income statements, statements of comprehensive income, statements of changes in equity and 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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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 2012 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 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

D J McCARTHY
Partner
Wise Lord & Ferguson

Date: 28.8.2012

Information relating to Shareholders

MyState Limited Ordinary Fully Paid Shares (Total) As of 31 August 2012

Range	Total Holders	Units	% of Issued Capital
1 - 1,000	66,428	25,973,877	29.85
1,001 - 5,000	2,194	5,989,755	6.88
5,001 - 10,000	828	6,044,439	6.95
10,001 - 100,000	642	15,464,849	17.77
100,001 - 9,999,999,999	56	33,539,743	38.55
Rounding	**-**	**-**	**0.00**
Total	**70,148**	**87,012,663**	**100.00**

Unmarketable Parcels As of 31 August 2012

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $3.56 per unit	141	230	12968

Top 20 Shareholders As of 31 August 2012

Name	Number of Shares	% of Units
1 Mecu Limited	5,754,593	6.62
2 RBC Investor Services Australia Nominees Pty Limited	3,964,552	4.56
3 Australian United Investment Company Limited	2,600,000	2.99
4 Diversified United Investment Limited	2,600,000	2.99
5 The Ian Potter Foundation Ltd	1,800,000	2.07
6 Select Managed Funds Ltd	1,225,960	1.41
7 Firstmac Limited	1,190,538	1.37
8 UBS Wealth Management Australia Nominees Pty Ltd	1,142,746,	1.31
9 RBC Investor Services Australia Nominees Pty Limited	1,032,999	1.19
10 BNP Paribas Noms Pty Ltd	912,049	1.05
11 Mr Brian David Faulkner	726,000	0.83
12 Firstmac Limited	543,114	0.62
13 Rubi Holdings Pty Ltd	493,500	0.57
14 HSBC Custody Nominees (Australia) Limited	461,120	0.53
15 Milton Corporation Limited	444,992	0.51
16 Trio C Pty Ltd	437,917	0.50
17 Mrs Wendy Jean Faulkner	405,000	0.47
18 National Reliance Underwriting & Investment Company Pty Ltd	392,253	0.45
19 Mr Kim David Cannon & Mrs Aspasia Elizabeth Cannon	376,321	0.43
20 Beechworth Holdings Pty Ltd	350,000	0.40
Total Top 20 Holders	**26,853,654**	**30.87**
Total Remaining Holders Balance	**60,123,919**	**69.13**

MyState LIMITED

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Shopping Centre
Kings Meadows, 7249
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Kingston
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Kingston, 7050
P: 138 001

Launceston
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Launceston, 7250
P: 138 001

New Norfolk
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New Norfolk, 7140
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Shopping Centre
New Town, 7008
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Emerald
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MyState Limited is a national diversified financial services group headquartered in Tasmania. It was formed in September 2009 following the merger of MyState Financial (MSF), an authorised deposit-taking institution, and Tasmanian Perpetual Trustees (TPT), a trustee and wealth management company. On 1 December 2011, MyState Limited merged with The Rock Building Society (The Rock) based in Central Queensland.