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**Underlying net profit after tax**  
up 4.5% to \$31.1 million

\$31.1m

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**Improved underlying cost to income**  
ratio of 63.2%, down 112 basis points

63.2%

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**Improved return on average equity**  
of 10.6%, up 22 basis points

10.6%

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**28.5c total dividend for the year**  
fully franked

28.5c

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**MyState**  
LIMITED



MyState



ROCK



Tasmanian  
Perpetual  
Trustees

# Contents

Group Performance	02
Chairman's Report	03
Managing Director's Report	04
Banking Business	06
Wealth Management	10
Technology	11
Risk Management	13
Our Communities	14
Board of Directors	16
Key Management Personnel	18
Directors' Report	21

**MyState is a leading provider of banking, trustee and wealth management services.**

**Through our retail brands – MyState Bank, The Rock and Tasmanian Perpetual Trustees – we provide services to more than 210,000 customers across Australia.**

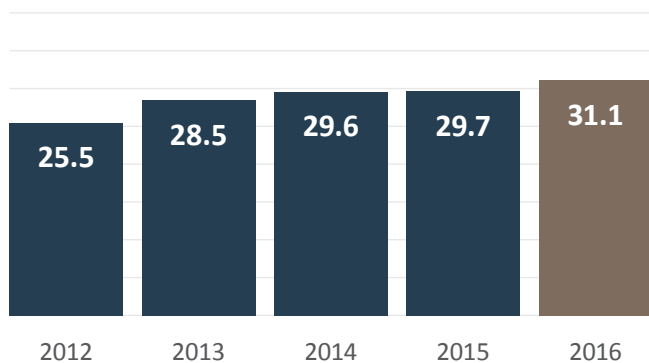
## Annual General Meeting

10.30am, 26 October 2016  
Best Western Hobart  
156 Bathurst Street  
Hobart, Tasmania

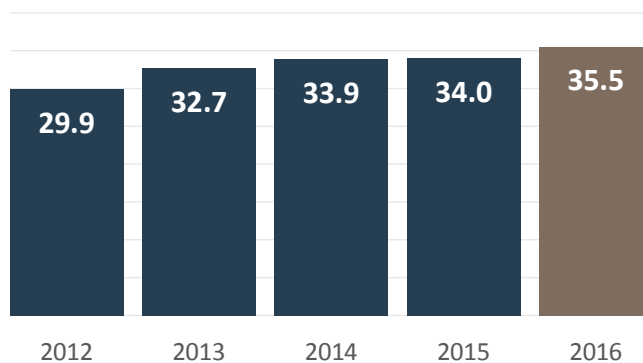
MyState Limited  
ABN 26 133 623 962

# Group Performance

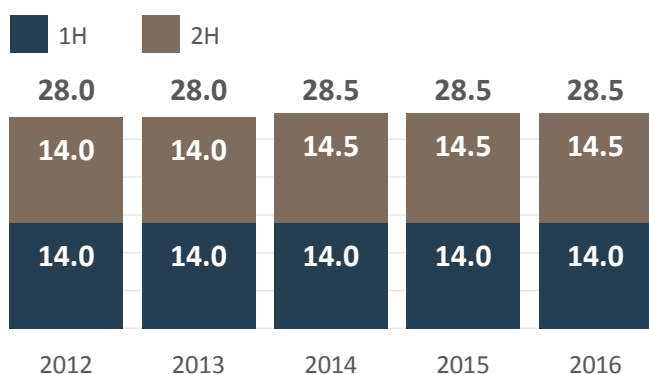
## UNDERLYING NPAT (\$ million)



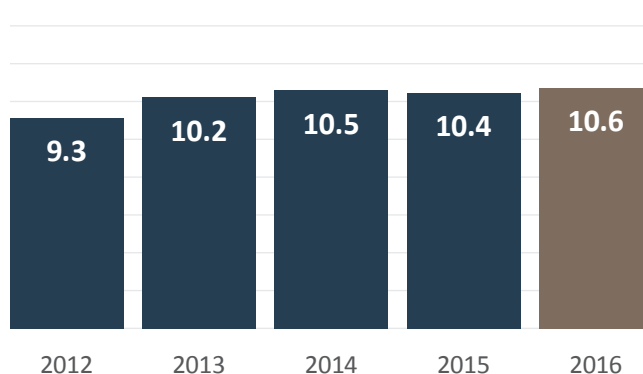
## UNDERLYING EARNINGS PER SHARE (cents)



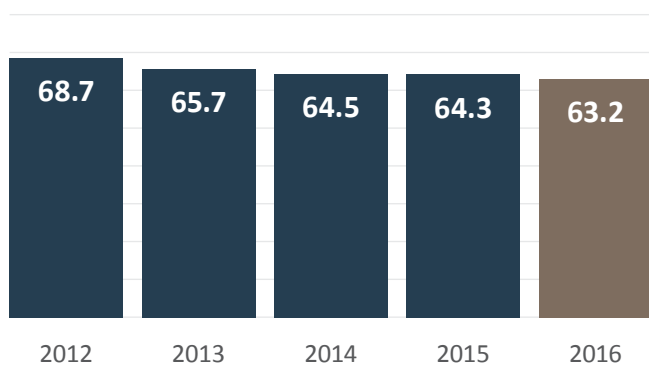
## DIVIDENDS – FULLY FRANKED (cents)



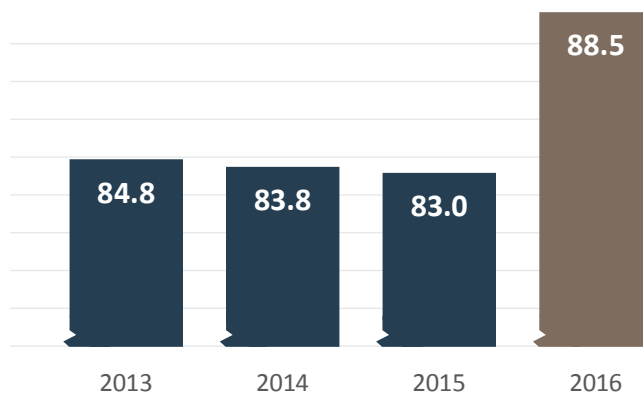
## UNDERLYING RETURN ON AVERAGE EQUITY (%)



## UNDERLYING COST TO INCOME RATIO (%)



## 6.6% GROWTH IN 2016 BANKING NET INTEREST INCOME (\$ million)



# Chairman's Report

It is pleasing to report that MyState's underlying after tax profit for the 2016 financial year was \$31.1 million, up 4.5%.

In the context of an extraordinarily competitive market for loans and deposits, and at the same time significant investment to improve our products and services, the result provides a very solid foundation for future growth.

The statutory after tax profit of \$28.3 million was impacted by one-off costs associated with due diligence relating to M&A projects and the write-down of software in anticipation of our move to a single core banking system.

We have maintained the full year dividend at 28.5 cents per share fully franked as we seek to provide

**“It is pleasing to report that MyState's underlying after tax profit for the 2016 financial year was \$31.1 million, up 4.5%.”**



Miles Hampton  
Chairman

consistent returns to shareholders whilst further strengthening our balance sheet.

Maintaining a strong capital position is vitally important to our depositors and the community at large. The capital position of the business has been strengthened with the introduction of a dividend reinvestment plan and the issue of \$25 million Tier 2 subordinated notes in August 2015. Further, a new securitisation warehouse was established that improved funding costs, whilst providing additional capacity. MyState's capital adequacy ratio increased 36 basis points during the year to 13%.

Whilst we are well pleased with the progress that we are making in our banking business, we acknowledge that we have yet to develop similar momentum in our funds management, trustee and financial planning operations. But we are confident that recent initiatives will lead to improved results.

Over the past year we have made considerable progress as we seek to transform the business. Our transformation program has two principal objectives – to deliver a more customer centric business whilst at the same time improving our productivity.

We have implemented a range of initiatives to make us a more customer

friendly business, and are confident that we are making progress, albeit we have a long way to go.

The continued downward trend in the cost to income ratio is pleasing, particularly in the context of the increased investment in technology.

The consolidation of the group banking operations under MyState Bank Limited will enable us to become more efficient and drive costs even lower.

Last year I said in my report that as a small player in a market dominated by behemoths, our challenge is significant. However, we have continued to demonstrate that we can punch above our weight and we are confident that we will continue to do so.

In April 2016 long-standing director Ian Mansbridge retired after six years on the MyState board and prior to that four years as a director of TPT. Ian's detailed knowledge of the financial services sector was invaluable and we thank him and wish him well for the future.

In May 2016 we welcomed Brian Bissaker to the board. Brian brings significant experience both in banking and wealth management.

I acknowledge the contribution of my fellow board members, the hard work and initiative of the executive team led by Melos Sulicich and the enthusiasm and commitment of all in the MyState team.

# Managing Director's Report



Melos Sulicich  
Managing Director

The 2016 financial year was a year of solid progress for MyState, in which some of the building blocks we established last year started to deliver value.

This was demonstrated by the strong momentum in our banking business which gained market share despite a highly competitive, fast-changing banking environment. Underlying revenue grew by 3.3% to \$123.4 million; annual settlements were \$929 million and the size of our loan book increased 8.7% to

As MyState grows we serve a broader geographic base. Our customers are increasingly national, although Tasmania remains our single largest market. Our Victorian loans, for example, have increased over two years at a compound annual growth rate of nearly 65%, and NSW and Victoria now comprise nearly a quarter of our home loan book.

We remain focused on profitable growth and despite the reduction in the Reserve Bank official cash rate, we maintained tight control of margins.

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“The 2016 financial year was a year of solid progress for MyState, in which some of the building blocks we established last year started to deliver value.”

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\$3.9 billion. Importantly, net interest income grew by 6.6% which was a strong result compared to our peers.

Our focus on efficiency helped improve underlying return on equity by 20 basis points to 10.6%. While revenue increased, we maintained tight cost controls, the underlying cost to income ratio improved 112 basis points to 63.2, despite continued investment in people and technology. Positive growth helped contribute to a 4.4% increase in underlying earnings per share to 35.5 cents.

Achievements included the launch of a new loan origination system to support our mortgage broker strategy. We improved broker and customer engagement, appointing business development managers, increasing the skills of our retail staff and appointing new bank managers to our branches. This, and an improved service culture, enabled loan book growth that was 1.4 times system. We also merged the authorised deposit-taking institution licences of MyState and The Rock to simplify balance sheet management and reduce risk.

Sound risk management practices ensured high credit quality. Our arrears remained well below our regional peers and the major banks.

Our wealth management business provided a stable contribution of \$4 million net profit after tax. Following the appointment of a new general manager we are focusing on growing wealth management operations and distribution, and deepening relations across the business.

We have embarked on a transformation program to become a thoroughly modern banking, trustee and wealth management business. We began the year with a stronger management team, and have increased the breadth and depth of our team to encompass a higher level of skills. People are pivotal to our success and we are investing in our team while simplifying products and services and supporting them with new technologies. Today, we have a strong culture of accountability, which is an important part of our evolution as an organisation.



We are committed to providing a high level of personal service at our branches.

We are investing in technology to become a customer-centric modern bank. We have begun to consolidate our core systems and data centres to increase efficiency and will introduce new customer relationship management and data warehouse systems.

Digital innovation is an important part of our future. We were amongst the first banks in Australia to support Android Pay, and will soon launch a new internet and mobile banking platform.

These systems pave the way for our transformation into an organisation that has deeper customer relationships, supported by easy to understand systems and processes. We are

harnessing our data to allow analytical data-driven decisions, helping us to create products that are best for our customers. This is a long-term program that will create an integrated customer proposition which we are confident will benefit and provide a great experience for customers.

Our vision is to make a genuine difference to our customers and communities every day. We believe that by making financial services simple and trustworthy we embed ourselves more deeply in the communities that we serve.

We have a strong balance sheet and look forward to continuing profitable growth for our business. We are confident that our loan book will

continue to grow at a rate above system. As our capability evolves, we are becoming a more sophisticated business with a broader customer base, increased digital connectivity and modern distribution systems, well positioned for continued market share gains.

I would like to thank the MyState leadership team and staff for their continued support and dedicated hard work throughout the year. The passion with which our team deliver services to our customers underpins the continued success of MyState and enables us to stand out in a competitive marketplace. I would also like to thank the board for their help, guidance and support over the year.

# Banking Business



It's our vision to make a genuine difference to our customers and communities every day.

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## In Tasmania we have 10 MyState Bank branches supporting approximately 105,000 customers.

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At MyState Bank and The Rock, we provide a range of financial services to approximately 140,000 customers. These services include home and personal loans, general and life insurance, credit and debit cards, savings and investment products, multicurrency services, business banking and merchant services and agribusiness.

In Tasmania we have 10 MyState Bank branches supporting approximately 105,000 customers. During FY2016 we merged our banking business authorised deposit-taking institution (ADI) licenses, and The Rock now operates as a division of MyState Bank. In Central Queensland we have seven branches and 12 mini-branches serving approximately 35,000 customers.

### INCREASING FOCUS ON INNOVATION

Our focus on increasing our loan book has resulted in market share growth. We are simplifying our products and services, empowering our staff with more efficient technology. One example is our introduction of a new loan origination system for mortgage brokers, which is supported by a dedicated, experienced business development team. This has raised our profile in the lending market and improved the quality of our services. The increased transparency of our approval processes has helped us to win new business.

Innovation is important for our business. As part of our transformation we are moving from manual processes and a fragmented view of our customers to becoming much more customer-focused. We are transitioning from branch-based operations to a broader banking model with more digital distribution and connection with our customers.

Our customers are demanding more banking services for home and business use through smart phones, tablet devices and computers. This led us to become one of the first financial institutions in Australia to introduce payment innovations such as Android Pay. The new systems that we are developing will help us better understand our customers and their needs.

The banking environment is changing quickly, and we are excited about the new internet banking and mobile apps which will be launched later this year. These services will be more intuitive, faster, easy to navigate and provide more functionality and services.

We are also committed to investing in our people to further skill, empower and engage our team, so they can better help our customers. As we grow we are investing in new talent, the efficiency of our systems and building on our involvement in the community.



Our strategy of engaging with mortgage brokers continued to drive above system growth.



## BANKING BUSINESS CONTINUES POSITIVE MOMENTUM

Banking business underlying net profit increased by 6.1% to \$27.0 million in FY2016 from \$25.5 million. This positive result was supported by loan book growth and disciplined management of margins. Against a backdrop of lower interest rates and strong competition, our business improved while maintaining high credit quality, reinvesting in building new capabilities and investing in technology.

Our strategy of engaging with mortgage brokers continued to drive above system growth, and we have continued to offer some of the most attractive home loan propositions to the communities in which we operate.

The home loan book increased from \$3.3 billion to \$3.7 billion during the year, whilst we maintained prudent lending practices. Owner-occupiers represent approximately 86% of our home loan book, and 68% of our book is below a loan-to-valuation ratio (LVR) of 80%, which is 2% up on last year. Investor loans continue to represent a very small proportion of our loan book, well below industry averages.

The strength of our sales through third party channels has increased our geographic diversification and we increased the size of our loan book in every Australian State. Tasmanian-based home loans were 55.7% of the home loan book at June 2016, compared to 66.8% two years ago.

The overall economy remains sound, with gross domestic product increasing 3.2% for the 12 months to the end of the March 2016 quarter. Total housing credit growth eased to 6.7% during FY2016, although owner-occupier lending strengthened to 7.7%. Our retail operations benefited from the improving Tasmanian economy. Tasmanian home prices rose 6.2% for the 12 months to June 2016, well above the decade average of 1.6%, and tourism and agribusiness continued to benefit from the lower Australian dollar.

We have focused on sustainable growth and our flexible product and pricing strategy has been successful in attracting high-quality lending business. Our commitment to credit quality has seen impairment charges continuing to fall. Our 30-day arrears of 0.70% are substantially less than regional peers and the benchmark for major banks.

## NET INTEREST MARGIN

With the reducing cash rates and increased regulatory controls, competition for owner occupied lending has intensified, resulting in lower net interest margins across the banking industry. Disciplined margin management enabled us to improve margins in the second half and the average net interest margin for the year was 2.13%, slightly above 2.12% for the first half of FY2016.

Although this remains higher than peers, our third party costs have increased as more of our loan book is sourced through mortgage brokers.

## FUNDING

The proportion of the group's funding through customer deposits was 66.9%, with wholesale funding providing 14.1% and securitisation 19%. Despite heightened competition, customer deposits grew 8.9% to \$2.7 billion.

Our capital ratio remains strong at 13.0%. We introduced a \$25 million medium note program in August 2015 to provide further funding diversification and tenor. Wholesale market volatility contributed to higher funding costs particularly in the first half, although a Conquest 2016-1 Warehouse in May 2016 has provided further capital and funding flexibility.

Ratings agency S&P Global (formerly Standard and Poor's) provided a BBB rating for MyState Bank with a positive outlook.

# Wealth Management's Focus on Growth

MyState's wealth management business, Tasmanian Perpetual Trustees, is a trusted provider of wealth solutions with a great heritage and significant position in the Tasmanian market.



We are strengthening our client relationships through more regular contact.

MyState's wealth management business, Tasmanian Perpetual Trustees (TPT), is a trusted provider of wealth solutions with a great heritage and significant position in the Tasmanian market.

It provides investment management solutions, financial advice, risk protection advice, private client services, and trustee services including estate planning, administration and charitable trusteeship, to over 70,000 clients through eight branches in Tasmania.

TPT's investment management operation offers cash, income and growth funds to investors directly, through financial advisers and as part of our traditional trustee service. The income funds play an important role providing consistent and reliable returns for investors and also support TPT's lending business which has a long heritage of funding Tasmanian enterprise, particularly commercial and agricultural lending.

The wealth management business was stable in FY2016, as we focused on business and operational improvements. Funds under management decreased slightly to \$1,008 million, and funds under advice were \$738 million at year-end.

We are committed to growing the wealth management business, which has remained relatively steady for several years. We appointed a new general manager of Wealth Management at the end of February 2016 and restructured the business into a single integrated division to better facilitate future growth. We are aligning our business more closely with clients, strengthening client relationships through more regular contact, and developing strategies to expand wealth management to mainland States.

As well as a focus on business and operational improvements, we will build

distribution and cross-selling capabilities, deepening inter-business relationships across the group. In this regard, increased emphasis on business development lifted bank referrals to the wealth business in the second half, generating a stronger contribution in final quarter.

Our estate planning service wrote its highest number of wills in 15 years, significant in helping underpin future business. This included increased referrals from MyState's banking network. We are continuing to raise the quality of the wills we write and actively offering clients the opportunity to review wills, helping to maintain and develop our will bank.

In the final quarter our lending business benefited from re-engineered credit processes. We improved our risk framework, enhanced response times and continued progress toward creating a highly efficient, systemised, loan application process. Clients are now gaining the benefits of quicker turnaround times and a more consistent approach to their loan applications.

We also continued to enhance risk assessment processes to allow us to more accurately and consistently measure and price risk, improving risk and return outcomes for fund investors and shareholders alike. We are now well placed to achieve new client growth.

Our plans include leveraging technology to make our services and products more accessible to more clients. We are further developing our funds management capability and solutions to ensure they are highly competitive, while investing in our people, to enhance their business development, relationship management and technical skills.

# Technology



Our focus on investing in technology is enabling us to become a customer-centric modern bank.

## We are making a considerable investment in rolling out an information technology program over several years.

Technology is playing a key role in MyState Group's journey to become a significant modern Australian banking and financial services group, well connected with the customers and communities it serves.

We are making a considerable investment in rolling out an Information Technology program over several years. When completed, our systems will be significantly simplified, ensuring our business decisions are data driven, and thus enable us to respond quickly to changing customer needs in the digital age. Technology will help to empower our workforce, make our customers' experience richer, and increase the efficiency and productivity of our staff.

The new systems and internal processes are primarily focused on what is best for the customer. They will enable our people and the organisation to move beyond being excellent service providers to become more relationship-centric.

Our goal is to simplify our products, processes, systems and services to customers – and the way our customers can interact with us – to make us easy to do business with.

We will transform fragmented systems and manual processes for each brand, to a single view of our customer. It will give all our people the ability to develop deeper customer relationships and provide outstanding customer experiences, lifting customer satisfaction levels and increasing the number of customers who regard us as their main financial institution.

This multi-pronged strategy is being introduced in stages over the next few years.

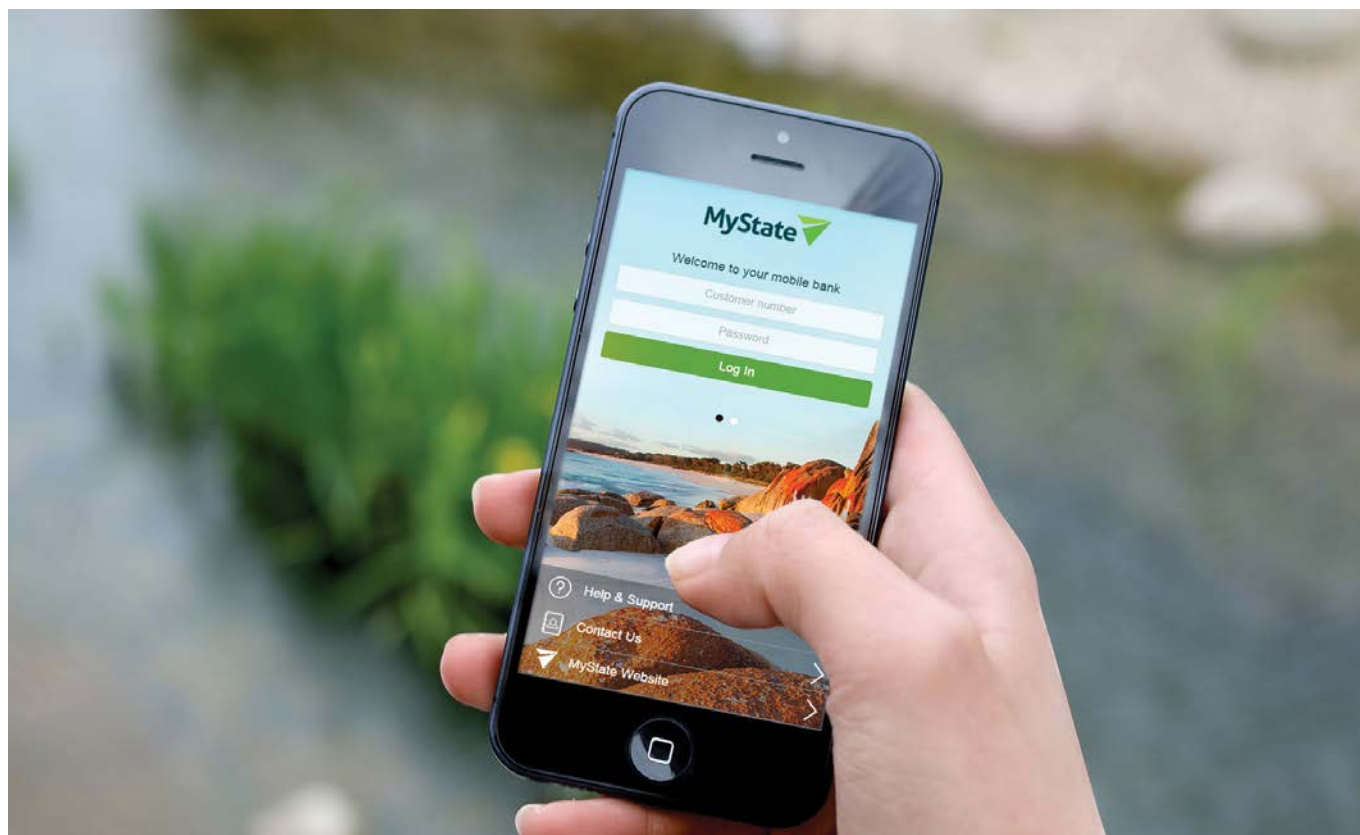
### IMPROVED AROUND-THE-CLOCK DIGITAL SERVICE

The latest milestone in this business transformation program is the launch of our new internet and mobile banking platforms and applications later this year which will improve the digital experience for our customers. As an increasing number of customers expect to be able to interact with us 24 hours a day, we will continue to enhance these digital channels. In turn, this will help reduce costs and provide other operational efficiencies.

### ONE SYSTEM: CONSOLIDATION OF CORE SYSTEMS AND DATA CENTRE

A key component of the group's technological transformation is the decision to consolidate MyState's and The Rock's core banking systems into a single, contemporary core banking system.

The transition to a single core banking platform and to centralise our data centres will improve performance and risk management. It will significantly reduce the business risks of operating two different core systems. More importantly, it will provide greater agility to develop new products and services and deliver them to market faster. Potentially, it will also offer



an attractive platform for expansion, capable of supporting brands through partnerships, mergers and acquisition.

### INVESTMENT IN NEW CUSTOMER RELATIONSHIP MANAGEMENT TECHNOLOGY

The staged introduction of a new customer relationship management (CRM) system will consolidate existing systems and offer a 'single view of the customer'.

Front line staff will have a comprehensive snapshot of the customer's relationship with us and all service centre staff will have a single system to support every customer interaction. Branch managers will be able to independently design and execute local area campaigns, while

staff using tablet devices in a branch will welcome customers and route them to the appropriate appointment or channel.

### PROCESS IMPROVEMENT PROGRAM ADVANCES

We began an operations efficiency program in July 2015, initially to improve customer experience by simplifying processes and maximising efficiency within our operations and retail banking. This two-pronged approach uses the Six-Sigma methodology – the world's best-practice methodology for business improvement – for specific projects and 'Lean Thinking' – a process which aims to create value using resources more efficiently – allowing staff to facilitate localised changes within their teams.

This program now aims to deliver significant benefits to customers' digital experiences. Our internet banking service, for example, will provide easy account management for electronic statements, transactions and contacts and incorporate the latest

security features. We expect that, over time, these improvements will result in customers wanting to use our systems for more of their banking and wealth management needs.

### NEW DATA WAREHOUSE TECHNOLOGY TO BETTER SERVE OUR CUSTOMERS

The first stage of establishing a group data warehouse is underway to strengthen our data management capability. This will support our 'single customer view' approach to business and facilitate cross-selling opportunities.

By standardising business data across the group it will set up the framework for big data analysis enabling faster and easier access to data, consolidated business reporting, regulatory reporting and compliance, and allow easier integration of future technology tools.

# Risk Management

MyState places great emphasis on maintaining a strong risk management and compliance culture throughout the Group.

We strive to develop and maintain a risk-aware culture where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted.

Any enterprise that aims to generate shareholder value and benefit customers must take risks. MyState operates to ensure those risks are considered, assessed and managed according to the company's risk management strategy and framework. We believe that the better risks are managed, the more likely it is that the Group will safeguard the interests of its stakeholders and reach its business objectives.

We strive to develop and maintain a risk-aware culture where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted.

Our risk management framework specifies how we manage many different types of risk – strategic, operational, reputational, regulatory, compliance and other categories including market risk, credit risk, liquidity risk and conduct risk associated with the manner in which we interact with our customers. MyState appointed a new Chief Risk Officer in late 2015 to focus on our risk management strategy, operational risk, compliance and fraud.

To make risk management a part of everyday decision making at all levels, all employees are responsible and accountable for all risk management activities relevant to their business units. This is part of our 'three lines of defence' model:

## THE 1ST LINE OF DEFENCE

Individual business units and staff are responsible for the risks that originate in their respective business lines. They

identify, evaluate and manage these risks according to the company's risk appetite statements and policies.

## THE 2ND LINE OF DEFENCE

The risk management and compliance functions are responsible for providing independent risk management expertise, monitoring and oversight.

## THE 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 adequacy and effectiveness of the risk management framework.

Structures at Board and management level are responsible for these three lines of defence against risk. The Board and its Group Risk Committee are responsible for governance of the risk management framework and strategy. They ensure there are adequate resources, processes and systems in place to enable the risk policy and framework to function as intended.

The Group Audit Committee, responsible for overseeing financial and audit matters, particularly those required by the ASX, ensures the independence of our third line of defence. The managing director, Risk and Credit Committee, Asset and Liability Committee, chief risk officer, and members of the executive and management all cover risk management tasks, including monitoring and reporting, as well as reviewing processes and procedures and promoting a risk-aware culture throughout the Group.

In the past year we continued our emphasis on strong credit risk management and analytics, particularly in property lending. Enhanced regulator oversight of this aspect of the banking industry has led to increased oversight and detailed management of our lending policies and credit risk framework.

Our policies are continuously reviewed to address emerging trends and risk management practices. We also have heightened our focus on conduct risk as part of our efforts to build a risk-aware culture that provides the right outcomes for customers. Conduct risk can arise through systems, processes or behaviours that allow inappropriate, unethical or unlawful behaviour that fails to deliver fair customer outcomes. MyState is committed to ensuring consistent and fair outcomes for our customers.

We focused on strengthening risk capabilities and culture across the organisation during the year, enhancing the policy governance framework to improve management, approval and oversight of policy and procedures.

This has seen improvement in our risk analytics capability, including a review of application scorecards aimed at improving their prediction rates and enabling faster decisions. Aspects of enterprise and operational risk oversight also were enhanced, to improve the risk management oversight across the group.

# Part of our Communities



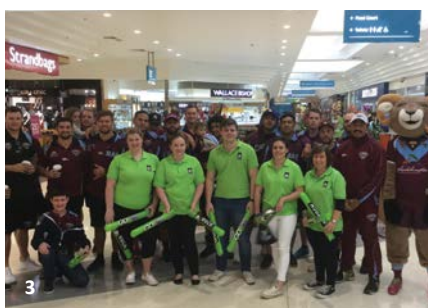
Our vision is to make a genuine difference to our customers and communities everyday. Being part of the community supports our purpose as a company. We believe that our success should be reflected in the community's well-being, which in turn supports our growth.

We are particularly focused on young people, who we consider to be the future custodians of our communities. We want our community investments to support disadvantaged youth to help them achieve a high quality education, transition into employment and develop the life skills they need to thrive in a changing modern environment.

Some of our 2016 community initiatives included:

## THE MYSTATE FOUNDATION

The MyState Foundation has been helping to educate, nurture and support the young people of Tasmania since 2001. We enable local charities and organisations to help Tasmanian youth overcome the barriers that stand between them, their education, personal development and independence through grants which help young people access opportunities.



In 2016 the Foundation awarded \$78,000 to 10 charitable or community organisations including the Blue Lagoon Christian Camp and Conference Centre, Camp Quality, CanTeen, Molenda Lodge, The Beacon Foundation, The Rotary Youth Leadership Awards and Christian Youth Centre, SecondBite, The Shepherd Centre for Deaf Children, The Smith Family and the Tasmanian Association of the Police Citizens' Youth Clubs. In addition, the Foundation provided funding of \$45,000 to the University of Tasmania Springboard to Higher Education program to encourage 25 students from 20 schools progress to further education.

## HOBART HURRICANES

MyState is proud to be a major partner of the Hobart Hurricanes cricket team, which competes nationally in Twenty20 cricket's Big Bash League. Our sponsorship contributes to taking Tasmania to a national audience, as well as facilitating MyState's engagement with community organisations working on youth issues in Tasmania.

## MYSTATE STUDENT FILM FESTIVAL

Tasmania's premier youth artistic event helps young people develop key life skills such as creative thinking, communication, planning, teamwork, problem solving and management through the art of film. In 2015 the festival showcased 138 short films, representing the work of more than 520 students at 51 schools across Tasmania, culminating in a screening at Hobart's Theatre Royal and the award of more than \$10,000 in prizes.

## STAN SIEJKA LAUNCESTON CYCLING CLASSIC

Named after the northern Tasmanian neurologist, the Stan Siejka cycling race is a showcase cycling event for Tasmania and one of the best street criterium races in Australia. The 2015 race attracted about 20,000 spectators in Launceston.

## DID YOU KNOW?

The MyState Foundation has distributed \$1,567,780 through 249 grants since 2001.



### ROYAL HOBART HOSPITAL RESEARCH FOUNDATION

MyState was a sponsor of the RHH Research Foundation's Easter Egg Hunt and Family Picnic Day, with all proceeds donated to further medical research in Tasmania. The RHH Research Foundation raises funds for health and medical research across Tasmania.

### CQ CAPRAS QRL TEAM 3

The Rock is a proud sponsor of the Central Queensland Capras Queensland rugby league team and provides support to junior and community programs, including the Capras' Cyril Connell Cup and Mal Meninga Cup teams, helping young players to achieve their NRL dreams.

### AGFEST 6

MyState continued its support for Tasmania's premier rural event, which in its 34th year attracted 58,285 people over three days including 764 exhibitors. Agfest funds the activities of the Rural Youth Organisation of Tasmania, supporting its programs and providing participants with opportunities for personal growth and leadership training. The event is expected to bring about \$26 million into the state's economy.

### HARDIE FELLOWSHIP 1

Tasmanian Perpetual Trustees is a proud event supporter of The Hardie Fellowship, which provides financial support for a number of teachers each year to pursue advanced study or research at a US university. Fellowship recipients then enrich the local community by passing on their learnings to others in Tasmania.



### TOOSEY FOUNDATION

The Toosey Foundation is responsible for the management of all fund raising for capital works at the Toosey Aged and Community Care complex, which includes a nursing home, at Longford in the northern midlands of Tasmania.

### CAPE HOPE FOUNDATION

Cape Hope Foundation strives to create tangible change in the northern Tasmanian community through the spirit of giving, humility and respect. This year, Tasmanian Perpetual Trustees helped Cape Hope raise funds for Starting Point Neighbourhood House, City Mission, Magnolia House (Launceston Women's Shelter) and RAW (Rural Alive and Well Tasmania).

# Board of Directors



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## **MILES L HAMPTON** <sup>1</sup>

BEC(Hons), FCIS, FCPA, FAICD

**Independent non-executive Chairman**

*Appointed 12 February 2009*

Mr Hampton was appointed a Director of MyState Limited on 12 February 2009 and became Chairman on 29 October 2013. He has been a Director of Tasmanian Perpetual Trustees Limited since July 2006. He was appointed a Director of MyState Bank Limited in September 2009.

Mr Hampton is a member of the MyState Limited Board's Group Audit Committee, Group Remuneration Committee and Chair of the Group Nominations and Corporate Governance Committee.

Mr Hampton was Managing Director of ASX listed agribusiness and real estate public company, Roberts Limited from 1987 until 2006. He is currently Chairman of TasWater and has previously been a Director of public companies Ruralco Holdings Ltd, Australian Pharmaceutical Industries, Wentworth Holdings Ltd, HMA Ltd and Gibsons Ltd and was a Director of Impact Fertilisers Pty Ltd, Chairman of Forestry Tasmania, Chairman of Hobart Water and Deputy Chairman of The Van Diemen's Land Company.



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## **MELOS A SULICICH** <sup>2</sup>

BBus, GAICD, SA FIN

**Managing Director and Chief Executive Officer**

*Appointed 1 July 2014*

Mr Sulicich is Managing Director and Chief Executive Officer of MyState Limited. He is also a Director of the MyState Community Foundation.

Mr Sulicich has extensive experience in a diverse range of businesses and industry sectors covering petrol retailing, financial services, industrial services, healthcare, transport and logistics.

From 2008 to 2013, he held the position of Chief Executive Officer of RAMS Financial Group, a subsidiary of Westpac. Prior to this, he spent eight years in general management positions for companies including Mayne Group, Adsteam Marine and the Spotless Group.

From 1995 to 2000, Mr Sulicich worked in various General Management positions for Colonial Group Limited, including General Manager Marketing, Director Sales and Marketing for Colonial UK Limited and General Manager, Network Financial Services.



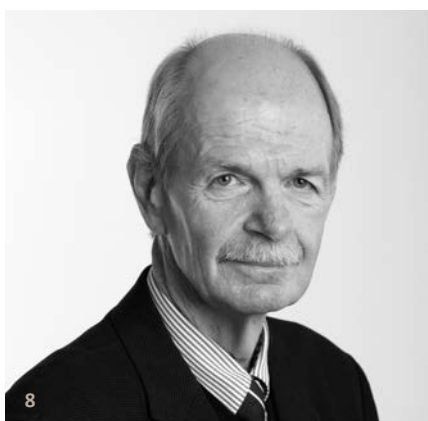
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**ROBERT L GORDON** <sup>3</sup>

BSc, MIFA, MAICD, FAMI

**Independent non-executive Director***Appointed 12 February 2009*

Mr Gordon is currently CEO of the Institute of Foresters of Australia (IFA) having previously held the position of Managing Director, Forestry Tasmania.

He has been a company director for seventeen years including six years as Chairman of connectfinancial. Mr Gordon has been a director of companies in the Tourism industry, Research & Development, Construction and infrastructure industries.

Mr Gordon was appointed as a Director of MyState Bank on 1 July 1998. He is Chairman of MyState Community Foundation Limited and was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009.

He is the Chairman of MyState Limited Board's Group Technology Committee and a member of the Group Nominations & Corporate Governance Committee and the Group Risk Committee.

**SARAH MERRIDEW** <sup>4</sup>

BEC, FCA, FAICD

**Independent non-executive Director***Appointed 12 February 2009*

Mrs Merridew is a non-executive Director of Tasmanian Railway. She is Honorary Treasurer of the Royal Flying Doctor Service Tasmania 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 Bank 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 is the Chair of MyState Limited Board's Group Risk Committee and a member of the Group Technology Committee.

**PETER D ARMSTRONG** <sup>5</sup>

BEC(Hons), DipED, DipFP, CPA,

FAICD, FAMI

**Independent non-executive Director***Appointed 12 February 2009*

Mr Armstrong is Chairman of the MyState Limited Board's Group Remuneration Committee and a member of the Group Nominations and Corporate Governance Committee.

He is a former Chairman of connectfinancial and Teachers, Police and Nurses Credit Union. Mr Armstrong was appointed a Director of MyState Bank on 1 July 1998.

He was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009.

Mr Armstrong is a career educator at senior secondary and tertiary levels and is a Fellow of both the Australian Institute of Company Directors and Australasian Mutuals Institute.

**BRIAN V BISSAKER** <sup>6</sup>

BEC, FCA

**Independent non-executive Director***Appointed 1 May 2016*

Mr Bissaker was CEO of Virgin Money Australia and a group executive of Bank of Queensland, after leading the team that acquired Virgin Money for the bank. Prior to this, he spent 10 years with Commonwealth Bank, including six years as CEO of Colonial First State which had funds under management of \$70 billion. During this time he was also a director and deputy chairman of the Financial Services Council. Earlier, he held senior management positions with BT Funds Management and KPMG.

He is currently an adjunct professor of management education at University of Sydney Business School.

Mr Bissaker holds a Bachelor of Economics from the University of Sydney and is a Fellow of the Institute of Chartered Accountants.

He is a member of MyState Limited Board's Group Audit Committee and Group Risk Committee.

**COLIN M HOLLINGSWORTH** <sup>7</sup>

CPA, MAICD, FAMI

**Independent non-executive Director***Appointed 12 February 2009*

Mr Hollingsworth was formerly General Manager, Corporate Services, TAFE Tasmania having previously held senior positions with the Australian Government. He was Finance Director with the Australian Department of Finance in Tasmania and Washington DC in the United States of America.

Mr Hollingsworth is an experienced company director and former Chairman and Director of both CPS and Island State Credit Unions.

He has extensive experience in financial management, audit and banking operations both in Australia and the United States of America.

Mr Hollingsworth was appointed a Director of MyState Bank and subsidiary companies on 1 July 2007 and 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 Risk Committee.

**STEPHEN E LONIE** <sup>8</sup>

BCom, MBA, FCA, FFin, FAICD, FIMCA

**Independent non-executive Director***Appointed 12 December 2011*

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 non-executive Chairman of Central Queensland mining group, Jellinbah Resources Pty Ltd and is a non-executive Director of Corporate Travel Management Ltd and Retail Food Group Ltd. He is also a member of the Australian Computer Society.

Mr Lonie is a member of MyState Limited Board's Group Audit Committee, Group Remuneration Committee and Group Technology Committee.

Mr Lonie was formerly a non-Executive Director of CMI Limited (December 2012 - February 2013), and Dart Energy Ltd (September 2013 to October 2014).

# Key Management Personnel



**HUW BOUGH <sup>1</sup>**

DipFS(FP), DipF&MB, MAICD  
**General Manager, Sales and Distribution**

Mr Bough is responsible for the leadership, operation, customer service and sales performance of MyState Limited group's sales divisions. He joined the company in August 2014.

Previously, he held national executive distribution roles in banking and financial services organisations including nine years at Westpac, where he was General Manager franchise for RAMS Financial Group from October 2011 to July 2014 and General Manager Westpac Mortgage Broker Distribution from November 2008 to October 2011. Before that, he was head of RAMS Home Loans' broker sales from April 2005 to November 2008.

**DAVID HARRADINE <sup>2</sup>**

BCom, CA, MIIA, CIA  
**Chief Financial Officer**

Mr Harradine is responsible for controlling the financial management activities within the group through leadership of the Finance, Budgeting and Forecasting, Planning and Treasury teams. Mr Harradine commenced with MyState Limited in March 2015.

Prior to joining MyState Mr Harradine was an audit Partner with the accounting and advisory firm Deloitte. David is Chairman of the Board of CatholicCare Tasmania and a Board member of Affordable Community Housing Alliance Tasmania.

**MANDAKINI KHANNA <sup>3</sup>**

Post DipBusAdm, Post DipBusFin, BCom  
**Chief Risk Officer**

Ms Khanna is responsible for Enterprise Risk Management throughout the MyState Group and directly oversees the management and operations of the Legal and Compliance, Enterprise Risk Management, Fraud Risk and Credit Risk Teams.

Ms Khanna was appointed in December 2015. She has 17 years' experience in banking and finance with GE Capital across a range of commercial and retail lending products. Working across diverse geographies and products, her experience includes underwriting, account management, portfolio management, analytics and enterprise risk. Ms Khanna is a trained and certified Six Sigma black belt.

**PAUL MOSS <sup>4</sup>**

BEng(Hons)  
**General Manager, Technology and Operations**

Mr Moss is responsible for the strategic direction and delivery of MyState Limited's back office processing and technology.

He joined the company in May 2015 having previously been a Director of IT Advisory at KPMG in Tasmania. Prior, Mr Moss spent 11 years at Betfair, in the UK and Australia, as Director of Information Systems and Operations, focusing on strategy development, global infrastructure deployments and customer experience. Before that he occupied technical leadership positions in UK-based investment banks.

**CHRIS THORNTON <sup>5</sup>**

BSc(Hons)  
**General Manager, Product and Marketing**

Mr Thornton is responsible for end-to-end product performance, customer and brand strategy. He joined MyState in April 2015 having held product and marketing leadership roles in Australia and the UK with RAMS Financial Group, Virgin, Dell, AAPT and 3M.

Mr Thornton has extensive experience in developing and implementing marketing strategy, brand building, product development and customer lifecycle management.

**ANDREW POLSON <sup>6</sup>**

BCom, MMgmt(Marketing)  
**General Manager, Wealth Management**

Andrew was appointed General Manager, Wealth Management in February 2016. He is responsible for the strategic, financial and ongoing management of the group's Wealth division, which includes Financial Planning, Investment Management and Trustee capabilities. Over his 20-year financial services career Andrew has fulfilled both executive and specialist roles across Wealth Management and Banking at ANZ, IOOF and NAB.

Andrew joined MyState from ANZ Banking Group, where he held senior roles across Private Banking, Investments and Trustees over eight years. His most recent role with ANZ was as Global Head of Investment Management and Implementation for their Wealth Division. Prior to that he was the General Manager Investments at ANZ Private Bank and ANZ Trustees, Head of Product at ANZ Private Bank and Head of Product, Retail Funds Management, at IOOF.

**AARON PIDGEON <sup>7</sup>**

Post DipBusMan  
**General Manager, Human Resources and Property**

Mr Pidgeon has worked with MyState Limited for 10 years and is responsible for the strategic direction and delivery of MyState Limited's Human Resource and Property Management.

Mr Pidgeon has worked in various leadership positions within MyState Limited, including the MyState retail network and oversight of Project Management and Operations. Prior to MyState, Mr Pidgeon worked in leadership positions with the Commonwealth Bank of Australia. Mr Pidgeon is currently undertaking studies towards a Masters in Human Resources.



# Directors' Report

Your Directors present their report on MyState Limited (the Company) for the financial year ended 30 June 2016.

## DIRECTORS

- **Miles L Hampton** BEc(Hons), FCIS, FCPA, FAICD  
Chairman and independent non-executive Director
- **Melos A Sulicich** BBus, GAICD, SA FIN  
Managing Director
- **Peter D Armstrong** BEc(Hons), DipED, Dip FP, CPA, FAICD, FAMI  
Independent non-executive Director
- **Brian V Bissaker** BEc, FCA – appointed 1 May 2016  
Independent non-executive Director
- **Robert L Gordon** BSc, MIFA, MAICD, FAMI  
Independent non-executive Director
- **Colin M Hollingsworth** CPA, MAICD, FAMI  
Independent non-executive Director
- **Stephen E Lonie** BCom, MBA, FCA, FFin, FAICD, FIMCA  
Independent non-executive Director
- **Ian G Mansbridge** CPA, FCIS, FCIM, – retired 30 April 2016  
Independent non-executive Director
- **Sarah Merridew** BEc, FCA, FAICD  
Independent non-executive Director

## COMPANY SECRETARY

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

## Principal Activities

Banking Services	Trustee Services	Wealth Management
<ul style="list-style-type: none"> <li>• Personal, residential and business lending</li> <li>• Transactional and internet banking</li> <li>• Insurance and other alliances</li> <li>• Savings and investments</li> <li>• Business banking</li> <li>• Agribusiness</li> </ul>	<ul style="list-style-type: none"> <li>• Estate planning</li> <li>• Estate and trust administration</li> <li>• Power of attorney</li> <li>• Corporate and custodial trustee</li> </ul>	<ul style="list-style-type: none"> <li>• Managed fund investments</li> <li>• Financial planning</li> <li>• Portfolio administration services</li> <li>• Portfolio advisory services</li> <li>• Private client services</li> </ul>

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

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

## Operating and Financial Review

The Group posted a statutory profit after income tax for the year ended 30 June 2016 of \$28.334 million (2015: \$32.513 million).

Underlying profit after income tax was \$31.062 million. (2015: \$29.719 million).

## Dividends

The Directors have declared a fully franked (at 30%) final dividend of 14.5 cents per share. The dividend will be payable on 3 October 2016 to shareholders on the register at 5pm EST on 2 September 2016.

Dividends paid in the year ended 30 June 2016 were as follows:

- In respect of the year ended 30 June 2015, a fully franked dividend of 14.5 cents per share, amounting to \$12.659 million, was paid on 2 October 2015.
- In respect of the half year ended 31 December 2015, a fully franked dividend of 14 cents per share, amounting to \$12.227 million, was paid on 24 March 2016.

## Review and Results of Operations

### FINANCIAL PERFORMANCE

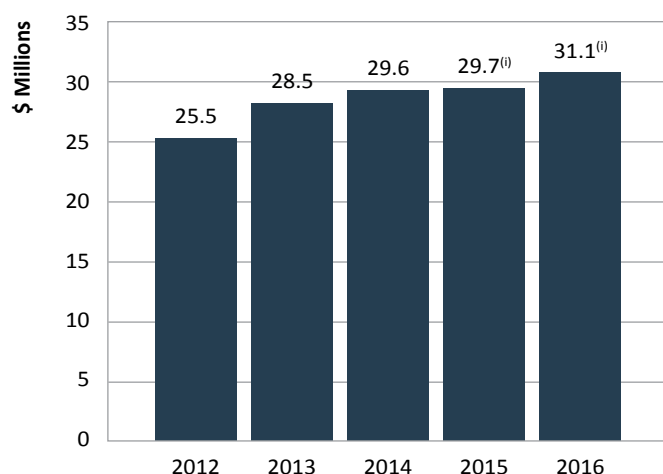
MyState Limited posted a statutory profit after income tax for the year ended 30 June 2016 of \$28.334 million, a decrease of 12.9% on the prior year.

Underlying profit after tax was \$31.062 million, an increase of 4.5% on the prior year.

Underlying earnings per share increased by 4.4% to 35.5 cents per share on the prior year, with underlying return on equity increasing 22bps to 10.6% over the same period.

The underlying result removes the current year impact of a write down in intangible software assets associated with a decision to consolidate separate core banking systems as well as expenditure on merger and acquisition activity in pursuit of inorganic growth opportunities.

### NET PROFIT AFTER TAX



(i) Underlying results exclude on a post-tax basis:

FY16 – \$1.8m M&A related costs, \$1.0m write down of intangible software

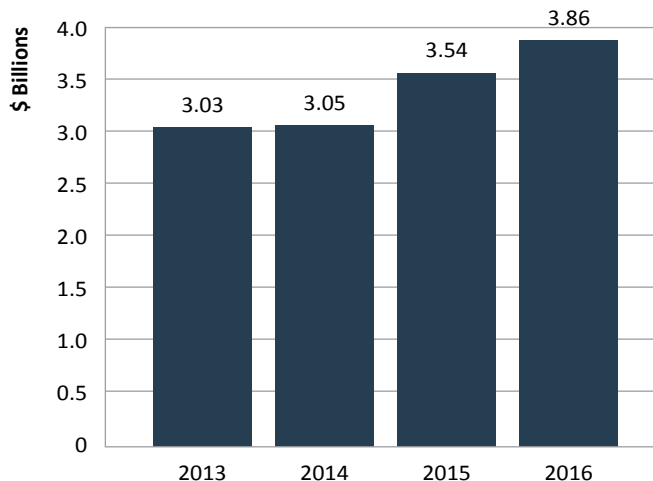
FY15 – \$3.9m profit on sale of Cuscal shares, \$1.1m restructuring costs

The growth in underlying profit to \$31.062 million was underpinned by strong loan book growth and a focus on margin management.

The board considers that the result was all the more pleasing because it was achieved with accompanying improvement in a broad range financial performance metrics, maintenance of credit quality, investment in improved organisational capability and investment in technology.

Investments in technology including digital and contemporary platforms will enhance the customer experience while delivering efficiencies in back office operations.

### STRONG LOAN BOOK MOMENTUM CONTINUES



The Banking division's loan book increased by \$309m or 8.7%, over the financial year, growing at 1.4x system.

The Group successfully grew the loan book, whilst maintaining credit quality. Impairment charges are 3 basis points of the total loan book and 30 day arrears are at 0.7%, both metrics well below peers and the major banks. Impairment expense increased by \$0.619m reflecting a larger loan book.

Geographic diversification continues with loan growth achieved in all major states. New South Wales and Victoria comprised 23% of the home loan book at June 2016. The loan growth is a reflection of the successful third party channel strategy and a reinvigorated focus within the retail network.

### INCOME

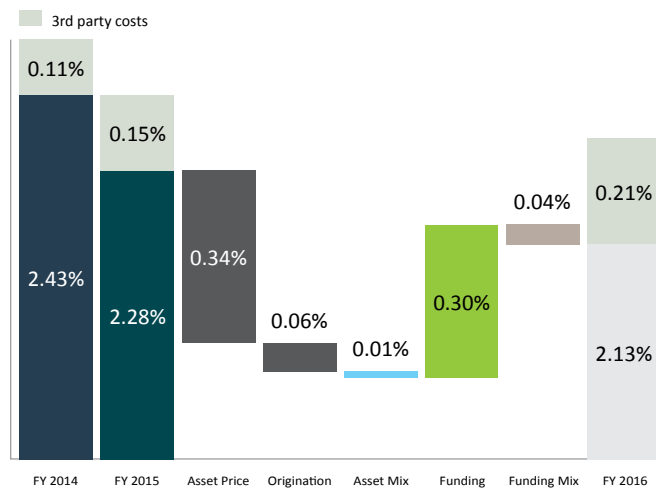
Net Interest Income (NII) growth was \$5.475m or 6.6% during the year.

Net interest margin (NIM) declined 15 basis points from 2.28% to 2.13% during the year. The reduction is attributable to increased competition across the sector, costs associated with a change in mix to third party channels and The Reserve Bank of Australia (RBA) official cash rate reductions. The RBA cut the cash rate by 0.25% in May 2016 and a further 0.25% in August 2016, leaving the official interest rate at a historic low of 1.5%.

MyState's NIM is above its peers and margin management continues to be a key focus for the business in a low cash rate environment and heightened competition for deposits.

Banking non-interest income declined by \$0.409m (2.3%), due to reductions in insurance commission revenue.

## NET INTEREST MARGIN (%)



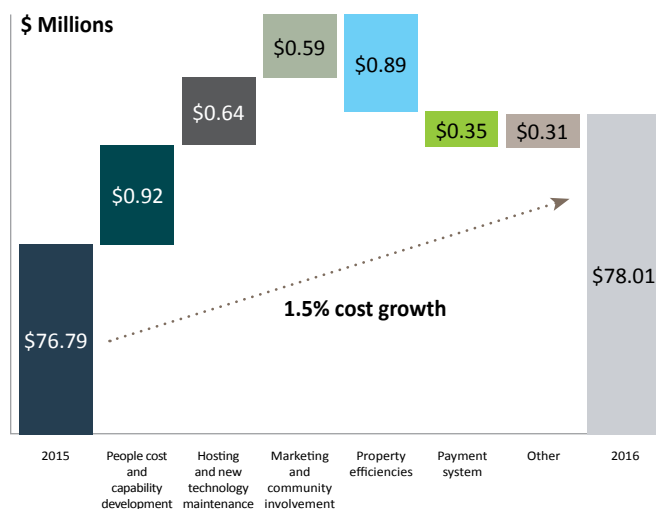
However, loan fees grew by \$0.439m (10.7%) as settlement momentum continued into FY16.

FY16 was a challenging year for the wealth business. Total Funds Under Management (FUM) in the wealth division decreased slightly by 0.9% to \$1.008b from the prior year and management fee revenue declined by \$0.098m and capital and income commissions from trustee services also fell.

The appointment in the latter half of the year of a General Manager Wealth Management reflects MyState's determination to recapture both market share and momentum in this part of the business.

## Expenses

### UNDERLYING OPERATING EXPENDITURE (\$m)

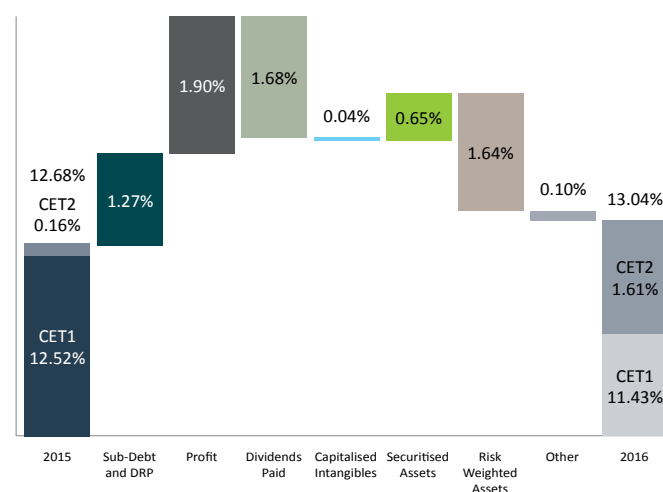


The Group continues to manage its cost base prudently. Underlying expense growth has been contained to 1.5% on the prior year, a result of a combination of focus on efficiency and ongoing expenditure prioritisation. The business continues to reinvest operational expense efficiencies into

talent development, new customer facing systems, product development and marketing.

The cost-to-income ratio improved to 63.2%, from 64.3% in the prior year.

## Capital Position



The Group has maintained its balance sheet strength, with a capital ratio at 13.04%, supported by the inaugural Medium Term Note issuance in August 2015 which provided capital and funding diversification.

The Group maintains capital options that will enable us to support lending growth and targeted investment in systems to enhance customer experience and deliver productivity.

During the financial year, ratings agency S&P Global affirmed MyState Bank's BBB rating, improving its outlook from stable to positive.

## Outlook

The directors expect that the Banking division will continue to build its sales momentum through broker and aggregator distribution networks, in conjunction with improved sales management in the direct channel.

The Wealth Management and trustee business will be supported through product development and rationalisation activities, as well as improving product penetration across the Group's customer base, particularly in Tasmania and Queensland.

Looking forward, the Group will continue to invest in digital capability to enhance service levels for customers and brokers, as well as to streamline business provides a platform for continued profitable growth.

## REVIEW OF OPERATIONS (CONTINUED)

### State of Affairs

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

### Events Subsequent To Balance Date

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

### Likely Developments and Expected Results

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

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

### Environmental Regulation

The Company is not subject to significant environmental regulation.

## Directors' Meetings

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

### MYSTATE LIMITED DIRECTORS' MEETINGS 2015/2016

Director	Board Meetings		Group Audit Committee		Group Remuneration Committee		Group Risk Committee		Group Nominations & Corporate Governance Committee		Group Technology Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
P Armstrong	14	16	n/a	n/a	5	5	n/a	n/a	3	3	n/a	n/a
B Bissaker (appointed 1/5/16)	5	5	1	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
R Gordon	16	16	n/a	n/a	n/a	n/a	6	6	4	4	3	3
M Hampton	16	16	6	6	5	5	n/a	n/a	4	4	n/a	n/a
C Hollingsworth	16	16	6	6	n/a	n/a	5	5	n/a	n/a	n/a	n/a
S Lonie	14	16	6	6	5	5	n/a	n/a	n/a	n/a	3	3
I Mansbridge (retired 30/4/16)	6	11	n/a	n/a	n/a	n/a	4	6	2	3	n/a	n/a
S Merridew	15	16	n/a	n/a	n/a	n/a	6	6	n/a	n/a	3	3
M Sulicich	16	16	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

A – Number of meetings attended

B – Number of meetings eligible to attend

## 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 are set out in the following table.

	Beneficially Held	Non beneficially Held	Managed Funds Direct	Managed Funds Indirect
P D Armstrong	987	7,041	—	—
R L Gordon	14,387	—	—	—
M L Hampton	—	612,568	—	—
C M Hollingsworth	3,000	17,274	—	—
S E Lonie	—	51,795	—	—
I G Mansbridge (retired 30/4/16)	—	170,000	—	—
S Merridew	4,000	20,000	—	—
M A Sulichich	—	35,000	—	—

## Indemnification and Insurance of Directors and Officers

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

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

## Non-Audit Services

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

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

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

## Auditor's Independence Declaration to the Directors

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

*In relation to our audit of the financial report for the consolidated group for the financial year ended 30 June 2016, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.*

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



J Doyle  
Partner  
Wise Lord & Ferguson  
Hobart

Dated 22 August 2016

# Remuneration Report

## MYSTATE LIMITED REMUNERATION REPORT

This Remuneration Report forms part of the Directors' Report and outlines the Director and Executive remuneration arrangements of MyState Limited (the Company or MYS) for the year ended 30 June 2016, in accordance with the requirements of the *Corporations Act 2001* and its regulations.

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

## Contents

1. Group Remuneration Committee
2. Remuneration Philosophy
3. Consequences of Performance on Shareholder Wealth
4. Key Management Personnel
5. Non-Executive Director Remuneration
6. Managing Director and Executive Remuneration
  - 6.1 Fixed Annual Remuneration
  - 6.2 Short Term Incentive
  - 6.3 Executive Long Term Incentive Plan
7. Remuneration of Key Management Personnel
8. Shareholdings of Key Management Personnel
9. Loans to Key Management Personnel
10. Contract Terms and Conditions

## 1. Group Remuneration Committee

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

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

The Group Remuneration Committee monitors the potential for actual or perceived conflict of interest regarding Executive Director involvement in Board decisions on remuneration packages and also in monitoring the involvement of Management generally in Committee discussions and deliberations regarding remuneration policy. No Executive is directly involved in deciding their own remuneration.

## 2. Remuneration Philosophy

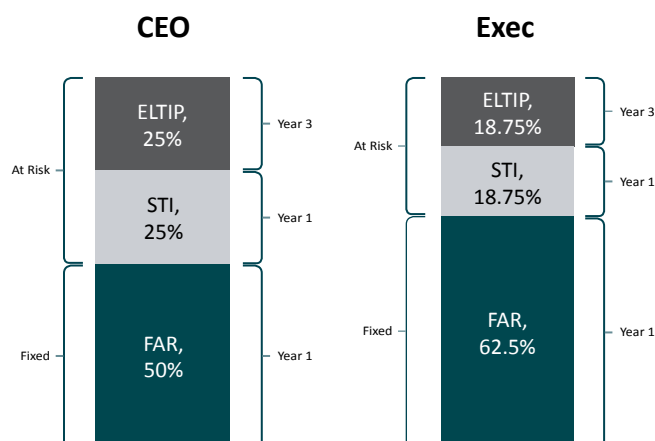
The objective of the Company's Remuneration Policy is to encourage behaviours that supports the sustained financial performance and security of the Group and to reward Executive and Management efforts which increase shareholder and customer value.

The Remuneration Policy is premised on:

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

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

### COMPOSITION OF CEO AND EMT REMUNERATION



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

- Fixed annual reward (inclusive of superannuation and salary sacrifice) (FAR);
- Cash based short term incentives (STI); and
- Equity based long term incentives (LTI).

### 3. Consequences of Performance on Shareholder Wealth

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

Indicator	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000
Underlying Profit after income tax	25,483	28,457	29,571	29,719	31,062
Underlying Earnings per share (cents)	29.91	32.68	33.91	34.04	35.52
Dividends paid	19,564	24,378	24,417	24,880	24,886
Share price (dollars)	3.05	4.24	4.64	4.83	4.13
Underlying Return on equity	9.3%	10.2%	10.5%	10.4%	10.6%

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

STI includes financial and non-financial metrics.

ELTIP performance measures are based on total shareholder return (TSR) for the "2012" and "2013" offers. For the "2014" and "2015" offers, the measures are weighted equally between relative TSR performance and absolute return on equity (ROE). The relative TSR is a measure which incorporates both dividends paid and movements in share prices, whilst absolute ROE is a measure of corporate profitability.

## 4. Key Management Personnel

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

Name	Position	Movements in 2016 Financial Year
<b>Non-Executive Directors</b>		
Miles Hampton	Non Executive Chairman	
Peter Armstrong	Non Executive Director	
Brian Bissaker	Non Executive Director	Appointed 1 May 2016
Robert Gordon	Non Executive Director	
Colin Hollingsworth	Non Executive Director	
Stephen Lonie	Non Executive Director	
Ian Mansbridge	Non Executive Director	Ceased 30 April 2016
Sarah Merridew	Non Executive Director	
<b>Executive Directors</b>		
Melos Sulicich	Managing Director and Chief Executive Officer	
<b>Executives</b>		
Huw Bough	General Manager Sales and Distribution	
Miles Farrow	Acting Chief Risk Officer	Ceased Acting CRO 30 November 2015
David Harradine	Chief Financial Officer	
Mandakini Khanna	Chief Risk Officer	Appointed 1 December 2015
Paul Moss	General Manager Technology and Operations	
Aaron Pidgeon	General Manager HR & Property	
Andrew Polson	General Manager Wealth Management	Appointed 22 February 2016
Chris Thornton	General Manager Product and Marketing	

## 5. Non-Executive Director Remuneration

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

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

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

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

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

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

## 6. Managing Director and Executive Remuneration

### 6.1 FIXED ANNUAL REMUNERATION

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

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

### 6.2 SHORT TERM INCENTIVE

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

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

Each year, the Group Remuneration Committee, in consultation with the Board, sets the KPI’s for the Managing Director who, in turn, recommends KPI’s for Executives to the Board through the Group Remuneration Committee. The Group Remuneration Committee seeks to endorse KPI’s that provide a robust link between Executive reward and the key drivers of long term shareholder value.

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

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

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

### Current STI Offers

Details of STI that affect the calculation of KMP remuneration for the 2015/2016 financial year are set out in the following tables. During the financial year, KMP were paid their STI entitlement, as assessed, in respect of the 2014/2015 financial year. Assessment and payment of STI bonuses in respect of the 2015/2016 financial year has been completed in August 2016.

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

### 2014/2015 STI

Key Management Personnel	Max. % (of FAR)	Max Payable	% Awarded	% Forfeited	Amount Paid \$	% Which is not yet assessed for payment
Melos Sulicich	50%	\$275,000	48.86%	51.14%	\$134,370	-%
Huw Bough <sup>(3)</sup>	30%	\$84,427	38.77%	61.23%	\$32,731	-%
Miles Farrow	15%	\$28,678	42.79%	57.21%	\$12,272	-%
David Harradine <sup>(3)</sup>	30%	\$30,929	31.97%	68.03%	\$9,889	-%
David Mills	15%	\$30,000	30.00%	70.00%	\$9,000	-%
Paul Moss	30%	\$11,441	46.87%	53.13%	\$5,363	-%
Stephen Pender <sup>(2)</sup>	15%	\$30,000	22.50%	77.50%	\$6,750	-%
Aaron Pidgeon	15%	\$41,625	37.64%	62.36%	\$15,668	-%
Tim Rutherford	30%	\$120,262	0%	100%	\$0	-%
Tom Taylor <sup>(1)</sup>	58.3%	\$112,088	46.75%	53.25%	\$52,405	-%
Chris Thornton <sup>(3)</sup>	30%	\$18,674	41.32%	58.68%	\$7,717	-%
Natasha Whish-Wilson <sup>(2)</sup>	30%	\$99,806	24.42%	75.58%	\$24,375	-%

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

2) STI paid on departure.

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

### 2015/2016 STI

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

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

### 6.3 EXECUTIVE LONG TERM INCENTIVE PLAN (ELTIP)

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

Under the ELTIP, an offer may be made to individual members of the EMT every year as determined by the Board. The maximum value of the offer is determined as a percentage of the FAR of each member of the EMT. As a general guide, noting that the Board has absolute discretion, the current maximum percentages used are 50% for the Managing Director and between 15% and 30% for participating Executives. The value of the offer is converted into fully paid ordinary shares based upon the weighted average price of the Company’s shares over a twenty trading day period from the 1st of July.

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

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

In order for the shares to vest in each eligible member of the EMT, certain performance criteria must be satisfied within the predetermined performance period. Both the performance criteria and the performance period are set by the Board at its absolute discretion. The Board has set the performance period for three financial years, commencing with the year in which an offer is made under the plan. The performance criteria is relative Total Shareholder Return (TSR) and absolute Return on Equity (ROE) equally weighted at 50%.

The ELTIP provides for an independent Trustee to acquire and hold shares on behalf of the participating Executives. The Trustee is funded by the Company to acquire shares, as directed by the Board, either by way of purchase from other shareholders on market, or issue by the Company. Vesting of

shares occurs once an assessment has been made after the performance period and once the Board resolves to notify the Trustee to issue entitlements under the relevant ELTIP Offer.

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

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

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

Upon request, the Board will release vested shares to an Executive to the extent required to meet a taxation assessment directly related to the award of those shares.

On separation from the Company, ELTIP shares will be released only if the separation is due to a Qualifying Reason or is at the initiation of the Company without cause. Effective as of the 2014 ELTIP Offer, if this separation occurs within the three year performance period, shares will be allocated on a pro-rata basis, following the completion of each applicable performance period and applicable performance assessment.

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

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

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

**Current ELTIP Offers**

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

Offer	"2013"	"2014"	"2015"
Performance Period	1 July 2013 to 30 June 2016	1 July 2014 to 30 June 2017	1 July 2015 to 30 June 2018
Performance Criteria			
Measure	100% Total Shareholder Return	50% Total Share Return (TSR) 50% Absolute Post tax Return on Equity (ROE)	
The comparator group	Performance assessment will be measured against a selected group of "financial" companies. (Refer to the list following)	Members of the S&P/ASX300	Members of the S&P/ASX300

**Calculation of the reward**

Shares will vest in accordance with the following schedule

Share price baseline for TSR calculation	\$4.30	\$4.67	\$4.71
Offer Date			
– Managing Director	11 December 2013 <sup>(1)</sup>	3 November 2014	27 November 2015
– Other Eligible Executives	11 December 2013	Huw Bough <sup>(3)</sup> 20 April 2016 David Harradine <sup>(3)</sup> 20 April 2016 Natasha Whish-Wilson 3 Nov 2014	Huw Bough 27 November 2015 David Harradine 27 Nov 2015 Mandakini Khanna <sup>(3)</sup> 29 April 2016 Paul Moss 27 November 2015 Andrew Polson <sup>(3)</sup> 29 April 2016 Chris Thornton 27 November 2015
Share Price Used in Calculations	\$4.82 <sup>(1)</sup>	\$4.72 <sup>(1)</sup>	\$4.71
Value of Offer <sup>(2)</sup>			
– Managing Director	\$327,600 <sup>(1)</sup>	\$275,000	\$274,998
– Other Eligible Executives	\$220,069	\$209,100	\$478,272

(1) This offer was made to the former Managing Director.

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

(3) Pro-rata offer.

## TSR COMPARATOR GROUP

### The Comparator Group for the 2013 Offer

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

### The Comparator Group for the 2014 and 2015 Offers

The Comparator Group for the 2014 and 2015 Offers is the members of the S&P/ASX 300 Index.

## CALCULATION OF THE REWARD

### TSR Component

For the 2014 and 2015 Offers, the ELTIP TSR component will be payable on the following basis:

- Below the mid-point percentage – 0% reward;
- At the 50th percentile – 50% of the applicable reward;
- Between the 50th percentile and the 75th percentile – 50% plus 2% for every 1 percentile above the 50th percentile;
- Above the 75th percentile – 100% of the applicable reward; and
- No reward will be payable if performance is negative irrespective of the benchmark group performance.

**ROE Component**

The performance period for the ROE component for the ELTIP reward will be based upon on the Company's Aggregate underlying ROE for the three periods covering the ELTIP and will be payable on the following basis:

- Below 32.22% = 0% reward;
- 32.22% = 25% reward;
- 32.22% to 33.25% = percentage vesting increases on a straight line basis from 25% vesting at 32.22% to 100% vesting at 33.25%; and
- 33.25% or above = 100%.

**ACTUAL AND POTENTIAL ELTIP SHARE ALLOCATIONS**

The following table details, for current and former KMP, the status of offers made under the ELTIP. The "2012" offer performance period was completed on 30 June 2015.

Name	Maximum Offer	Forfeited	Vested in the 2015/16 Financial Year	Not yet assessed for Vesting
	Number	Number	Number	Number
<b>"2012" Offer</b>				
Tim Rutherford	26,261	12,653	13,608	–
Natasha Whish-Wilson	22,255	7,962	14,293	–
<b>"2013" Offer</b>				
Tim Rutherford	24,951	24,951	–	–
Natasha Whish-Wilson	20,707	20,707	–	–
<b>"2014" Offer</b>				
Melos Sulicich	58,263	–	–	58,263
Huw Bough <sup>(1)</sup>	16,821	–	–	16,821
David Harradine <sup>(1)</sup>	6,335	–	–	6,335
Natasha Whish-Wilson	21,146	–	–	21,146
<b>"2015" Offer</b>				
Melos Sulicich	58,386	–	–	58,386
Huw Bough	20,382	–	–	20,382
Chris Thornton	20,382	–	–	20,382
Andrew Polson	7,466	–	–	7,466
Mandakini Khanna	12,232	–	–	12,232
David Harradine	22,611	–	–	22,611
Paul Moss	18,471	–	–	18,471

(1) Offer revised 20 April 2016

## 7. Remuneration of Key Management Personnel

		Salary and Fees \$	Cash Bonus \$	Non-Monetary Benefits \$	Post Employment Super- annuation \$	Termination Benefits \$	Share Based Payment <sup>(2)</sup> \$	Total <sup>(1)</sup> \$
<b>Non-Executive Directors</b>								
Miles Hampton	<b>2016</b>	<b>194,192</b>	—	—	<b>18,386</b>	—	—	<b>212,578</b>
	2015	174,498	—	—	16,547	—	—	191,045
Peter Armstrong	<b>2016</b>	<b>74,958</b>	—	—	<b>27,050</b>	—	—	<b>102,008</b>
	2015	70,597	—	—	26,636	—	—	97,233
Brian Bissaker <sup>(3)</sup>	<b>2016</b>	<b>14,309</b>	—	—	<b>948</b>	—	—	<b>15,257</b>
	2015	—	—	—	—	—	—	—
Robert Gordon	<b>2016</b>	<b>71,423</b>	—	—	<b>35,255</b>	—	—	<b>106,678</b>
	2015	67,653	—	—	27,086	—	—	94,739
Colin Hollingsworth	<b>2016</b>	<b>69,474</b>	—	—	<b>35,028</b>	—	—	<b>104,502</b>
	2015	64,374	—	—	35,352	—	—	99,726
Ross Illingworth	<b>2016</b>	—	—	—	—	—	—	—
	2015	10,595	—	—	36,046	—	—	46,641
Stephen Lonie	<b>2016</b>	<b>90,881</b>	—	—	<b>8,634</b>	—	—	<b>99,515</b>
	2015	86,520	—	—	8,219	—	—	94,739
Ian Mansbridge <sup>(4)</sup>	<b>2016</b>	<b>73,209</b>	—	—	<b>6,955</b>	—	—	<b>80,164</b>
	2015	86,520	—	—	8,219	—	—	94,739
Sarah Merridew	<b>2016</b>	<b>85,958</b>	—	—	<b>18,850</b>	—	—	<b>104,808</b>
	2015	78,797	—	—	18,436	—	—	97,233
<b>Sub Total</b>	<b>2016</b>	<b>674,404</b>	—	—	<b>151,106</b>	—	—	<b>825,510</b>
	2015	639,554	—	—	176,541	—	—	816,095

## 7. Remuneration of Key Management Personnel (continued)

		Salary and Fees \$	Cash Bonus \$	Non-Monetary Benefits \$	Post Employment Super- annuation \$	Termination Benefits \$	Share Based Payment <sup>(2)</sup> \$	Total <sup>(1)</sup> \$
<b>Executives</b>								
Melos Sulicich	<b>2016</b>	<b>515,000</b>	<b>100,000</b>	—	<b>34,999</b>	—	<b>47,297</b>	<b>697,296</b>
	2015	516,981	134,370	—	35,135	—	29,668	716,154
Huw Bough	<b>2016</b>	<b>290,250</b>	<b>50,000</b>	—	<b>27,508</b>	—	<b>13,604</b>	<b>381,362</b>
	2015	242,360	47,731	—	23,024	—	9,329	322,444
Miles Farrow <sup>(6)</sup>	<b>2016</b>	<b>112,839</b>	—	—	<b>18,296</b>	—	—	<b>131,135</b>
	2015	47,874	12,272	—	6,417	—	—	66,563
David Harradine	<b>2016</b>	<b>323,042</b>	<b>60,000</b>	—	<b>30,689</b>	—	<b>4,705</b>	<b>418,436</b>
	2015	91,843	14,889	—	8,849	—	8,411	123,992
Mandakini Khanna <sup>(5)</sup>	<b>2016</b>	<b>171,784</b>	<b>53,307</b>	—	<b>18,058</b>	—	<b>3,982</b>	<b>247,131</b>
	2015	—	—	—	—	—	—	—
David Mills <sup>(8)</sup>	<b>2016</b>	—	—	—	—	—	—	—
	2015	152,630	9,800	—	20,416	—	—	182,846
Paul Moss	<b>2016</b>	<b>265,632</b>	<b>29,232</b>	—	<b>25,160</b>	—	<b>6,988</b>	<b>327,012</b>
	2015	35,652	5,363	—	3,387	—	—	44,402
Stephen Pender <sup>(9)</sup>	<b>2016</b>	—	—	—	—	—	—	—
	2015	134,879	5,969	—	15,232	220,624	—	376,704
Aaron Pidgeon	<b>2016</b>	<b>253,825</b>	<b>9,529</b>	—	<b>24,709</b>	—	—	<b>288,063</b>
	2015	273,476	36,480	—	26,359	—	—	336,315
Andrew Polson <sup>(7)</sup>	<b>2016</b>	<b>95,047</b>	<b>13,448</b>	—	<b>9,029</b>	—	<b>2,216</b>	<b>119,740</b>
	2015	—	—	—	—	—	—	—
Tim Rutherford <sup>(10)</sup>	<b>2016</b>	—	—	—	—	—	—	—
	2015	101,495	24,795	—	9,642	287,837	12,447	436,216
Tom Taylor <sup>(12)</sup>	<b>2016</b>	—	—	—	—	—	—	—
	2015	262,896	74,468	—	34,015	31,726	—	403,105
Chris Thornton	<b>2016</b>	<b>292,237</b>	<b>40,000</b>	—	<b>27,762</b>	—	<b>7,711</b>	<b>367,710</b>
	2015	58,560	7,717	—	5,553	—	—	71,830
Natasha Whish-Wilson <sup>(12)</sup>	<b>2016</b>	—	—	—	—	—	—	—
	2015	241,972	32,796	—	23,321	369,617	24,554	692,260
<b>Sub Total</b>	<b>2016</b>	<b>2,319,656</b>	<b>355,516</b>	—	<b>216,210</b>	—	<b>86,503</b>	<b>2,977,885</b>
	2015	2,160,618	406,650	—	211,350	909,804	84,409	3,772,831
<b>Total</b>	<b>2016</b>	<b>2,994,060</b>	<b>355,516</b>	—	<b>367,316</b>	—	<b>86,503</b>	<b>3,803,395</b>
	2015	2,800,172	406,650	—	387,891	909,804	84,409	4,588,926

- (1) The amounts disclosed for the remuneration of KMP are the cost to the Company for these components, as recorded by it in the financial year. These amounts have been calculated in accordance with relevant accounting policies and Accounting Standards. As these figures are based on accrual accounting and not a reflection of actual cash paid or shares vested, negative figures can result in the event of accrual reversals being recorded. Amounts stated are in respect of the period that the individual held a role of a KMP.
- (2) Share based payment amounts have been calculated in accordance with the relevant accounting policy and Accounting Standard. The fair value of the share grant is calculated at the date of grant and is allocated to each reporting period evenly over the period from grant date to vesting date. This fair value will generally be different to the value of shares at the time they vest. The value disclosed is the portion of the fair value of the share grant allocated to this reporting period. These amounts represent share grants which will only vest to the KMP when certain performance and service criteria are met. In some circumstances all, or a portion, of the shares may never vest to the KMP.
- (3) Mr Bissaker commenced as KMP on 1 May 2016.
- (4) Mr Mansbridge ceased as a KMP on 30 April 2016.
- (5) Ms Khanna commenced as KMP on 1 December 2015 and was paid a signing bonus of \$18,307.66.
- (6) Mr Farrow ceased as a KMP on 30 November 2015.
- (7) Mr Polson commenced as KMP on 22 February 2016.
- (8) Mr Mills ceased as a KMP on 12 May 2015.
- (9) Mr Pender ceased as a KMP on 27 March 2015.
- (10) Mr Rutherford ceased as a KMP on 10 October 2014.
- (11) Mr Taylor was appointed to the role on contract 11 April 2013. The fixed term contract finalised on 31 March 2015.
- (12) Mrs Whish-Wilson ceased as a KMP on 20 April 2015

## 8. Shareholdings of Key Management Personnel

### NON EXECUTIVE DIRECTOR MINIMUM SHAREHOLDING REQUIREMENT

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

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

### EXECUTIVE MINIMUM SHAREHOLDING REQUIREMENT

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

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

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

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

## 8. Shareholdings of Key Management Personnel (continued)

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

	Balance at commencement of financial year	Granted as compensation	Net change other	Balance at end of financial year	Balance at end of financial year held by ELTIP trustee
<b>Non-Executive Directors</b>					
Miles Hampton	600,000	—	12,568	612,568	—
Peter Armstrong	4,921	—	3,107	8,028	—
Brian Bissaker <sup>(2)</sup>	—	—	—	—	—
Robert Gordon	2,387	—	12,000	14,387	—
Colin Hollingsworth	20,274	—	—	20,274	—
Stephen Lonie	50,000	—	1,795	51,795	—
Ian Mansbridge <sup>(1)</sup>	170,000	—	—	170,000	—
Sarah Merridew	24,000	—	—	24,000	—
<b>Executives</b>					
Melos Sulicich	28,750	—	6,250	35,000	—
Huw Bough	—	—	—	—	—
Miles Farrow <sup>(3)</sup>	5,324	—	213	5,537	—
David Harradine	—	—	2,000	2,000	—
Mandakini Khanna <sup>(4)</sup>	—	—	—	—	—
Paul Moss	—	—	—	—	—
Aaron Pidgeon	—	—	—	—	—
Andrew Polson <sup>(5)</sup>	—	—	—	—	—
Chris Thornton	—	—	—	—	—
<b>Total</b>	<b>905,656</b>	<b>—</b>	<b>37,933</b>	<b>943,589</b>	<b>—</b>

(1) Ceased as KMP on 30 April 2016.

(2) Appointed as KMP on 1 May 2016.

(3) Ceased as KMP on 30 November 2015.

(4) Appointed as KMP on 1 December 2015.

(5) Appointed as KMP on 22 February 2016.

## 9. Loans to Key Management Personnel

There are no loans guaranteed or secured by the Company to KMP and their related parties in 2016.

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

## 10. Contract Terms and Conditions

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

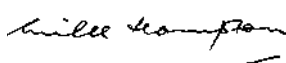
Incumbent	Commenced in role	Contract term	Fixed Annual Remuneration (FAR) <sup>(1)</sup>	Short Term Incentive (maximum)	ELTIP (maximum)	Termination Provisions
						In the event of termination by the Company <sup>(2)</sup>
Melos Sulicich	1 July 2014	4 Year term from 1 July 2014	\$550,000	50% of FAR	50% of FAR	Notice:  The contract may be terminated by the Company with 6 months notice or payment in lieu of notice.  Entitlement: <ul style="list-style-type: none"><li>Pro-rata STI payment applied, at the full discretion of the Board, as at the date of termination.</li><li>Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.</li></ul>
Share Ownership: Required to purchase and maintain shares to the value of 50% of FAR by 30 June 2018.						
Huw Bough	13 August 2014	Ongoing	\$320,000	Between 15% and 30% of FAR	Between 15% and 30% of FAR upon invitation to participate	Notice:  The contract can be terminated by the Company upon provision of 3 months notice.
David Harradine	16 March 2015	Ongoing	\$355,000			Entitlement: <ul style="list-style-type: none"><li>Payment of the equivalent of 6 months FAR<sup>(3)</sup></li><li>Pro-rata STI payment applied as at the date of termination.</li><li>Payment of STI if the performance period is complete but not yet paid</li><li>Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.</li></ul>
Mandakini Khanna	1 December 2015	Ongoing	\$330,000			
Paul Moss	13 May 2015	Ongoing	\$290,000			
Aaron Pidgeon <sup>(3)</sup>	10 September 2012	Ongoing	\$277,500			
Andrew Polson	22 February 2016	Ongoing	\$330,000			
Chris Thornton	20 April 2015	Ongoing	\$320,000			

(1) Per year and subject to marked based review mechanisms.

(2) Subject to shareholder approval in the event that they exceed the equivalent of 1 year FAR in total).

(3) Aaron Pidgeon's contract can be terminated with 1 months notice with an entitlement of 9 months FAR not inclusive of notice period.

Signed in accordance with a resolution of the Directors.



M L Hampton  
Chairman



M A Sulicich  
Managing Director

Hobart  
Dated this 22 August 2016

# Consolidated Financial Statements

## TABLE OF CONTENTS

Consolidated Income Statement	41	<b>Section 4 Financial assets and liabilities</b>	
Consolidated Statement of Comprehensive Income	42	4.1 Cash and liquid assets	65
Consolidated Statement of Financial Position	43	4.2 Financial instruments	66
Consolidated Statement of Changes in Equity	44	4.3 Loans and advances	67
Consolidated Statement of Cash Flows	46	4.4 Transfer of financial assets (securitisation program)	68
<b>Section 1 Corporate information and basis of preparation</b>		4.5 Deposits and other borrowings including subordinated notes	69
1.1 Reporting entity	47	4.6 Fair value of financial instruments	70
1.2 Basis of accounting	47	<b>Section 5 Non-financial assets, liabilities and equity</b>	
1.3 Use of estimates and judgements	48	5.1 Property, plant and equipment	71
1.4 Goods and services tax	48	5.2 Intangible assets and goodwill	73
1.5 Provisions (other than for impairment of financial assets)	48	5.3 Employee benefit provisions	75
<b>Section 2 Financial performance</b>		5.4 Share capital	76
2.1 Income from banking activities	49	<b>Section 6 Income tax expense, current and deferred tax balances</b>	
2.2 Income from wealth management activities	50	6.1 Income tax expense, current and deferred tax balances	77
2.3 Income from other activities	50	<b>Section 7 Group structure and related parties</b>	
2.4 Expenses	51	7.1 Parent entity information	80
2.5 Earnings per share	52	7.2 Controlled entities and principles of consolidation	81
2.6 Dividends	52	7.3 Related party disclosures	82
2.7 Segment financial information	53	<b>Section 8 Other notes</b>	
<b>Section 3 Capital and financial risk management</b>		8.1 Contingent liabilities and expenditure commitments	83
3.1 Capital management strategy	56	8.2 Remuneration of auditors	84
3.2 Financial risk management	58	8.3 Events subsequent to balance date	84
3.3 Average balance sheet and source of net interest income	64	8.4 Other significant accounting policies and new accounting standards	85

# Consolidated Income Statement

## FOR THE YEAR ENDED 30 JUNE 2016

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
Interest income	2.1	183,351	175,239
Less: Interest expense	2.1	(94,441)	(91,804)
<b>Total interest expense</b>		<b>88,910</b>	83,435
Non-interest income from banking activities	2.1	16,879	17,288
<b>Net banking operating income</b>		<b>105,789</b>	100,723
Income from wealth management activities	2.2	17,462	18,142
Income from sale of other investments	2.3	–	5,643
Income from other activities	2.3	171	608
<b>Total operating income</b>		<b>123,422</b>	125,116
<b>Less: Expenses</b>			
Personnel costs	2.4	36,995	37,652
Administration costs	2.4	17,887	18,466
Significant due diligence project costs		1,752	–
Impairment – software		1,350	–
Technology costs	2.4	9,513	8,905
Occupancy costs	2.4	6,748	7,052
Marketing costs		4,056	3,493
Governance costs		2,810	2,915
<b>Total operating expenses</b>		<b>81,111</b>	78,483
<b>Profit before bad and doubtful debts and income tax expense</b>		<b>42,311</b>	46,633
Less: Impairment expense on loans and advances	4.3	1,221	602
<b>Profit before income tax</b>		<b>41,090</b>	46,031
Income tax expense	6.1	12,756	13,518
<b>Profit for the year</b>		<b>28,334</b>	32,513
Profit attributable to the:			
<b>Equity holders of MyState Limited</b>		<b>28,334</b>	32,513
Basic earnings per share (cents per share)	2.5	32.40	37.25
Diluted earnings per share (cents per share)	2.5	32.40	37.25

The accompanying notes form part of these financial statements.

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
<b>Profit for the year</b>		<b>28,334</b>	32,513
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Cash flow hedges			
Net gains/(losses) taken to equity		<b>587</b>	(564)
Change in fair value of financial assets at fair value through other comprehensive income		<b>619</b>	–
Reversal of fair value on assets previously classified as available for sale		–	93
Income tax effect		<b>(363)</b>	142
<b>Total other comprehensive income for the year</b>		<b>843</b>	(329)
<b>Total comprehensive income for the year</b>		<b>29,177</b>	32,184
Total comprehensive income for the year is attributable to:			
<b>Equity holders of MyState Limited</b>		<b>29,177</b>	32,184

The accompanying notes form part of these financial statements.

# Consolidated Statement of Financial Position

## AS AT 30 JUNE 2016

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
<b>Assets</b>			
Cash and liquid assets	4.1	80,126	66,185
Due from other financial institutions		17,875	20,736
Other assets		5,819	7,115
Financial instruments	4.2	355,969	340,358
Derivatives		540	65
Loans and advances	4.3	3,863,133	3,550,907
Property, plant and equipment	5.1	9,812	11,654
Deferred tax assets	6.1	3,664	4,323
Intangible assets and goodwill	5.2	78,982	78,677
<b>Total assets</b>		<b>4,415,920</b>	<b>4,080,020</b>
<b>Liabilities</b>			
Due to other financial institutions		30,710	35,373
Other liabilities		6,961	6,400
Deposits and other borrowings including subordinated notes	4.5	4,068,182	3,730,683
Derivatives		517	629
Employee benefit provisions	5.3	5,515	5,418
Tax liabilities	6.1	4,407	8,377
<b>Total liabilities</b>		<b>4,116,292</b>	<b>3,786,880</b>
<b>Net assets</b>		<b>299,628</b>	<b>293,140</b>
<b>Equity</b>			
Share capital	5.4	134,756	132,670
Retained earnings		159,320	155,872
Reserves		5,552	4,598
<b>Total equity</b>		<b>299,628</b>	<b>293,140</b>

The accompanying notes form part of these financial statements.

# Consolidated Statement of Changes in Equity

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Note	Share capital \$'000	Retained earnings \$'000	General reserve for credit losses \$'000	Asset revaluation reserve \$'000	Employee equity benefits reserve \$'000	Hedging reserve \$'000	Net unrealised gains reserve \$'000	Total \$'000
<b>At 1 July 2014</b>	132,566	146,343	3,984	2,340	481	—	(65)	<b>285,649</b>
Profit for the year	—	32,513	—	—	—	—	—	<b>32,513</b>
Other comprehensive income	—	—	—	—	—	(394)	—	<b>(394)</b>
Transfer to retained earnings due to reclassification of instruments	—	—	—	—	—	—	65	<b>65</b>
<b>Total comprehensive income for the year</b>	—	<b>32,513</b>	—	—	—	<b>(394)</b>	<b>65</b>	<b>32,184</b>
Equity issued under employee share scheme	104	—	—	—	—	—	—	<b>104</b>
Share based payment expense recognised	—	—	—	—	83	—	—	<b>83</b>
Transfer to/from retained earnings	—	1,896	444	(2,340)	—	—	—	<b>—</b>
Dividends paid	—	(24,880)	—	—	—	—	—	<b>(24,880)</b>
<b>At 30 June 2015</b>	<b>132,670</b>	<b>155,872</b>	<b>4,428</b>	—	<b>564</b>	<b>(394)</b>	—	<b>293,140</b>
<b>At 1 July 2015</b>	132,670	155,872	4,428	—	564	(394)	—	<b>293,140</b>
Profit for the year	—	28,334	—	—	—	—	—	<b>28,334</b>
Other comprehensive income	—	—	—	—	—	410	433	<b>843</b>
<b>Total comprehensive income for the year</b>	—	<b>28,334</b>	—	—	—	<b>410</b>	<b>433</b>	<b>29,177</b>
Equity issued under employee share scheme	99	—	—	—	—	—	—	<b>99</b>
Equity issued under executive long term incentive plan	46	—	—	—	(46)	—	—	<b>—</b>
Equity issued under dividend reinvestment plan	1,941	—	—	—	—	—	—	<b>1,941</b>
Share based payment expense recognised	—	—	—	—	157	—	—	<b>157</b>
Dividends paid	—	(24,886)	—	—	—	—	—	<b>(24,886)</b>
<b>At 30 June 2016</b>	<b>134,756</b>	<b>159,320</b>	<b>4,428</b>	—	<b>675</b>	<b>16</b>	<b>433</b>	<b>299,628</b>

The accompanying notes form part of these financial statements.

## RETAINED EARNINGS

Retained earnings contains amounts of retained profits that have been set aside 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 land and buildings.

## EMPLOYEE EQUITY BENEFITS RESERVE

This reserve is used to record the value of equity benefits expected to be 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 cash flow 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 the groups financial instruments that are classified as at fair value through other comprehensive income.

## GENERAL RESERVE FOR CREDIT LOSSES

A general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. Maintenance of such a reserve is a prudential requirement of Australian Prudential Regulation Authority (APRA). Increases and decreases in the general reserve for credit losses are appropriations of retained earnings.

# Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
<b>Cash flows from operating activities</b>			
Interest received		189,242	178,863
Interest paid		(95,396)	(88,073)
Fees and commissions received		33,613	32,950
Dividends received		78	444
Other non-interest income received		2,066	2,076
Payments to suppliers and employees		(71,011)	(77,768)
Income tax paid		(16,429)	(11,600)
<b>Net cash flows from/(used in) operating activities</b>	4.1	<b>42,163</b>	36,892
<b>Cash flows from investing activities</b>			
Proceeds on sale of financial assets		–	8,992
Purchase of intangible assets		(4,116)	(3,032)
Proceeds from sale of property, plant and equipment		37	2,490
Purchase of property, plant and equipment		(499)	(1,505)
Net decrease/(increase) in loans to customers		(319,794)	(506,160)
Net increase/(decrease) in amounts due from other financial institutions		(3,514)	(2,676)
Payments for other investments		(3,470)	–
<b>Net cash flows from/(used in) investing activities</b>		<b>(331,356)</b>	(501,891)
<b>Cash flows from financing activities</b>			
Employee share issue		99	–
Dividends paid	2.6	(22,945)	(24,880)
Net increased in subordinated notes		24,663	–
Net (decrease)/increase in deposits and other borrowings		225,979	266,227
Net increase/(decrease) in due to other financial institutions		75,338	231,879
<b>Net cash flows used in financing activities</b>		<b>303,134</b>	473,226
Net increase/(decrease) in cash held		13,941	8,227
Cash at beginning of financial year		66,185	57,958
<b>Closing cash carried forward</b>	4.1	<b>80,126</b>	66,185

The accompanying notes form part of these financial statements.

# Notes to the consolidated financial statements

## FOR THE YEAR ENDED 30 JUNE 2016

### 1.1 Reporting entity

MyState Limited (the Company) is incorporated and domiciled in Australia and is a company limited by shares that are publicly traded on the Australian Securities Exchange. The consolidated financial statements of MyState Limited and its subsidiaries (the Group) were authorised for issue by the Directors on 22 August 2016.

### 1.2 Basis of accounting

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

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

#### EARLY ADOPTION OF AASB 9 FINANCIAL INSTRUMENTS (2010)

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

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

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

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

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability as market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

- Share-based payment transactions that are within the scope of AASB 2;
- Leasing transactions that are within the scope of AASB 117; and
- Measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

## 1.2 Basis of accounting (continued)

### ROUNDING OF AMOUNTS

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

## 1.3 Use of estimates and judgement

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

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

## 1.4 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.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated 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.

## 1.5 Provisions (other than for impairment of financial assets)

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

The 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 assessment of the time value of money and the risks specific to the liability most closely matching the expected future payments

## 2.1 Income from banking activities

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Interest income</b>		
Loans and advances	172,278	163,131
Investment securities	11,073	12,108
<b>Total interest income</b>	<b>183,351</b>	175,239
<b>Interest expense</b>		
At call deposits	12,405	12,260
Fixed term deposits	82,036	79,544
<b>Total interest expense</b>	<b>94,441</b>	91,804
<b>Non-interest income from banking activities</b>		
Transaction fees	7,985	8,106
Loan fee income	4,552	4,113
Banking commissions	3,315	3,912
Other banking operations income	1,027	1,157
<b>Total non-interest income from banking activities</b>	<b>16,879</b>	17,288

### INCOME ACCOUNTING POLICY

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

### INTEREST, FEES AND COMMISSIONS

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

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

### LOAN ORIGATION FEES

Loan origination fees are recognised as components of the calculation of the effective interest method in relation to originated loans. 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 fees is appropriate.

## 2.2 Income from wealth management activities

	30 June 2016 \$'000	30 June 2015 \$'000
Funds management income	9,272	9,370
Other fees and commissions	8,190	8,772
<b>Total Income from wealth management activities</b>	<b>17,462</b>	<b>18,142</b>

### FUNDS MANAGEMENT INCOME AND FIDUCIARY ACTIVITIES

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

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

### OTHER FEES AND COMMISSIONS

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

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

	30 June 2016 \$'M	30 June 2015 \$'M
Funds under management	1,008	1,017
Funds under advice	733	782

### Income accounting policy

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

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

## 2.3 Income from other activities

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Profit from sale of other investments</b>	<b>—</b>	<b>5,643</b>

In 2015, the Group disposed of its investment in Cuscal Limited shares. The carrying value of these shares at the date of disposal was \$3.35M.

	30 June 2016 \$'000	30 June 2015 \$'000
Dividends from other corporations	148	444
Profit on sale of property plant and equipment assets	23	164
<b>Total income from other activities</b>	<b>171</b>	<b>608</b>

**DIVIDEND ACCOUNTING POLICY**

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

**2.4 Expenses**

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Personnel costs include:</b>		
Termination payments	280	1,084
<b>Occupancy costs include:</b>		
Operating lease payments	3,925	4,045
Depreciation – leasehold improvements	1,591	1,642
<b>Technology costs include:</b>		
Depreciation – computer software	1,964	2,190
<b>Administration costs</b>		
Amortisation – other intangibles	497	282
Depreciation – furniture and equipment	737	659
Loss on sale of property plant and equipment assets	–	645

**EXPENSE ACCOUNTING POLICY****Operating lease expense**

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

**Depreciation and amortisation expense**

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

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

## 2.5 Earnings per share

	30 June 2016 cents	30 June 2015 cents
Basic earnings per share	32.40	37.25
Diluted earnings per share	32.40	37.25

### EARNINGS PER SHARE ACCOUNTING POLICY

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

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

	30 June 2016 \$'000	30 June 2015 \$'000
Profit for the year	28,334	32,513

	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	87,463,245	87,280,013

## 2.6 Dividends

	Date of payment	30 June 2016 \$'000	30 June 2015 \$'000
<b>Dividends paid</b>			
2014 Final dividend paid – 14.5 cents per share	3 Oct 2014	–	12,660
2015 Interim dividend paid – 14 cents per share	24 Mar 2015	–	12,220
2015 Final dividend paid – 14.5 cents per share	2 Oct 2015	12,659	–
2016 Interim dividend paid – 14.0 cents per share	24 Mar 2016	12,227	–
		24,886	24,880

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

### FRANKING CREDIT BALANCE

	30 June 2016 \$'000	30 June 2015 \$'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the period at 30% (2015: 30%)	59,370	53,901
Franking credits that will arise from the payment of income tax payable at the end of the period	1,839	6,182

## **DIVIDENDS NOT RECOGNISED AT THE END OF THE FINANCIAL YEAR**

On 22 August 2016, the Directors resolved to pay a final dividend for the 2016 financial year of 14.5 cents per share or \$12,740,000 total to be paid on the 3rd of October 2016, fully franked at the 30 per cent corporate tax rate. This dividend has not been brought to account as the amount had not been determined at the reporting date. This dividend will reduce the balance of the franking account by \$5,460,000.

## **2.7 Segment financial information**

### **OPERATIONS OF REPORTABLE SEGMENTS**

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

### **BANKING DIVISION**

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

### **WEALTH MANAGEMENT DIVISION**

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

### **CORPORATE AND CONSOLIDATION DIVISION**

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

## 2.7 Segment financial information (continued)

	Banking \$'000	Wealth Management \$'000	Corporate and Consolidation \$'000	Total \$'000
<b>Year ended 30 June 2016</b>				
Interest income	182,914	204	233	183,351
Interest expense	(94,441)	–	–	(94,441)
<b>Other income</b>				
Transaction fees	7,985	–	–	7,985
Loan fee income	4,552	–	–	4,552
Banking commissions	3,315	–	–	3,315
Other banking operations income	1,159	17	(149)	1,027
Funds management income	–	9,272	–	9,272
Other wealth management fees and commissions	–	8,190	–	8,190
Income from other activities	173	–	(2)	171
<b>Total operating income</b>	<b>105,657</b>	<b>17,683</b>	<b>82</b>	<b>123,422</b>
<b>Expenses</b>				
Personnel costs	25,990	6,925	4,080	36,995
Administration costs	23,403	3,926	(6,340)	20,989
Technology costs	8,875	548	90	9,513
Occupancy costs	5,897	797	54	6,748
Marketing costs	3,763	240	53	4,056
Governance costs	582	80	2,148	2,810
Impairment expense on loans and advances	1,221	–	–	1,221
Income tax expense	10,644	1,390	722	12,756
<b>Segment profit for the year</b>	<b>25,282</b>	<b>3,777</b>	<b>(725)</b>	<b>28,334</b>
<b>Segment balance sheet information</b>				
Segment assets	4,335,161	28,483	52,276	4,415,920
Segment liabilities	4,110,774	2,378	3,140	4,116,292

	Banking \$'000	Wealth Management \$'000	Corporate and Consolidation \$'000	Total \$'000
<b>Year ended 30 June 2015</b>				
Interest income	174,797	224	218	175,239
Interest expense	(91,804)	–	–	(91,804)
<b>Other income</b>				
Transaction fees	8,106	–	–	8,106
Loan fee income	4,113	–	–	4,113
Banking commissions	3,912	–	–	3,912
Other banking operations income	1,706	–	(549)	1,157
Funds management income	–	9,370	–	9,370
Other wealth management fees and commissions	–	8,772	–	8,772
Profit from sale of other investments	5,643	–	–	5,643
Income from other activities	609	–	(1)	608
<b>Total operating income</b>	<b>107,082</b>	<b>18,366</b>	<b>(332)</b>	<b>125,116</b>
<b>Expenses</b>				
Personnel costs	26,560	7,274	3,818	37,652
Administration costs	21,070	3,598	(6,202)	18,466
Technology costs	8,257	563	85	8,905
Occupancy costs	6,591	842	(381)	7,052
Marketing costs	2,996	389	108	3,493
Governance costs	590	85	2,240	2,915
Impairment expense on loans and advances	602	–	–	602
Income tax expense	11,831	1,676	11	13,518
<b>Segment profit for the year</b>	<b>28,585</b>	<b>3,939</b>	<b>(11)</b>	<b>32,513</b>
<b>Segment balance sheet information</b>				
Segment assets	4,000,522	28,394	51,104	4,080,020
Segment liabilities	3,782,607	2,804	1,469	3,786,880

### 3.1 Capital management strategy

The Group'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 Group's capital management objectives are to:

Continue to support MyState Bank Limited's credit ratings;

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

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

Regulatory capital requirements are measured at two levels:

**Level 1:** The authorised deposit taking institution (ADI's), MyState Bank Limited, reports on a level 1 basis.

**Level 2:** The wider MyState Limited prudential group which comprises MyState Limited (non-operating holding company), MyState Bank and Connect Asset Management (the Securitisation program Manager) report as a level 2 group.

These Regulatory above exclude certain securitisation vehicles and also excludes Tasmanian Perpetual Trustees Limited.

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

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

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

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Qualifying capital</b>		
<b>Common equity tier 1 capital</b>		
Paid-up ordinary share capital	97,264	95,178
Retained earnings	175,423	174,051
Reserves excluding general reserve for credit losses	675	566
<b>Total common equity tier 1 capital</b>	<b>273,362</b>	269,795
<b>Regulatory adjustments</b>		
Deferred expenditure including deferred tax assets	26,622	23,857
Goodwill and intangibles	19,821	19,821
Other deductions	43,302	42,610
<b>Total regulatory adjustments</b>	<b>89,745</b>	86,288
<b>Net common equity tier 1 capital</b>	<b>183,617</b>	183,507
<b>Tier 2 capital</b>		
Subordinated notes <sup>(1)</sup>	21,467	–
General reserve for credit losses	4,428	4,428
<b>Total capital</b>	<b>209,512</b>	187,935
Risk weighted assets	1,606,911	1,482,367
Capital adequacy ratio	13.04%	12.68%

(1) On the 14 August 2015, the Group issued \$25 million of floating rate subordinated notes ("notes"). The issuer was MyState Bank Limited. The notes have a term of 10 years, maturing 14 August 2025, and pay interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 5% per annum. The issuer has the option to redeem all or some of the notes on 14 August 2020 and each quarterly interest payment date thereafter, and for certain regulatory events (in each case subject to APRA's prior written approval). If APRA notifies the issuer that a non-viability trigger event has occurred, the notes will be converted into ordinary shares of MyState Limited, or written-off. The amount included in the Level 2 Group's regulatory capital is a percentage equal to that of external interest in the Group's regulatory capital. MyState Bank Limited includes 100% at level 1 in its Tier 2 Capital.

## 3.2 Financial risk management

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

### RISK EXPOSURE PROFILE

The Group actively monitors a range of risks, which are not limited to, but include the following:

- Credit risk,
- Market risk; and
- Liquidity risk.

#### 3.2.1 CREDIT RISK

##### Approach to credit risk management

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

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

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

##### Maximum exposure to credit risk

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

	30 June 2016 \$'000	30 June 2015 \$'000
Cash and liquid assets	80,126	66,185
Due from other financial institutions for payment settlements	17,875	20,736
Other assets	5,819	7,115
Financial instruments	355,969	340,358
Derivatives	540	65
	460,329	434,459
Loans and advances	3,863,133	3,550,907
Customer commitments <sup>(1)</sup>	127,651	131,097
<b>Maximum exposure to credit risk</b>	<b>4,451,113</b>	<b>4,116,463</b>

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

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Credit quality of financial assets</b>		
<b>Financial assets other than loans and advances at amortised cost</b>		
Equivalent S&P rating A+ and above	246,394	142,037
Equivalent S&P rating A and below	213,935	292,422
<b>Loans and advances at amortised cost</b>		
New Facilities – not closely monitored	993,586	1,100,122
New Facilities – closely monitored	2,416	4,869
Continuing facilities – not closely monitored	2,845,401	2,419,709
Continuing facilities – closely monitored	21,730	26,207
<b>Total on balance sheet exposure to credit risk</b>	<b>4,323,462</b>	<b>3,985,366</b>

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

<b>Neither past due or impaired</b>	<b>3,839,166</b>	3,527,097
<b>Past due but not impaired – loans and advances at amortised cost</b>		
31 to 60 days	10,438	9,302
61 to 90 days	2,526	6,098
More than 90 days	7,912	7,012
<b>Total past due but not impaired</b>	<b>20,876</b>	22,412
Impaired – loans and advances at amortised cost	3,091	1,398
<b>Maximum exposure to credit risk</b>	<b>3,863,133</b>	3,550,907
Estimate of collateral held against past due but not impaired assets	38,260	32,777
Estimate of collateral held against impaired assets	2,294	1,113

## ESTIMATE OF COLLATERAL HELD

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

## 3.2 Financial risk management (continued)

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

	30 June 2016 \$'000	30 June 2015 \$'000
Tasmania	2,215,395	2,200,195
Victoria	443,442	308,585
New South Wales	426,812	337,338
Queensland	603,366	552,191
Western Australia	93,839	88,232
Australian Capital Territory	34,958	32,572
Northern Territory	3,064	3,086
South Australia	43,315	29,370
<b>Gross loans and advances at amortised cost</b>	<b>3,864,191</b>	<b>3,551,569</b>

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

### 3.2.2 MARKET RISK

#### Managing market risk

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

#### Interest rate risk exposure

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

#### Value at Risk (VaR)

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Value at risk based on historic data</b>		
Average	2,120	2,346
Minimum	1,370	1,423
Maximum	3,110	3,458

#### Derivatives

The Group is exposed to changes in interest rates. The only derivative instruments currently entered into by the Group are interest rate swaps. The group has a portfolio of fixed rate loans. In order to protect its exposure to variable rate debt obligations, it pays fixed rates to the swap providers and receives variable rates in return. The variable receipts mitigate the exposure to interest rate changes that will impact on the Group's variable rate payment obligations.

### Derivatives accounting policy

All derivatives, including those derivatives used for Consolidated Statement of Financial Position hedging purposes, are recognised on the Consolidated 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 Consolidated Income Statement, unless the derivative meets the requirements for hedge accounting.

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

### Cash flow hedges

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

### Derivatives that do not qualify for hedge accounting

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

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

## 3.2.3 LIQUIDITY RISK

### Managing liquidity risk

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

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

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

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

### Liquidity risk exposure

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

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

### 3.2 Financial risk management (continued)

	On demand \$'000	< 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>2016</b>						
At call deposits	1,318,370	–	–	–	–	1,318,370
Due to other financial institutions	–	30,710	–	–	–	30,710
Term deposits	–	861,467	514,322	32,903	–	1,408,692
Negotiable certificates of deposit	–	311,472	66,504	–	–	377,976
Subordinated notes	–	445	1,335	7,120	33,900	42,800
Securitisation liabilities	–	–	–	–	925,513	925,513
<b>Contractual amounts payable</b>	<b>1,318,370</b>	<b>1,204,094</b>	<b>582,161</b>	<b>40,023</b>	<b>959,413</b>	<b>4,104,061</b>
<b>Derivative liability</b>	<b>5</b>	<b>83</b>	<b>1,780</b>	<b>4,971</b>	<b>–</b>	<b>6,839</b>
<b>2015</b>						
At call deposits	1,170,904	–	–	–	–	1,170,904
Due to other financial institutions	–	35,373	–	–	–	35,373
Other liabilities	–	6,400	–	–	–	6,400
Term deposits	–	800,251	678,159	38,076	–	1,516,486
Negotiable certificates of deposit	–	232,168	44,318	–	–	276,486
Securitisation liabilities	–	–	–	–	907,097	907,097
<b>Contractual amounts payable</b>	<b>1,170,904</b>	<b>1,074,192</b>	<b>722,477</b>	<b>38,076</b>	<b>907,097</b>	<b>3,912,746</b>
<b>Derivative liability</b>	<b>7</b>	<b>3,117</b>	<b>8,356</b>	<b>6,937</b>	<b>–</b>	<b>18,417</b>

**Contractual maturity of assets and liabilities**

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

	30 June 2016			30 June 2015		
	Less than 12 months \$'000	More than 12 months \$'000	Total \$'000	Less than 12 months \$'000	More than 12 months \$'000	Total \$'000
<b>Financial assets</b>						
Cash and liquid assets	80,126	–	80,126	66,185	–	66,185
Due from other financial institutions	17,875	–	17,875	20,736	–	20,736
Other assets	5,819	–	5,819	7,115	–	7,115
Derivatives	–	540	540	65	–	65
Financial instruments	187,833	168,136	355,969	259,458	80,900	340,358
Loans and advances	290,305	3,572,828	3,863,133	127,719	3,423,188	3,550,907
<b>Total financial assets</b>	<b>581,958</b>	<b>3,741,504</b>	<b>4,323,462</b>	<b>481,278</b>	<b>3,504,088</b>	<b>3,985,366</b>
<b>Financial liabilities</b>						
Due to other financial institutions	(30,710)	–	(30,710)	(35,373)	–	(35,373)
Other liabilities	(6,961)	–	(6,961)	(6,400)	–	(6,400)
Deposits	(3,231,740)	(30,637)	(3,262,377)	(2,898,548)	(34,687)	(2,933,235)
Subordinated notes	–	(24,663)	(24,663)	–	–	–
Securitisation liabilities	–	(781,142)	(781,142)	–	(797,448)	(797,448)
Derivative liability	–	(517)	(517)	–	(629)	(629)
<b>Total financial liabilities</b>	<b>(3,269,411)</b>	<b>(836,959)</b>	<b>(4,106,370)</b>	<b>(2,940,321)</b>	<b>(832,764)</b>	<b>(3,773,085)</b>
<b>Net contractual amounts receivable/(payable)</b>	<b>(2,687,453)</b>	<b>2,904,545</b>	<b>217,092</b>	<b>(2,459,043)</b>	<b>2,671,324</b>	<b>212,281</b>

### 3.3 Average balance sheet and source of net interest income

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

	30 June 2016			30 June 2015		
	Average balance \$'000	Interest \$'000	Average rate %	Average balance \$'000	Interest \$'000	Average rate %
<b>Average interest earning assets and interest income</b>						
<b>Interest-earning assets</b>						
Cash and liquid assets	76,351	809	1.06%	75,168	1,118	1.49%
Financial instruments	357,276	10,264	2.87%	334,481	10,990	3.29%
Loans and advances	3,756,712	172,278	4.59%	3,256,095	163,131	5.01%
<b>Total average interest-earning assets</b>	<b>4,190,339</b>	<b>183,351</b>	<b>4.38%</b>	<b>3,665,744</b>	<b>175,239</b>	<b>4.78%</b>
Non-interest earning assets	124,711	–	–	127,413	–	–
<b>Total average assets</b>	<b>4,315,050</b>	<b>183,351</b>	<b>4.25%</b>	<b>3,793,157</b>	<b>175,239</b>	<b>4.62%</b>
<b>Average liabilities and interest expense</b>						
<b>Interest-bearing liabilities</b>						
Deposits and derivatives	3,199,496	68,513	2.14%	2,842,808	70,221	2.47%
Notes and bonds on issue	776,070	25,928	3.34%	617,773	21,583	3.49%
<b>Total average interest-bearing liabilities</b>	<b>3,975,566</b>	<b>94,441</b>	<b>2.38%</b>	<b>3,460,581</b>	<b>91,804</b>	<b>2.65%</b>
Non-interest bearing liabilities	45,959	–	–	47,295	–	–
<b>Total average liabilities</b>	<b>4,021,525</b>	<b>94,441</b>	<b>2.35%</b>	<b>3,507,876</b>	<b>91,804</b>	<b>2.62%</b>
Reserves	277,665	–	–	269,918	–	–
<b>Total average liabilities and reserves</b>	<b>4,299,190</b>	<b>94,441</b>	<b>2.20%</b>	<b>3,777,794</b>	<b>91,804</b>	<b>2.43%</b>

## 4.1 Cash and liquid assets

	30 June 2016 \$'000	30 June 2015 \$'000
Notes, coins and cash at bank	64,429	51,854
Other short term liquid assets	15,697	14,331
<b>Total cash and liquid assets</b>	<b>80,126</b>	<b>66,185</b>
<b>Notes to the statements of cash flows</b>		
Reconciliation of profit for the year to net cash provided by operating activities		
Profit for the year	28,334	32,513
Add/(less) items classified as investing/financing activities or non-cash items:		
Depreciation of property, plant and equipment	2,328	2,301
Amortisation of intangible assets	2,461	2,472
Impairment of property, plant and equipment	1,350	–
Net (gain)/ loss on sale of investments	(23)	(5,162)
Bad and doubtful debts expense net of recoveries	1,221	602
Deferred upfront lending costs	6,373	4,103
Employee equity benefits reserve	157	188
Tax movement within reserves	(363)	–
Changes in assets and liabilities		
Decrease/(increase) in due from other financial institutions	6,372	(517)
Decrease/(increase) in other assets	1,296	(1,121)
Decrease/(increase) in deferred tax assets	659	(289)
Increase/(decrease) in due to other financial institutions	(4,690)	(216)
Increase/(decrease) in other liabilities	561	–
Increase/(decrease) in employee benefit provisions	97	(176)
Increase/(decrease) in tax liabilities	(3,970)	2,194
<b>Net cash flows used in operating activities</b>	<b>42,163</b>	<b>36,892</b>

## ACCOUNTING POLICIES

### Cash and liquid assets

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

### Cash Flow statement

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

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

## 4.2 Financial instruments

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Financial instruments at amortised cost</b>		
Negotiable certificates of deposits	56,637	80,519
Floating rate notes	166,752	107,433
Short-term deposits	127,785	151,697
<b>Total other financial instruments at amortised cost</b>	<b>351,174</b>	<b>339,649</b>
<b>Financial instruments at fair value</b>	<b>355,969</b>	<b>340,358</b>

### ACCOUNTING POLICIES

#### Financial instruments at amortised cost

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

#### Financial instruments at fair value

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

#### Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount plus any amounts in the asset revaluation reserve pertaining to that asset and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in Other Comprehensive Income is recognised in profit or loss. A cumulative gain or loss that had been recognised in Other Comprehensive Income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

## 4.3 Loans and advances

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Classification of loans and advances at amortised cost</b>		
Residential loans secured by mortgage	3,674,988	3,351,150
Personal loans and unsecured overdrafts	79,565	83,803
Overdrafts secured by mortgage	59,308	65,651
Commercial loans	50,330	50,965
<b>Total loans and advances at amortised cost</b>	<b>3,864,191</b>	<b>3,551,569</b>
Specific provision for impairment	567	115
Collective provision for impairment	491	547
<b>Total loans and advances at amortised cost net of provision for impairment</b>	<b>3,863,133</b>	<b>3,550,907</b>

### Loans and advances at amortised cost accounting policy

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

### Provision for impairment

<b>Specific provision for impairment</b>		
Opening balance	115	55
Charge/(credit) against profit	452	60
<b>Closing balance of specific provision for impairment</b>	<b>567</b>	<b>115</b>
<b>Collective provision for impairment</b>		
Opening balance	547	771
Charge/(credit) against profit	396	(164)
Write-off of previously provisioned facilities	(452)	(60)
<b>Closing balance of collective provision for impairment</b>	<b>491</b>	<b>547</b>
<b>Charge to profit for impairment on loans and advances</b>		
Increase/(decrease) in specific provision for impairment	452	60
Increase/(decrease) in collective provision for impairment	(56)	(224)
Bad debts recovered	(1,221)	(1,359)
Bad debts written off directly	2,046	2,125
<b>Total impairment expense on loans and advances</b>	<b>1,221</b>	<b>602</b>

### 4.3 Loans and advances (continued)

#### Impairment of financial assets accounting policy

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

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

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

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

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

	Carrying value at transaction date	
	30 June 2016 \$'000	30 June 2015 \$'000
<b>Transferred financial assets:</b>		
Loans and advances	195,819	466,223
<b>Associated financial liabilities</b>		
Securitisation liabilities to external investors	150,000	446,775

#### Transfer of financial assets accounting policy

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

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

#### Interest in Joint Operations accounting policy

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

The Group recognises its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;

- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

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

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

## 4.5 Deposits and other borrowings including subordinated notes

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Deposits</b>		
At call deposits	1,318,371	1,170,904
Term deposits	1,569,299	1,490,787
Negotiable certificates of deposit	374,707	271,544
<b>Total deposits</b>	<b>3,262,377</b>	2,933,235
<b>Other borrowings</b>		
Subordinated notes <sup>(1)</sup>	24,663	–
Securitisation liabilities	781,142	797,448
<b>Total deposits and other borrowings including subordinated notes</b>	<b>4,068,182</b>	3,730,683
<b>Concentration of deposits:</b>		
Customer deposits	2,714,858	2,493,418
Wholesale deposits	572,182	439,817
Securitisation liabilities	781,142	797,448
<b>Total deposits</b>	<b>4,068,182</b>	3,730,683

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

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

### Deposits and other borrowings accounting policy

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

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

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

## 4.6 Fair value of financial instruments

### Classification of financial instruments

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

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

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

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

	30 June 2016		30 June 2015	
	Carrying value \$'000	Net fair value \$'000	Carrying value \$'000	Net fair value \$'000
<b>Financial assets</b>				
Financial instruments	351,174	351,007	339,649	339,805
Loans and advances	3,863,133	3,862,014	3,550,907	3,550,610
<b>Total financial assets</b>	<b>4,214,307</b>	<b>4,213,021</b>	<b>3,890,556</b>	<b>3,890,415</b>
<b>Financial liabilities</b>				
Deposits	3,262,377	3,262,826	2,933,235	2,934,197
Other borrowings including subordinated notes	805,805	805,805	797,448	797,448
<b>Total financial liabilities</b>	<b>4,068,182</b>	<b>4,068,631</b>	<b>3,730,683</b>	<b>3,731,645</b>

### Fair value hierarchy

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

Level 1 – inputs that are prices quoted for identical instruments in active markets;

Level 2 – inputs based on observable market data other than those in level 1; and

Level 3 – inputs for which there is no observable market data.

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

	Level 1 value \$'000	Level 2 value \$'000	Level 3 value \$'000	Total value \$'000
<b>2016</b>				
<b>Financial assets</b>				
Financial instruments	–	351,007	–	351,007
Loans and advances	–	–	3,862,014	3,862,014
<b>Financial liabilities</b>				
Deposits	–	3,262,826	–	3,262,826
Other borrowings including subordinated notes	–	805,805	–	805,805
<b>2015</b>				
<b>Financial assets</b>				
Financial instruments	–	339,805	–	339,805
Loans and advances	–	–	3,550,610	3,550,610
<b>Financial liabilities</b>				
Deposits	–	2,934,197	–	2,934,197
Other borrowings including subordinated notes	–	797,448	–	797,448

## 5.1 Property, plant and equipment

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Land and buildings</b>		
At revalued amount	13,212	15,654
Accumulated depreciation	(5,163)	(6,059)
	8,049	9,595
<b>Plant and equipment</b>		
At cost	3,943	6,386
Accumulated depreciation	(2,180)	(4,327)
	1,763	2,059
<b>Total property, plant and equipment</b>	<b>9,812</b>	<b>11,654</b>

## 5.1 Property, plant and equipment (continued)

### PROPERTY, PLANT AND EQUIPMENT ACCOUNTING POLICY

#### Plant and equipment

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

#### Land and buildings

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

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

#### Impairment of property, plant and equipment

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

#### Derecognition of property, plant and equipment

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

## 5.2 Intangible assets and goodwill

	Goodwill \$'000	Software \$'000	Other \$'000	Total \$'000
<b>Year ended 30 June 2016:</b>				
At 1 July 2015, net of accumulated amortisation	65,978	10,806	1,893	78,677
Additions	–	3,524	592	4,116
Impairment	–	(1,350)	–	(1,350)
Amortisation	–	(1,964)	(497)	(2,461)
<b>At 30 June 2016, net of accumulated amortisation</b>	<b>65,978</b>	<b>11,016</b>	<b>1,988</b>	<b>78,982</b>
<b>At 30 June 2016</b>				
Cost (gross carrying amount less impairment)	65,978	22,596	2,578	91,152
Accumulated amortisation	–	(11,580)	(590)	(12,170)
<b>Net carrying amount</b>	<b>65,978</b>	<b>11,016</b>	<b>1,988</b>	<b>78,982</b>
<b>Year ended 30 June 2015:</b>				
At 1 July 2014, net of accumulated amortisation	65,978	11,225	914	78,117
Additions	–	1,771	1,261	3,032
Amortisation	–	(2,190)	(282)	(2,472)
<b>At 30 June 2015, net of accumulated amortisation</b>	<b>65,978</b>	<b>10,806</b>	<b>1,893</b>	<b>78,677</b>
<b>At 30 June 2015</b>				
Cost (gross carrying amount less impairment)	65,978	20,422	1,986	88,386
Accumulated amortisation	–	(9,616)	(93)	(9,709)
<b>Net carrying amount</b>	<b>65,978</b>	<b>10,806</b>	<b>1,893</b>	<b>78,677</b>

### Intangibles accounting policy

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

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

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

## 5.2 Intangible assets and goodwill (continued)

### IMPAIRMENT TESTING OF GOODWILL

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

	30 June 2016 \$'000	30 June 2015 \$'000
Banking Business	40,189	40,189
Wealth Management Business	25,789	25,789
<b>Total goodwill</b>	<b>65,978</b>	65,978

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

Each CGU's value-in-use was determined using cash flow projections from Board approved financial budgets for the year ending 30 June 2017. Growth rates have been applied from year two through to year twenty. Cash flows are projected by undertaking detailed calculations for each income and expense category over the twenty year period. Certain income categories are modelled by projecting growth in relevant portfolio balances and the resulting income derived there-from. Other non-portfolio related income streams and expense categories are modelled by projecting real rates of growth (above inflation) for each category. Terminal value is determined at year twenty using the assumption that the CGU achieves no real growth above inflation into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business which the CGU operates. The discount rate used of 10% reflects the Group's post-tax nominal weighted average cost of capital, in which has been calculated by externally engaged advisers and approved by the Board. Average inflation is projected to be 2.5%. The method for determining value-in-use is consistent with that adopted in the comparative period.

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

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

#### Goodwill accounting policy

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

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

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

**Impairment of subsidiaries accounting policy**

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

**5.3 Employee benefit provisions**

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Balances</b>		
Provision for annual leave	2,156	1,979
Provision for long service leave	3,359	3,439
<b>Total employee benefits provisions</b>	<b>5,515</b>	<b>5,418</b>
Due to be settled within 12 months	4,219	4,191
Due to be settled more than 12 months	1,296	1,227
<b>Total employee benefits provisions</b>	<b>5,515</b>	<b>5,418</b>

**Employee benefits accounting policy**

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

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

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

## 5.4 Share capital

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Issued and paid up ordinary shares</b>	<b>134,756</b>	132,670

### Movements in ordinary share capital

	30 June 2016		30 June 2015	
	Number of shares	Amount \$'000	Number of shares	Amount \$'000
Opening balance	87,283,417	132,670	87,261,995	132,566
Shares issued pursuant to the				
– employee share scheme of the Group	21,054	99	21,422	104
– executive long term incentive plan	27,901	46	–	–
– dividend reinvestment plan	521,883	1,941	–	–
<b>Closing balance</b>	<b>87,854,255</b>	<b>134,756</b>	87,283,417	132,670

### Terms and conditions

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

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

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

## 6.1 Income tax expense, current and deferred tax balances

	30 June 2016 \$'000	30 June 2015 \$'000
<b>The major components of income tax expense/(benefit) are:</b>		
<b>Income tax expense</b>		
Current income tax charge	12,298	14,231
Adjustment in respect of current income tax of previous years	(220)	(1,212)
Adjustments in respect of deferred income tax of previous years	221	999
Relating to origination and reversal of temporary differences	457	(500)
<b>Total Income tax expense</b>	<b>12,756</b>	<b>13,518</b>
<b>A reconciliation between tax expense and accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:</b>		
<b>Income tax expense attributable to:</b>		
Accounting profit before tax	41,090	46,031
The income tax expense comprises amounts set aside as:		
Provision attributable to the current year at the statutory rate of 30%, being:		
– Prima facie tax on accounting profit before tax	12,327	13,809
– Under/(over) provision in prior year	–	(213)
Expenditure not allowable for income tax purposes	536	–
Tax effect of tax credits and adjustments	(107)	(92)
Other	–	14
<b>Income tax expense reported in the consolidated income statement</b>	<b>12,756</b>	<b>13,518</b>
Weighted average effective tax rates	31.0%	29.4%
<b>Deferred income tax relates to the following:</b>		
<b>Deferred tax assets</b>		
Employee entitlements	1,655	1,742
Deferred revenue	–	69
Provisions	123	96
Doubtful debts	299	258
Other	1,587	1,916
Carried forward losses	–	242
<b>Total deferred tax assets</b>	<b>3,664</b>	<b>4,323</b>

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Deferred tax liabilities</b>		
Available for sale financial assets	87	–
Property, plant and equipment	1,112	862
Other	1,363	1,333
<b>Total deferred tax liabilities</b>	<b>2,562</b>	<b>2,195</b>
Current tax payable	1,845	6,182
<b>Total tax liabilities</b>	<b>4,407</b>	<b>8,377</b>

### Movements in deferred tax balances

	Deferred tax assets		Deferred tax liabilities	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Opening balance	4,323	4,034	2,195	1,548
(Charged)/credited to income statement	(158)	373	299	(126)
Credited/(charged) to equity	(348)	142	–	–
Adjustments for deferred tax of prior years	(153)	(226)	68	773
<b>Closing balance</b>	<b>3,664</b>	<b>4,323</b>	<b>2,562</b>	<b>2,195</b>

## TAXATION ACCOUNTING POLICY

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

### Current tax payable

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

### Deferred tax

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

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

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

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

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

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

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

#### **Tax consolidation**

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

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

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

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

## 7.1 Parent Entity Information

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

Financial Performance	30 June 2016 \$'000	30 June 2015 \$'000
<b>Assets</b>		
Cash and liquid assets	3,026	2,952
Other receivables	100	64
Related party receivables	2,337	5,611
Investments in subsidiaries	243,364	241,311
Deferred tax assets	833	924
<b>Total assets</b>	<b>249,660</b>	<b>250,862</b>
<b>Liabilities</b>		
Other liabilities	2,181	867
Related party payables	518	407
Tax liabilities	1,840	6,182
Employee benefit provisions	392	139
<b>Total liabilities</b>	<b>4,931</b>	<b>7,595</b>
<b>Net assets</b>	<b>244,729</b>	<b>243,267</b>
<b>Equity</b>		
Share capital	240,684	238,598
Retained earnings	3,370	4,103
Reserves	675	566
<b>Total equity</b>	<b>244,729</b>	<b>243,267</b>
<b>Financial position</b>		
<b>Profit after income tax for the year</b>	<b>24,155</b>	<b>28,668</b>
<b>Other comprehensive income</b>	<b>—</b>	<b>—</b>
<b>Total comprehensive income</b>	<b>24,155</b>	<b>28,668</b>

The parent entity has not entered in to any guarantees and does not have any contingent liabilities as at 30 June 2016 (30 June 2015: nil).

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

## 7.2 Controlled entities and principles of consolidation

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

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

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

### BASIS OF CONSOLIDATION ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

## 7.3 Related party disclosures

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

### Managed Investment Schemes

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

	Consolidated		TPT	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Management fees received	9,272	9,370	9,272	9,370
Balance of investment held at year end	9,663	11,507	2,334	4,638
Distributions received from managed funds	357	387	168	184

The Funds have:

- Accepted money on deposit from Directors and Executives or entities associated with Directors and Executives at prevailing Fund rates and conditions;
- Loaned money to MSB, in the form of term deposits, totalling \$29.75 million (2015: \$31.75 million); and
- Loaned money to Trusts within the ConQuest Trusts Residential Mortgage Backed Securities Program in the form of Class A and B notes totalling \$56.35 million (2015: \$43.89 million).

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

## KEY MANAGEMENT PERSONNEL

### Individual Directors and Executive compensation disclosures

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Key management personnel compensation</b>		
The key management personnel compensation comprised:		
Short-term employee benefits	3,350	3,207
Post employment benefits	367	388
Share-Based payment <sup>(i)</sup>	87	84
Termination benefits	—	910

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

## 8.1 Contingent liabilities and expenditure commitments

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Operating lease expenditure commitments</b>		
not later than 1 year	3,861	3,765
later than 1 and not later than 5 years	10,618	10,950
later than 5 years	10,475	13,637
<b>Total lease expenditure contracted for at balance date</b>	<b>24,954</b>	<b>28,352</b>

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

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

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

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

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

<b>Customer commitments</b>		
Loans approved but not advanced to borrowers	49,360	49,702
Undrawn continuing lines of credit	76,415	79,931
Performance guarantees	1,876	1,464
<b>Total customer commitments</b>	<b>127,651</b>	<b>131,097</b>

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

<b>Bank Guarantee</b>	<b>1,000</b>	1,000
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The Group is a non-broker participant in the Clearing House Electronic Sub Register System operated by the Australian Securities Exchange and has provided a guarantee and indemnity for the settlement account from Bendigo and Adelaide Bank Limited (BABL). The Group maintains a deposit with BABL for \$1,000,000 (2015: \$1,000,000) as collateral for the guarantee.

<b>Loan Guarantees</b>	<b>180</b>	135
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## 8.1 Contingent liabilities and expenditure commitments (continued)

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

### ESTATE ADMINISTRATION

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

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

## 8.2 Remuneration of Auditors

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Audit services</b>		
Audit of the financial statements of the consolidated entities	373	358
<b>Total remuneration for audit services</b>	<b>373</b>	358
<b>Audit related services</b>		
Assurance related services	7	25
Audit of loans and other services to the securitisation program	27	60
<b>Total remuneration for audit related services</b>	<b>34</b>	85
<b>Other non-external audit related services</b>		
Other services	73	50
<b>Total remuneration for non-audit related services</b>	<b>73</b>	50
<b>Total remuneration for services provided</b>	<b>480</b>	493

## 8.3 Events subsequent to balance date

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

## 8.4 Other significant accounting policies and new accounting standards

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

### Other assets

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

### Other liabilities

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

### New and revised accounting standards

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application for reporting periods beginning on or after 1 July 2015. The adoption of these accounting standards have not resulted in any significant changes to the financial statements:

*AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* [AASB 1 & AASB 11].

*AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 & 138)*.

*AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

*AASB 2015-1 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*.

*AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative Amendments to AASB 101*.

*AASB 2015-3 Amendments to Australian Accounting Standards from the Withdrawal of AASB 1031 Materiality*.

*2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*.

*2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*.

The following standards have been identified as accounting standards which may impact the entity in the period of initial application. It is available for early adoption at 30 June 2016, but has not been applied in preparing this financial report. The Group will adopt this standard on its effective date. It is not expected that adoption of this standard will have a significant impact on the presentation of the Group's financial statements:

*AASB 15 Revenue from Contracts with Customers* – expected adoption date 1 July 2018.

*AASB 16 Leases* – expected adoption date 1 July 2019.

The following standard has been early adopted, refer to note 1.1 for information regarding the application of this standard.

*AASB 9 Financial Instruments – Classification & Measurement*.

# Directors' Declaration

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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

1. In the opinion of the Directors:

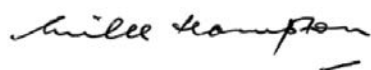
- (a) The financial statements and notes of the Group set out on pages 41 to 85 are in accordance with the Corporations Act 2001, including:
  - (i) Giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) Complying 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 2016.

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

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

On behalf of the Board



M L Hampton  
**Chairman**



C M Hollingsworth  
**Director**

Hobart  
Dated this 22 August 2016



## 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 consolidated statement of financial position as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the 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 1.2, 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.



*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 consolidated entity's financial position as at 30 June 2016 and of its 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 1.2.

*Report on the remuneration report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.



**JOANNE DOYLE**

Partner  
Wise Lord & Ferguson  
Chartered Accountants

Date: 22 August 2016

# Information relating to Shareholders

AS AT 6 SEPTEMBER 2016

## Range of Units Snapshot

Range	Total holders	Units	% of Issued Capital
1 – 1,000	60,436	23,815,674	27.11
1,001 – 5,000	2,646	7,240,050	8.24
5,001 – 10,000	982	7,312,990	8.32
10,001 – 100,000	793	18,680,058	21.26
100,001 – 9,999,999,999	49	30,805,483	35.06
<b>Rounding</b>			<b>0.01</b>
<b>Total</b>	<b>64,906</b>	<b>87,854,255</b>	<b>100.00</b>

## Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$4.15 per unit	121	281	12,128

## Top Holders Snapshot – Ungrouped

Rank	Name	Units	% of Units
1.	CITICORP NOMINEES PTY LIMITED	4,403,096	5.01
2.	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,870,164	3.27
3.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	2,434,708	2.77
4.	NATIONAL NOMINEES LIMITED	2,284,844	2.60
5.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,272,002	2.59
6.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,700,929	1.94
7.	DIVERSIFIED UNITED INVESTMENT LIMITED	1,400,000	1.59
8.	SELECT MANAGED FUNDS LTD	1,225,960	1.40
9.	AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	1,170,000	1.33
10.	RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	1,074,424	1.22
11.	BNP PARIBAS NOMS PTY LTD <DRP>	944,121	1.07
12.	MR BRIAN DAVID FAULKNER	750,000	0.85
13.	UBS NOMINEES PTY LTD	523,713	0.60
14.	BRISPOD NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	496,880	0.57
15.	BEECHWORTH HOLDINGS PTY LTD <BEECHWORTH SUPER FUND A/C>	462,568	0.53
16.	MR IAN GREGORY GRIFFITHS + MRS SUSAN JANE GRIFFITHS <GLENLORE SUPER SCHEME A/C>	453,741	0.52
17.	MILTON CORPORATION LIMITED	444,992	0.51
18.	MRS WENDY JEAN FAULKNER	405,000	0.46
19.	PRESTIGE FURNITURE PTY LTD	376,035	0.43
20.	MRS JOAN E EVERSLED	312,160	0.36
<b>Totals: Top 20 holders of Ordinary Fully Paid Shares (Total)</b>		<b>26,005,337</b>	<b>29.60</b>
<b>Total Remaining Holders Balance</b>		<b>61,848,918</b>	<b>70.40</b>

## Corporate Governance Statement

The Board of MyState Limited is committed to upholding the highest levels of corporate governance and subscribes to the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council in order to promote investor confidence in the company and within the broader market.

MyState Limited's Corporate Governance Statement and policies are available on the Company's website at [www.mystatelimited.com.au/about-corporate-governance.htm](http://www.mystatelimited.com.au/about-corporate-governance.htm)

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# Corporate Directory



## Registered Office:

MyState Limited  
ABN: 26 133 623 962  
Level 2, 137 Harrington Street  
Hobart TAS 7000  
Telephone: 138 001  
Facsimile: (03) 6215 9760  
Website: [mystatelimited.com.au](http://mystatelimited.com.au)  
Email: [info@mystatelimited.com.au](mailto:info@mystatelimited.com.au)

## DIRECTORS

Peter Armstrong (non-executive Director)  
Brian Bissaker (non-executive Director)  
Robert Gordon (non-executive Director)  
Miles Hampton (Chairman – non-executive)  
Colin Hollingsworth (non-executive Director)  
Stephen Lonie (non-executive Director)  
Sarah Merridew (non-executive Director)  
Melos Sulicich (Managing Director)

## COMPANY SECRETARY

Scott Lukianenko

## SHARE REGISTRY

Computershare Investor Services.  
GPO Box 2975EE  
Melbourne VIC 3000  
Telephone: 1300 538 803  
Overseas callers: +61 3 9415 4660  
Website: [computershare.com.au](http://computershare.com.au)

## AUDITORS

Wise Lord and Ferguson  
1st Floor, 160 Collins Street  
Hobart TAS 7000

## INTERNET WEBSITE

[www.mystatelimited.com.au](http://www.mystatelimited.com.au)

## AUSTRALIAN SECURITIES EXCHANGE LISTING

MyState Limited is listed on the Australian Securities Exchange under the code MYS.

## MyState Bank

ABN: 89 067 729 195  
Telephone: 138 001  
Website: [mystate.com.au](http://mystate.com.au)  
Email: [info@mystate.com.au](mailto:info@mystate.com.au)



## The Rock

A division of MyState Bank Limited  
Telephone: 1800 806 645  
Website: [therock.com.au](http://therock.com.au)  
Email: [rock@therock.com.au](mailto:rock@therock.com.au)



## Tasmanian Perpetual Trustees

ABN: 97 009 475 629  
Telephone: 1300 138 044  
Website: [tasmanianperpetual.com.au](http://tasmanianperpetual.com.au)  
Email: [info@tptl.com.au](mailto:info@tptl.com.au)







[mystatelimited.com.au](https://mystatelimited.com.au)