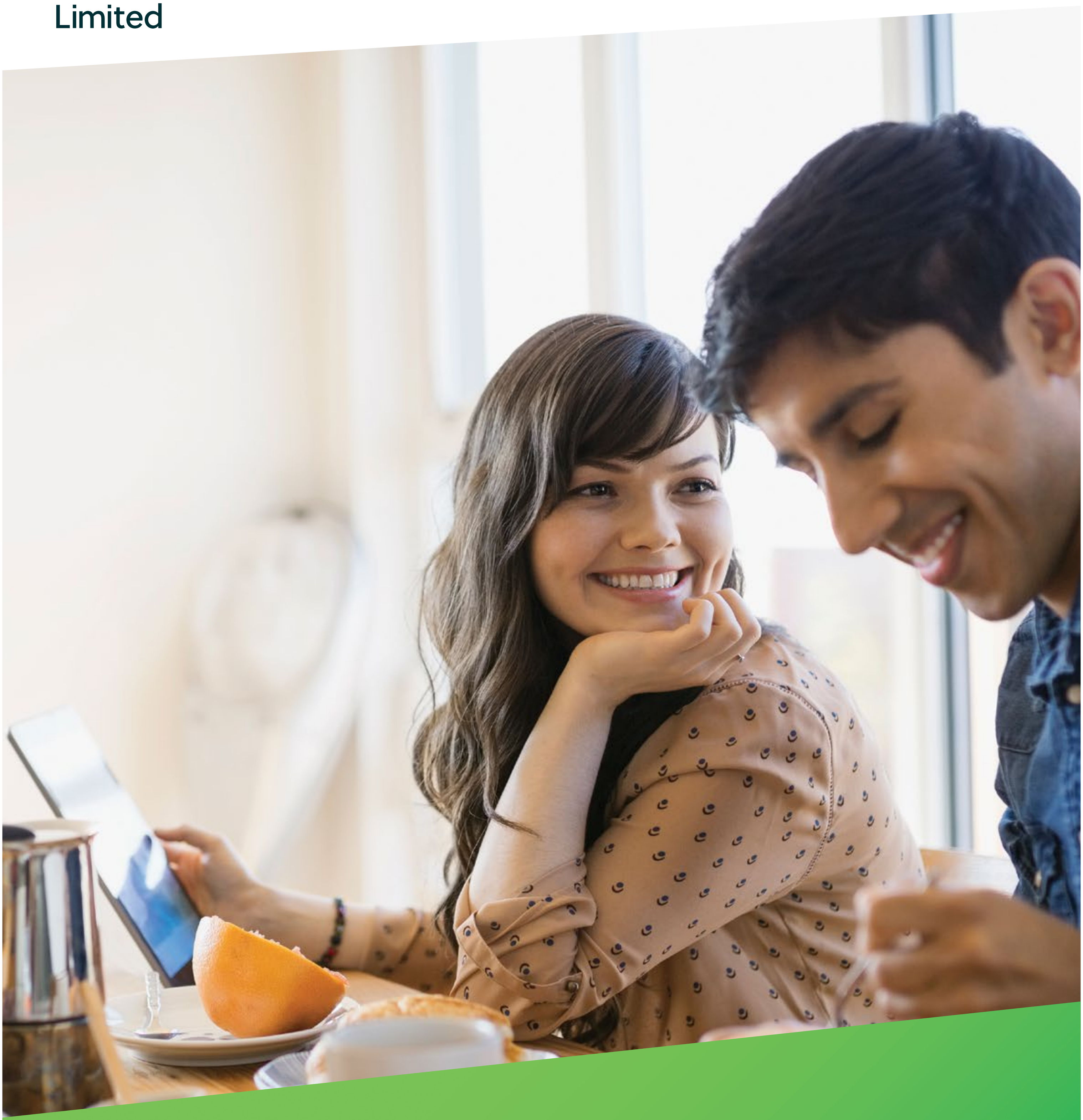
MyState Limited



2018 Annual Report

Contents

MyState Limited

Annual General Meeting

Best Western Hotel,
156 Bathurst Street, Hobart
on Thursday 18 October 2018
commencing at 10.30 a.m. (Hobart Time).

Corporate Governance

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. In addition the Australian Prudential Regulation Authority (APRA) requires MyState Limited, as the non-operating holding company of a bank, to comply with the prudential obligations that apply directly to the bank. To this end the Board of MyState Limited has a governance framework whereby the appropriate Board policies, meeting the APRA prudential requirements, apply across the Group.

MyState Limited's Board approved Corporate Governance Statement is available on the Company's website www.mystatelimited.com.au/About-Us/Corporate-Governance section and is current as at 17 August 2018.

MyState Limited
ABN 26 133 623 962

Highlights of the Year

MyState's business transformation is delivering for our shareholders, customers and community.

Shareholders

$31.5m
net profit after tax

28.75c
Full year dividends, fully franked

63,400
shareholders

Improving customer banking experience

Over 400,000 New Payments Platform (NPP) transactions since February 2018 launch

Contact Centre wait times reduced by 80%

Customer Net Promoter Score (NPS) for MyState group of +27

Customers

200,000
customers across Australia

55%
of home loan portfolio based outside of Tasmania

$4.6b
loan portfolio

Community

$2.0m
invested through the MyState Community Foundation since 2001

135
Smith Family Learning for Life Scholarships supported nationally

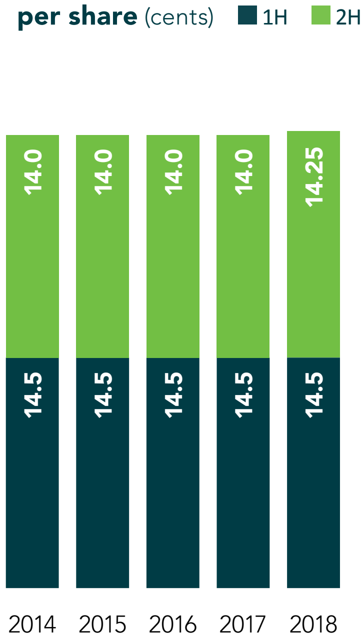
257
film entries in the MyState Student Film Festival

Group Performance

Underlying NPAT
($ million)

Underlying earnings per share (cents)

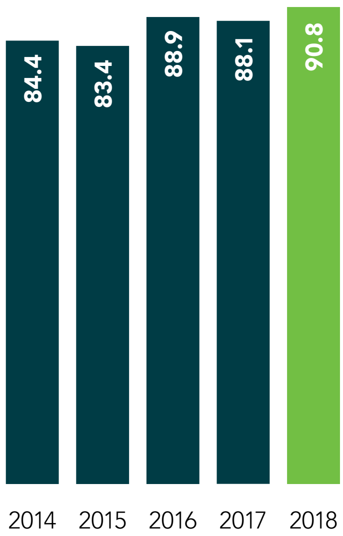
Dividends – fully franked per share (cents)



Underlying return on average equity (%)

Underlying cost to income ratio (%)

Net Interest Income
($ million)



Chairman's Report

Operating performance

It is pleasing to report on a year of sound improvement across all key performance metrics. Net profit after tax increased 4.6% from $30.1 million in FY17 to $31.5 million in FY18, whilst earnings per share increased 2.7% from 34.0 cps to 35.0 cps.

The group's cost-to-income ratio improved 190 basis points from 65.9% to 64.0% as revenue grew and costs remained stable.

MyState's loan book continued to grow at a rate well above system growth, albeit regulatory requirements caused the rate of growth to be below previous years.

Our wealth management business had a strong year. We experienced growth in funds under management and trustee services also improved.

MyState's capital adequacy ratio increased during the year to 13.5%, assisted by improved profitability and the group's largest residential mortgage-backed security issue to date, which was well supported by domestic and international investors.

The strong financial position and growth in profitability, together with an increasing confidence that the investments made over recent years are starting to deliver the results we expected, have encouraged the Board to increase the full year dividend from 28.5 cps to 28.75 cps.

Becoming a digital bank

We continued to invest in strengthening our digital platform to meet customers' changing expectations by offering simpler processes and expanded services.

MyState was among the earliest banks ready to transact on the New Payments Platform which enables consumers to benefit from real-time transactions.

We have embraced technological leadership and competitiveness at a time when digitisation and financial technology services are changing the external environment.

Our modern platform ensures that MyState is agile and can take advantage of digital channels for growth.

The Banking Royal Commission

In the past year consumers' trust in large banks has received unprecedented focus, with their lending practices scrutinised by the Royal Commission into misconduct in Banking, Superannuation and the Financial Services Industry and other inquiries. Our history as both a mutual and a trustee gives us a heritage of dealing fairly with our customers.

Whilst confident this is embedded in how we do business, we continue to review our products and services, fees,transparency and remuneration frameworks to ensure that our expectations in terms of conduct are being met. We have deep relationships with our customers, helping them to build wealth and enabling our communities to thrive. Making banking simple and trustworthy remains an important part of our DNA.

The regulatory regime

We have previously expressed a concern that the regulatory regime is weighted against smaller players. We believe that one of the most effective ways that the government can promote better outcomes for consumers will be through adding the promotion of effective competition as a key consideration of the regulatory framework.

The banking industry operates on an uneven playing field that favours larger competitors and removing some of the challenges will assist smaller banks such as MyState, which has demonstrated that it has the capacity to innovate and grow.

While new regulations arising from the Royal Commission recommendations will rightly aim to enforce greater industry accountability, consideration should be given to ensuring that any changes to the regulatory regime do not disproportionately impact smaller players and in the process constrain our ability to compete.

Board changes

During the year non-executive director Colin Hollingsworth retired from the Board, following a distinguished career which included serving as chairman and director of some of our formational credit unions. Sadly, Colin passed away in early 2018 and we acknowledge his contribution to our business and express our condolences to his family.

We welcomed Andrea Waters and Warren Lee to the Board as non-executive directors in October 2017. Andrea is a former partner of KPMG specialising in financial services audit. Warren's experience includes roles as chief executive officer of the Victorian Funds Management Corporation and chief executive officer, Australia and New Zealand for AXA Asia Pacific.

I would like to acknowledge the contribution of my fellow board members, the focus of the executive team on implementing the business strategy and the hard work and dedication of our people who each and every day strive to improve service to our customers.

Miles Hampton
Chairman

Managing Director's Report

During the year in review, we continued to focus on and improve our customers' experience through simplifying services and delivering them in the way that they want. We are capitalising on the unprecedented changes taking place in the financial services industry by refining our business model, improving our digital proposition and increasing efficiencies.

Increasingly, we are adapting what we do and the way we do it, to anticipate customers' needs with convenient, always-available transactional services and products which can be used on any device. We have invested in technology to consolidate our core banking system, improve internet and mobile banking and strengthen our digital services. This capability positions us today as a modern, highly scalable business with agile, cost effective and customer friendly processes.

Supporting the focus of our mission to make financial services simple and trustworthy was recognised this year by a significant improvement in the group's net promoter score (NPS). This provides an independent assessment of customer loyalty and MyState's group score increased to +27, reflecting the progress we have made to provide outstanding customer experiences.

Achieving operational excellence across our business is a key component of our strategy. Digital innovation has opened opportunities to serve new markets and we are continually upgrading our services to place customers at the centre of everything that we do.

As we transform the business with digital services we remain very much a customer-focused organisation. We are building our people skills with greater emphasis on digital and analytic capabilities and embracing new, lower-cost operating models, whilst never forgetting those customers who prefer to deal with us face-to-face or over the phone.

Financial overview

While markets remained highly competitive, our focus on improving customer experience and increasing efficiency contributed to further growth.

Total income increased 1.4% to $126.3 million from $124.6 million in the previous year. Net profit after tax was up 4.6% to $31.5 million.

We maintained the strong momentum in our banking business and despite sustained competition we successfully grew our home loan book at about twice the rate of system growth during the second half. Home loan settlements were $1.1 billion for the year as we maintained focus on quality loan book growth in the key low-risk, owner-occupied, low loan-to-valuation market. Our total loan book exceeds $4.5 billion, up approximately 50% from four years ago.

The geographic shift of our loan book continued with substantial growth across Australia's eastern seaboard. Home loans for customers in NSW, Queensland and Victoria now represent more than half of our loan book; Tasmanian home loans now represent around 45% of the loan book, compared to over 68% four years ago. This diversification helps to reduce operating risk and demonstrates our achievements in delivering faster, more competitive services, leveraging the distribution capability of our network and improving the experience of our customers.

Over the year, net interest margin declined slightly to 1.89% in a market which remains highly competitive. Significantly, we continued to maintain exceptional credit quality with 30 and 90 day arrears remaining well below peers and industry benchmarks. Impairments also remain at historic lows.

The Group's return on average equity remained high compared to peers at 10.1%.

The net profit after tax contribution from our wealth management business improved 21% to $4.6 million with positive funds under management momentum and an increase in operating revenue from $16.7 million to $18.5 million. Funds under management grew $64 million to $1,153 million and funds under advice rose 4.0% to $809 million.

The changing landscape

We anticipate that new regulation to protect consumers will emerge as a result of the Royal Commission and other banking sector reviews. We are very well positioned to comply with regulatory changes. However, we believe the increase in regulation is disproportionately impacting smaller banks and adding additional costs. We hope that the federal government will take further steps to remove some of the inequitable challenges faced by the smaller banks.

We are currently reviewing all our processes and products to achieve complete consistency with the Australian Banking Association's Banking Code of Practice which aims to restore trust in the banking industry.

We support the Banking Industry Conduct Background Check Protocol which promotes good conduct and ethical behaviour and are committed to implementing the recommendations from the ABA-initiated Sedgwick Review into retail bank staff remuneration and mortgage broking.

In 2017, we appointed a customer advocate who provides an independent review for customer feedback and have strengthened protection for whistle blowers, which encourages staff to speak up about issues or conduct that concern them.

Looking ahead

We have a clear strategy, a skilled team and a powerful, highly scalable and cost-effective platform which provides competitive advantages in the rapidly changing banking and wealth management environment. We continue to invest in digital services and innovation, capitalising on the changing dynamics of the financial services industry to improve customers' experiences.

The business of banking and wealth management is built on trust and confidence. While some parts of the industry have had issues in recent times, MyState continues to ensure that we have the interests of our customers front and centre in everything that we do. This is due in large part to our dedicated people that have a passion for ensuring that our customers benefit from doing business with us.

I would like to thank our hard working and committed team for their outstanding effort and enthusiasm for providing a better outcome for customers during the year. Together, we expect to continue to make further progress.

Melos Sulicich

Melos Sulicich
Managing Director and
Chief Executive Officer

Banking Operations

During the year, we continued to invest in our digital platform to make it easier for customers to do business with us. This reflects how the world is changing as increasingly people use cards and online and mobile transactions instead of cash. We are well progressed in creating a fully functioning digital bank.

Our customers' expectations about what they want from banking are increasingly shaped by their interactions with other service providers. This is causing us to think deeply about how to provide our services in a different and differentiated way. We have invested in technology to deliver better services through digital innovation, and in capability in order to re-engineer our processes. The outcome is that we can consistently deliver better customer experiences.

Our strategic direction is empowered by increased use of customer research panels, which help us to initiate new products and services in a timely and effective manner.

In the 2018 financial year, we experienced a 280% growth in bank accounts opened online following the introduction of a range of new accounts for customers, including an Everyday and eSaver account. During the year, customer deposits increased to $3.3 billion.

The introduction of online origination for personal loans, transaction accounts and term deposits now allows customers to apply for products in real-time, online.

We continue to refine our offering and soon will launch new services including online origination for home loans and new deposit products including a monthly fee-free transaction account as well as a bonus saver account.

Our platform has enabled us to extend services beyond the traditional branch network and we have focused on building scale across Australia's eastern seaboard. We are passionate about helping customers and supporting them with outstanding service, including through our new contact centre system which has expedited services and significantly reduced customer contact centre call waiting times by 80%.

We continued to build scale and our home loan book grew from $4,076 million to $4,358 million during FY18.

Despite vigorous competition in the low-risk, owner-occupied, low loan-to-valuation lending market, we achieved strong net interest income growth through disciplined cost management and increased efficiencies, particularly in the second half.

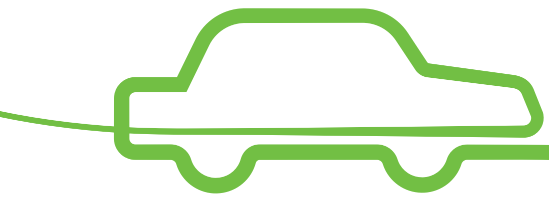
MyState also issued a $400 million residential mortgage backed security, the seventh in the ConQuest series and its largest to date, attracting a broad range of domestic and international investors. Securitisation provides around 23% of the group's funding.

MyState Bank receives an investment grade rating from Moody's of Baa1, which is a testament to our strategy of growing in high-quality, low-risk lending markets, our modern risk management systems and the strength of our capital management strategy.

At 30 June 2018, MyState maintained 11.5% Common Equity Tier 1 (CET1) capital. MyState is also well positioned to meet APRA's CET1 ratio requirements by 1 January 2020.

$1.79b

Loan applications increased from $1.68b in 2017



Wealth Management

Our wealth management business established new momentum in FY18, achieving strong growth. Funds under management grew significantly. Cash and income funds continued to outperform benchmarks and growth funds also provided consistent high returns.

Our funds have grown about 15% over the past two years, attracting new retail and wholesale investors. We continue to refine our portfolio to deliver ongoing performance and protection from market volatility.

Trustee services benefited from increased estate planning revenue from a higher number of high-value estates and probate applications.

We have an established a more detailed will review process and using the expertise of senior estate planners, this has led to a 20% increase in the number of wills written in recent years. This contributed to trustee services' revenue growth and helped to build knowledge across our team and relationships with our customers.

The strengthening of our team at the beginning of the year helped financial planning services report their best result in more than five years. We improved the quality of our statements of advice, providing a fuller, more co-ordinated service and introduced new services for the aged care sector. As services grow, we have increased marketing and anticipate further business development activity.

Looking ahead to FY19, we plan to introduce a new digital model which will deliver significant client benefits. This will improve our systems, products and distribution capabilities, making services more accessible. We are committed to helping our customers achieve their personal wealth objectives and our goal remains to deliver outstanding value.

$1.153b

Funds under management

Digital Services

Globally, Australia has the fourth highest number of non-cash payments per person. Digital channels are displacing cash and cheques as high-speed data connections enable faster transactions.

In February 2018, we were amongst the first banks to initiate and administer transaction accounts online with real-time payments through the New Payments Platform.

Customers can make real-time payments using a simple PayID such as a mobile phone number instead of a BSB and account number. In the first few months of the platform going 'live', MyState processed approximately 4% of Australian payments across the New Payments Platform, significantly above our market share.

Our strategy has reduced our cost to serve customers and we are taking advantage of predictive modelling and customer relationship management analytics to provide better and more convenient services.

Our future roadmap includes exciting new products and services. We will strengthen our portfolio with online home loan origination, monthly fee-free online accounts tailored to what our customers want from banking services. Over recent years, MyState has been at the forefront of introducing payment solutions such as Apple, Google and Samsung Pay and in the coming year, we will offer both Fitbit Pay and Garmin Pay.

400,000
NPP transactions since launch in February 2018

280%
growth in bank accounts opened online

Contact centre wait times reduced by
80%

Predictive modelling improving customer outcomes and tailored offerings

Stable credit quality increasingly complemented by credit automation

Significant productivity benefits

Risk Management

A robust risk and customer centric culture is at the heart of everything we do.

The group's strategy and risk appetite are developed together to support our mission while delivering the best outcomes for MyState and our customers. Employee conduct and feedback is taken very seriously in the discharge of our obligations and to achieve good customer outcomes.

MyState has adopted the three lines of defence risk framework. The first line provides for robust processes and infrastructure. The second line develops risk management strategies and policies; and challenges the effectiveness of the risk framework. The third line provides the Board with assurance regarding the framework's effectiveness.

Risks are identified, managed and mitigated using our risk management plan. We consider that effective risk management can provide strategic differentiation including:

- A prudent approach to risk management and a strong risk culture that helps us deliver our strategic intent;
- A robust control framework which is our cornerstone making sure risks are identified, managed and mitigated effectively; and
- Enhanced risk accountability that ensures business units in the first line of defence are accountable for risk and supported by strong oversight and challenge from the second line of defence.

Corporate Social Responsibility

MyState's vision is to make a genuine difference to our customers and communities every day. We believe that our success should be reflected in the community's wellbeing and particularly focus on supporting young people, who we consider to be the future custodians of our communities.

The MyState Foundation

Over 18 years the MyState Foundation has awarded more than $2 million in grants to help more than 90 not-for-profit organisations with a focus on empowering Tasmanian youth. Recipients in 2018 included Bridgewater PCYC, Camp Quality, Geeveston Community Centre, Glenhaven Family Care, Holyoake Tasmania, Centrecare Evolve Housing, Rural Health Tasmania, RYLA Christian Youth Centre, Scout Association of Tasmania – Howrah Branch and The Link Youth Health Service.

The Smith Family partnership

MyState supports The Smith Family by funding 100 students in the Learning for Life program for disadvantaged school children across Tasmania and 35 in Central Queensland.

In addition, MyState provides support for two work inspiration programs annually.

Hobart Hurricanes

MyState Bank has proudly supported the Hobart Hurricanes for three seasons, and recently signed for another two years as the principal partner of the women's Hurricanes team and as a sponsor of the men's team. In the 2017/2018 season MyState Bank was a co-major partner and attended every game with 'match day' volunteers. The MyState Community Blitz also enabled Hurricanes players to visit community organisations across Tasmania.

MyState Student Film Festival

The MyState Student Film Festival received the highest number of entries in its history after the program was opened to national entrants for the first time. The Festival received a record 257 entries including 30 from interstate and more than 1,000 students participated across age groups ranging from junior to high school, college and university levels.

During the year the MyState Group also supported the Hardie Fellowship, International Women's Day, the Cape Hope Foundation and the Toosey Foundation in Tasmania and the Challenge the Mountain event in Rockhampton.

Diversity and inclusion

MyState fosters an inclusive culture where everyone is treated with respect and has an opportunity to develop through inclusive recruitment practices, life stage and flexibility initiatives which include:

- 50% representation of women in leadership positions
- Continued development of women leaders
- Progression towards 10% of workforce from diverse cultural backgrounds
- Flexible workplaces that support each employee's life stage.

The environment in our business decisions

MyState considers the environmental outcomes of the business decisions we make. Some examples of how we are reducing the resources we use are through:

eStatements

MyState Bank offers customers an option to receive their statements electronically in a fast, secure and environmentally-friendly way. Since the launch of the service in 2016, approximately 20% of banking customers now receive their statements electronically.

Shareholder eCommunications

MyState encourages shareholders to register for electronic communications, including receiving this Annual Report electronically. More than 37% percent of shareholders are now receiving annual reports, notices and announcements electronically.

Community

We are passionate about making a contribution to the community and support many local events and projects. Our targets include to:

- Increase our employee volunteering to 400 days
- Provide $2.2 million in community grants to over 300 programs by 2020
- Support 135 Smith Family Learning for Life scholarships in Tasmania and Central Queensland.


MyState
MyState


MyState
MyState

Board of Directors

BEc (Hons), FCPA, FAICD

Miles Hampton – 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, Money3 Corporation 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.

BBus, GAICD, SA FIN

Melos Sulicich – 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.

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

Peter Armstrong – 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 and subsidiary companies on 1 July 1998.

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

Mr Armstrong is a former Director of Tennis Australia and President of Tennis Tasmania.

He 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.

BSc, MIFA, MAICD, FAMI

Robert Gordon – Independent non-executive Director

Appointed 12 February 2009

Mr Gordon is current President of the Institute of Foresters of Australia (IFA) and President of Football Federation Tasmania 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.

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

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

BCom, MBA, FCA, FFin, FAICD, FIMCA

Stephen Lonie – 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 also Chairman of Apollo Tourism & Leisure Ltd and a non-executive Director of Corporate Travel Management Ltd and Retail Food Group Ltd.

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

LLB (Hons), LLM, FAICD, MBA

Sibylle Krieger – Independent non-executive Director

Appointed 1 December 2016

Ms Krieger has over 35 years of broad commercial experience as a lawyer, economic regulator, independent consultant and non-executive director, with particular focus on heavily regulated industries. She was a partner in two large commercial law firms for 22 years and has over 12 years' experience as a non-executive director.

She is currently the non-executive chair of Xenith IP Group Limited (ASX:XIP) and a non-executive director of the Australian Energy Market Operator Ltd (AEMO) and a non-executive director of Vector Limited (NZX:VCT).

Ms Krieger was formerly a director of Sydney Ports Corporation, Allconnex Water and TasWater and was a trustee of the Royal Botanic Gardens and Domain Trust and of Sydney Grammar School.

In addition to her board roles, Ms Krieger has served as an independent consultant to private sector and government clients across diverse areas including risk management and energy security.

She is a member of the MyState Limited Board's Group Risk Committee, Group Remuneration Committee and Group Technology Committee.

BCom, FCA, GAICD

Andrea Waters – Independent non-executive Director

Appointed 19 October 2017

Ms Waters is an experienced auditor, accountant and non-executive director with over 30 years experience in Financial Services.

She is a Fellow of Chartered Accountants Australia & New Zealand and a member and accredited facilitator of the Australian Institute of Company Directors.

She is a former partner with KPMG (until 2012) specialising in Financial Services audit. For the past six years she has been a professional non-executive director and is currently a Director of Cash Converters International Limited (ASX:CCV), Care Super, Bennelong Funds Management Group, Citywide Service Solutions Pty Ltd and Colonial Foundation.

She was previously a Director of The Lord Mayors Charitable Foundation, Chartered Accountants Australia New Zealand and Cancer Council Victoria. Ms Waters is the Chair of the MyState Limited Board's Group Audit Committee and a member of the Group Risk Committee.

BCom, CA

Warren Lee – Independent non-executive Director

Appointed 19 October 2017

Mr Lee has extensive experience and a long record of leadership in the international financial services industry, including 15 years at AXA in senior management positions within the company's Australian and Asian businesses.

Mr Lee's two most recent executive positions were Chief Executive Officer of the Victorian Funds Management Corporation and Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited.

Mr Lee is currently a non-executive director of Tower Limited. He has a Bachelor of Commerce from the University of Melbourne and is a member of Chartered Accountants Australia and New Zealand.

Mr Lee is a member of the MyState Limited Board's Group Audit Committee, Group Risk Committee and Group Technology Committee.

Vale – Colin Maxwell Hollingsworth 19 April 1949 – 10 March 2018

It is with great sadness that the Directors, Executive and Staff of MyState Limited mourn the loss of our friend and respected former colleague, Colin Hollingsworth (Col).

Col had a long and rich history with MyState and its antecedent organisations. He was appointed to the Board of the Commonwealth Public Service Credit Union (CPSCU) in 1976 and became Chairman in 2000 when it merged with Island State Credit Union. When Island State merged with Connect Financial in 2007 to create MyState Financial he continued as a director. Col was appointed a director of MyState Limited in 2009 following the merger of MyState Financial with Tasmanian Perpetual Trustees. Col's contribution to the finance sector in Tasmania was very significant. He was a proud Tasmanian and his commitment, contribution and sense of humour will be sorely missed.

The Directors, Executive and Staff of MyState extend their deepest sympathy to Col's wife Robyn, daughter Carmen and son Carl.

Key Management Personnel

DipFS(FP), DipF&MB, MAICD

Huw Bough – General Manager Mortgage Broker, Business and Agri Banking

Huw is responsible for the leadership and performance of MyState Limited Group's Mortgage Broker, Business and Agri Banking divisions. He joined the company in August 2014.

Previously, Huw 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.

GDipPR, GAICD, FAMI

Katherine Dean – General Manager, Banking Sales and Service

Katherine (Kate) is responsible for the leadership, operation, customer service and sales performance of MyState Limited Group's Retail Banking and Contact Centre divisions, which includes the Group's retail branch networks in Tasmania and Central Queensland. She is also responsible for the Group's Marketing & Insights division. She joined the company in February 2017.

Prior to joining MyState, Kate was Chief Sales and Marketing Officer with mutual financial institution B&E Personal Banking. She has more than 20 years' experience in sales, marketing and communications across a diverse range of industry sectors including financial services, education, mining, transport and telecommunications.

BCom, CA, MIIA, CIA

David Harradine – Chief Financial Officer

David is a Chartered Accountant with over 20 years' experience working within the financial services industry.

Having worked for over 16 years with Deloitte as a partner within the chartered accounting and advisory firm, David joined MyState in 2015 as CFO. David is responsible for managing the finance, treasury, regulatory reporting, strategy and property functions for MyState.

David contributes to the Tasmanian community through his board appointments to the not-for-profit community sector organisations CatholicCare and Centacare Evolve Housing.

Post DipBusAdm, Post DipBusFin, Bcom

Mandakini Khanna – Chief Risk Officer

Mandakini (Mandy) is responsible for the Management of the financial and non-financial risks for the MyState Limited Group.

Mandy and her team have worked on strengthening risk culture and risk frameworks within MyState.

Mandy has over 20 years' experience in banking and retail financial and has held senior risk management positions in GE Capital across Asia Pacific.

BEng(Hons)

Paul Moss – General Manager, Technology, Operations and Product

Paul is responsible for the strategic direction and delivery of MyState Limited Group's back office processing, technology and products.

He joined the company in May 2015 having previously been a Director of IT Advisory at KPMG.

Prior, Paul 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.

MBA, MBSc

Craig Mowll – General Manager, Wealth Management

Craig was appointed General Manager, Wealth Management in July 2018 and is responsible for the strategic, financial and ongoing management of the MyState Limited Group's Wealth division. The division itself includes Financial Planning, Investment Management and Trustee capabilities.

Craig was previously the head of Managing Director of Aura Group's funds and wealth management business. Prior to this, he spent five years as the Chief Executive Officer of Certitude Global Investments. At Credit Suisse, he was the Director of Distribution, Product and Marketing (AUS/NZ) responsible for $34b of assets; and St. George Bank as General Manager of Australian Distribution, Technical and Customer Service for three divisions including; Asset Management, Margin Lending and Online Trading responsible $24B of assets.

BCom, MHRM,
GAICD

Janelle Whittle – General Manager, People and Culture

Janelle has overall responsibility for the MyState Limited Group's human resources, communications and community partnerships and has a key role in developing and nurturing organisational culture and capability.

Janelle has over twenty years' experience in human resource management, across a number of industries including aquaculture, utilities and higher education. Her previous senior leadership positions in human resources includie General Manager People and Culture at Aurora Energy Pty Ltd, and Director of Organisational Design and Change at the University of Tasmania.

Directors' Report

for the year ended 30 June 2018

Your Directors present their report on MyState Limited (the Company) for the financial year ended 30 June 2018.

Directors

- **Miles Hampton** BEc (Hons), FCPA, FAICD
  Chairman and independent non-executive Director.
- **Melos Sulicich** BBus, GAICD, SA FIN
  Managing Director – Executive Director.
- **Peter Armstrong** BEc (Hons), DipED, DipFP, CPA, FAICD, FAMI
  Independent non-executive Director.
- **Robert Gordon** BSc, MIFA, MAICD, FAMI
  Independent non-executive Director.
- **Colin Hollingsworth** CPA, MAICD, FAMI
  (Retired 19 October 2017)
  Independent non-executive Director.
- **Sibylle Krieger** LLB (Hons), LLM, FAICD, MBA
  Independent non-executive Director
- **Warren Lee** BCom, CA
  (Commenced 19 October 2017)
  Independent non-executive Director.
- **Stephen Lonie** BCom, MBA, FCA, FFin, FAICD, FIMCA
  Independent non-executive Director.
- **Andrea Waters** BCom, FCA, GAICD
  (Commenced 19 October 2017)
  Independent non-executive Director.

Company Secretary

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

Principal Activities

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

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

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

Rounding of amounts

In accordance with applicable financial reporting regulations and current industry practices, amounts in this report have been rounded off to the nearest one thousand dollars, unless otherwise stated. Any discrepancies between totals and sums of components in charts contained in this report are due to rounding.

Operating and Financial Review

The Group recorded a statutory profit after income tax for the year ended 30 June 2018 of $31.461m (2017: $30.080m).

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 14.5 cents per share. The dividend will be payable on 25 September 2018 to shareholders on the register at the Record Date of 24 August 2018.

Dividends paid in the year ended 30 June 2018 were as follows:

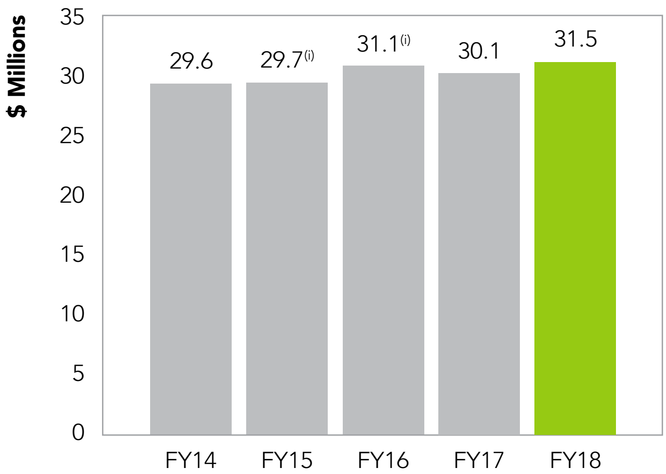
- In respect of the year ended 30 June 2017, a fully franked dividend of 14.5 cents per share, amounting to $12.970m, was paid on 13 September 2017.
- In respect of the half year ended 31 December 2017, a fully franked dividend of 14.25 cents per share, amounting to $12.824m, was paid on 29 March 2018.

Directors' Report

for the year ended 30 June 2018

Review and Results of Operations

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

Financial Performance

MyState Limited recorded a net profit after income tax for the year ended 30 June 2018 of $31.5m, an increase of 4.6% on the prior corresponding period (pcp) 30 June 2017 of $30.080m.

Earnings per share increased by 2.7% to 34.97 cents per share on the pcp and return on equity increased 9 basis points (bps) to 10.05%.

The Group is realising the benefit of the investment over recent years in enhanced digital technology platforms and capabilities and the efficiency in the business continues to improve. The Group's principal measure of efficiency – its cost to income ratio – fell 190bps on the pcp to 64.0% as we acquired more customers and continued to invest in creating a simpler operating model.

In a highly competitive market for low-risk owner occupied housing loans, the banking business has maintained a disciplined Net Interest Margin (NIM), whilst growing its loan book, expanding its geographic footprint and maintaining high credit quality standards.

The wealth management business has delivered strong growth in revenue and profit, underpinned by growth in funds under management (FUM) and a strong improvement in the trustee business.

Delivering on strategic priorities

FY18 was a year characterised by increasing customer advocacy, disciplined strategy execution and increasing uptake of MyState's enhanced digital capabilities.

The banking business has significantly transformed and modernised its banking technology platforms and digital offerings, keeping pace with changing customer needs and enabling growth beyond traditional distribution channels and geographies.

The banking business is continuing to innovate in its digital customer acquisition with the successful implementation of online application processes and paperless signatures.

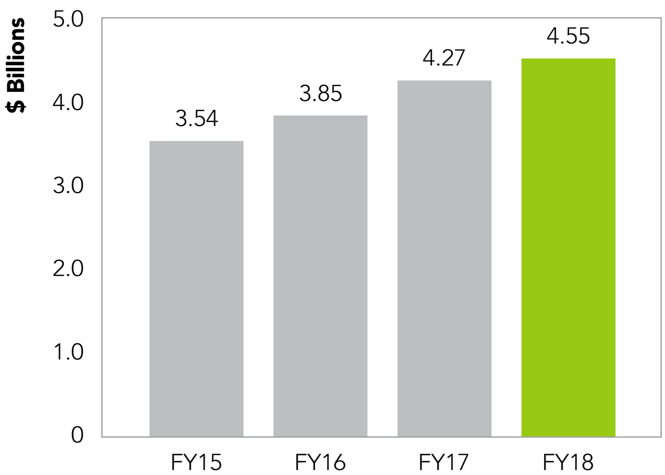
During the year, MyState was amongst the very first cohort of banks to go live with both inward and outward payments on the New Payments Platform (NPP), offering simpler, smarter payments for customers. MyState's customers have been early adopters and its share of NPP transactions is greater than the relative share of MyState in the system.

The banking business is benefiting from these transformative projects through reduced costs and increasing customer self-service, as customers are provided with an attractive digital offering, which makes products more accessible through online processes.

High quality asset growth and credit performance

The banking loan portfolio grew $281.062m (6.5%) during the year. While this growth was more subdued relative to recent periods – reflective of regulatory restrictions and disciplined margin management – it still remained ahead of national system growth.

Growth in loan book



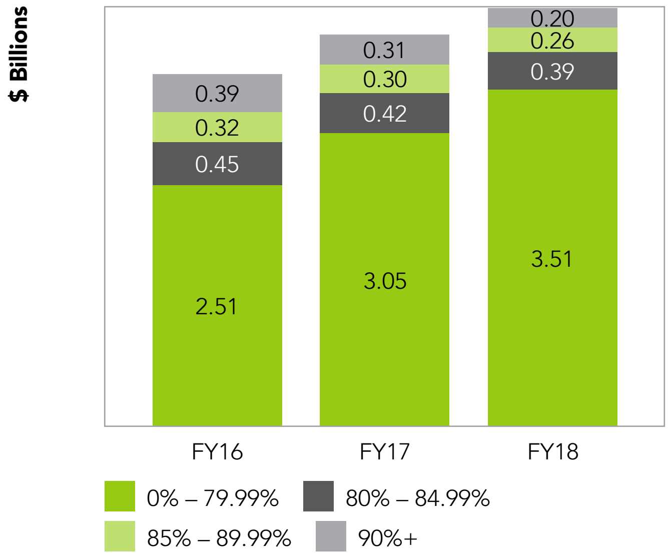
A further highlight is the increasing geographical spread of the loan portfolio. During the year, the Group continued to grow its customer base across the eastern seaboard of Australia, with the proportion of loans outside of Tasmania increasing from 50.5% to 54.5%.

Asset quality again remained strong in spite of heightened competition for owner occupier lending.

Impairment charges remain very low, with 30 day arrears performance of 0.47% and 90 day arrears of 0.19%, well below benchmarks for both major and regional banks.

Importantly, growth in the less than 80% LVR portfolio was 15% and MyState reduced its portfolio of loans with greater than 80% LVR by 17%. Investor and interest only lending continue to be well below that of peers and well within regulatory guidelines.

Home loan book by LVR

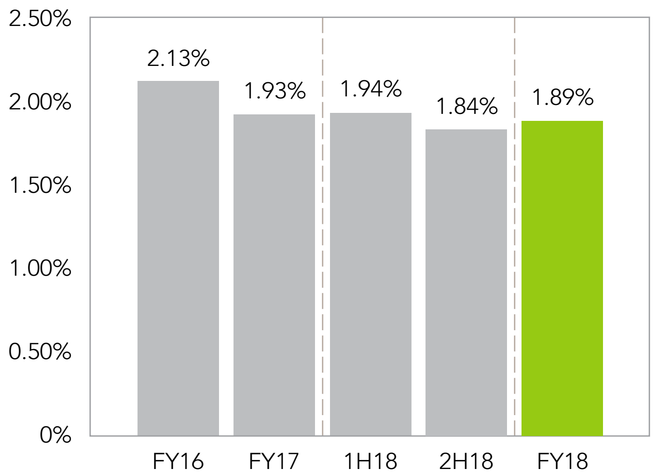


Net Interest Margin

Net interest margin decreased 4bps to 1.89%, reflecting the competitive environment for owner-occupied home loan business and deposit funding.

Funding costs steadily increased during the second half of the year, primarily due to external forces. The Bank Bill Swap Rate (BBSW) short term benchmark has risen due to strong competition for wholesale deposits. An elevated BBSW, coupled with the Reserve Bank of Australia (RBA) cash rate remaining at historic lows, translates into a greater interest rate spread.

NIM trend

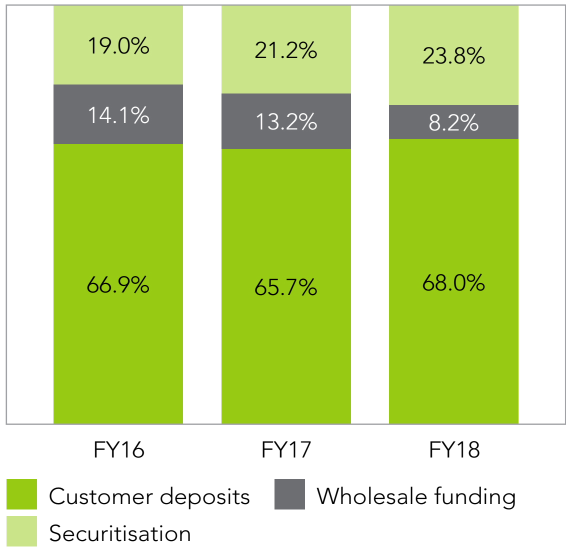


MyState has selectively repriced some lending products, which has indirectly offset some of the margin erosion.

MyState's deposit strategy has included taking advantage of the new digital channels to source less costly customer funding. Through a combination of customer centric products and the use of the recently implemented 'ApplyOnline' system, the Group has increased customer deposits by $278.675m and increased the proportion of customer deposit funding to 68.0% over the financial year (prior year 65.7%).

A diversified funding mix continues to give MyState the necessary flexibility to adapt should the economic environment change.

Funding mix



Non-interest income from banking activities

Non-interest income from banking activities declined by $1.372m (7.5%) on the prior year. This result was driven by comparably lower lending volumes, competitive loan fees waivers, and changing customer behaviour. Banking insurance commissions and other income from banking activities have remained steady.

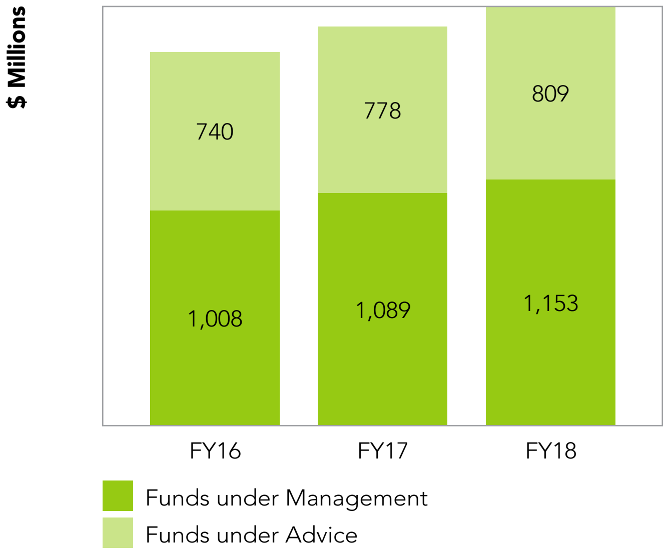
Directors' Report

for the year ended 30 June 2018

Review of Operations (continued)

Wealth business revenue growth underpinned by strong growth in FUM and FUA

FUM and FUA



MyState's Wealth management business continues to provide diversity in revenue for the Group and, during the year, it experienced strong growth across all business lines, with total income increasing $1.778m (10.6%), excluding the one-off gain relating to the disposal of investment and one-off costs in the prior year. Wealth NPAT increased to $4.565m from $2.429m, excluding the one-off gain on disposal of investment and one-off costs in the prior year.

The Wealth business' cash, income and growth funds have performed favourably against their benchmarks. The funds continued to grow on the back of a strong 18 months of performance and supported an increase of $0.67m in management fee income on the prior year.

FUM recorded growth of $63.963m (5.9%) over the year, although remained relatively steady on 1H18.

Pleasingly, the improved returns have seen a growth in new investors.

Financial planning and trustee services also returned solid results, with total other fees and commissions increasing $1.112m (15.3%). A strengthened financial planning team supported an increase in funds under advice, which grew by 4% to $808.841m. Trustee services recorded a $0.939m (25%) increase in revenue. This result was achieved through an increase in the number of probate applications and the value of estates under administration during the year.

The Wealth business is now starting to reap the benefits of the sustained focus on generating new wills and revising existing wills that has been made over the past three years.

Targeting cost to income reductions and productivity improvement

The banking business continues to target reductions in its cost to income ratio through leveraging technological advances that position MyState as a scalable modern banking business, able to deliver better customer outcomes in a more efficient manner. In the current period, the cost to income ratio reduced 190 bps to 64.0%. Operating expenditure was prudently managed with cost reductions of $1.270m (1.55%), which was a combination of both ongoing cost improvements and one off cost savings in the year.

Due to the significant improvement in our online and mobile banking applications and the resulting improvement in the ability of customers to self-serve, during the year, we closed our Central Queensland mini-branch network and the Emerald and Biloela full service branches. The cost benefit of these closures is already being realised. The Group additionally conducted a productivity review in the early part of the year. This review has positively influenced process and productivity improvements throughout the business and should ultimately lead to further improvements in the cost to income ratio in the years ahead.

Healthy capital position

Total Capital Movements

The Group has maintained its balance sheet strength, with a capital ratio at 13.47%, an 18bps increase on the prior year. MyState's capital strategy was supported by a $400m RMBS issuance that was its largest such transaction to date and was well supported by an increasingly broad investor base.

MyState is also well positioned to meet APRA's "unquestionably strong" CET1 ratio requirements by 1 January 2020.

Risk Management

MyState has continued to invest in strengthening its risk management capability and embedding a strong risk culture. By ensuring that risk related accountabilities and responsibilities are well understood, we are able to deliver better customer outcomes and minimise conduct risk.

Conduct risk is an area of risk that has attracted much attention within the sector and MyState's long-standing commitment to delivering great customer outcomes has been re-affirmed by the appointment of a Customer Advocate during the year, a role independent from the bank's existing complaints resolution process. In addition, our commitment to our Code of Conduct has been reaffirmed by strengthening our whistle blower program. Additionally, MyState is well down the path of compliance with the new Code of Banking Practice.

MyState's approach to risk management is overseen by the Board and its Group Risk Committee and is supported by a well-defined risk appetite statement, contemporary processes and systems and an industry standard three lines of defence model, which supports the identification, assessment, evaluation and management of risk. The three lines of defence model has been further augmented during the year with the formation of executive level divisional risk committees, which strengthen line one risk management.

The Board is committed to further enhancing risk management practices and has invested in new AML/CTF systems, adopting comprehensive credit reporting standards and supporting further investment in MyState's Enterprise Risk Management system.

Outlook

The Tasmanian economy has experienced strong economic growth and is well positioned for this to continue. State Final Demand has been at an all-time high, tourism growth continues to be a stand-out and Hobart has led the nation in housing price growth over the last 12 months. While overall housing sector credit growth appears to be moderating, continued regulator restrictions on investor and interest only lending mean that intense competition for owner occupied lending looks set to continue.

The banking business expects to continue to be able to achieve above-system lending growth and maintain a quality of loan book that performs favourably in comparison to the major banks and regional peers. We expect interest rates to remain low for some time and, whilst having to adapt to market conditions, we will continue our focus on management of the net interest margin.

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

We expect to deliver further gains in the contribution of our wealth business. We anticipate that a planned investment in a new technology platform for the wealth business will provide a strong foundation for further growth.

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

State of Affairs

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

Events Subsequent To Balance Date

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

Likely Developments and Expected Results

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

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

Environmental Regulation

The Company is not subject to significant environmental regulation.

Directors' Report

for the year ended 30 June 2018

Review of Operations (continued)

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:

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
Peter Armstrong	12	12	n/a	n/a	4	4	n/a	n/a	5	5	n/a	n/a
Robert Gordon	12	12	n/a	n/a	n/a	n/a	5	5	5	5	4	4
Miles Hampton	12	12	6	6	4	4	n/a	n/a	5	5	n/a	n/a
Colin Hollingsworth (ret 19/10/17)	2	4	2	2	n/a	n/a	1	2	n/a	n/a	n/a	n/a
Sybille Krieger	12	12	n/a	n/a	4	4	5	5	n/a	n/a	4	4
Warren Lee (appt 19/10/17)	8	8	4	4	n/a	n/a	3	3	n/a	n/a	3	3
Stephen Lonie	12	12	6	6	4	4	n/a	n/a	n/a	n/a	4	4
Melos Sulicich	11	12	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Andrea Waters (appt 19/10/17)	7	8	4	4	n/a	n/a	3	3	n/a	n/a	n/a	n/a

A – Number of meetings attended

B – Number of meetings eligible to attend

Indemnification and insurance of directors and officers

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

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

Non-Audit Services

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

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

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

Auditor's Independence Declaration to the Directors

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

In relation to our audit of the financial report for the consolidated group for the financial year ended 30 June 2018, 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 17 August 2018

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 2018, 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 People and Remuneration Committee

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

- Remuneration arrangements for Directors, the Managing Director and other senior Executives, having regard to comparative remuneration data in the financial services industry, independent advice and compliance with the requirements of APRA Prudential Standards;
- Human Resource policies and practices, ratification of industrial instruments and oversight of compliance with legal and regulatory requirements; and
- Oversight to ensure that the Group builds capability for strategic execution and to support the Group's business operations and culture, including succession planning and matters such as the Company's Employee Share Scheme and other incentive schemes for Executives and staff.

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

2. Remuneration Philosophy

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

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

- Appropriately balanced measures of employee performance that inform variable performance based pay for Executives, including short and long term incentive plans;
- Recognition and reward linked to favourable customer and shareholder outcomes;
- A considered balance between the capacity to pay and the need to attract and retain capable staff at all levels;
- Ensuring that the structure of the remuneration of risk and financial control personnel, including performance based components, does not compromise the independence of these personnel in carrying out their functions;
- Short term and long term incentive performance criteria being structured within the overall risk management of the Company; and

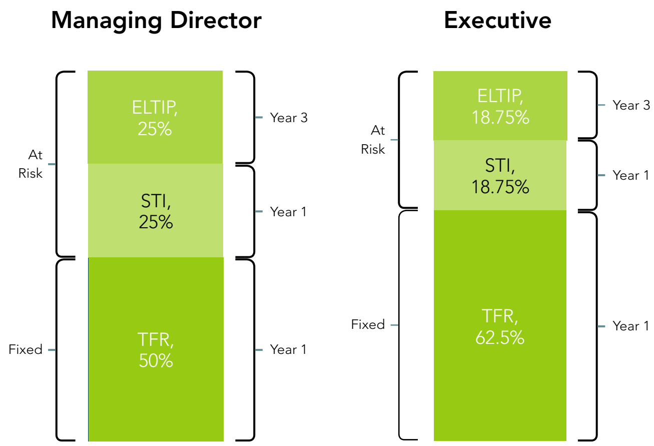
- The exercise of Board discretion in the assessment and clawback of incentives as an ultimate means to mitigate unintended consequences of variable pay and to preserve interests of shareholders and customers.

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

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

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

COMPOSITION OF REMUNERATION



3. Consequences of Performance on Shareholder Wealth

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

Indicator	2014	2015	2016	2017	2018
Underlying Profit after income tax ($'000)	29,571	29,719	31,062	30,080	31,461
Underlying Earnings per share (cents)	33.91	34.04	35.52	34.04	34.97
Dividends paid ($'000)	24,417	24,880	24,886	25,042	25,794
Share price (dollars)	4.64	4.83	4.13	4.85	5.01
Underlying Return on equity (%)	10.5	10.4	10.6	10.0	10.1
Underlying Cost to Income Ratio (%)	64.5	64.3	63.2	65.9	64.0

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

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

ELTIP performance measures for the "2014" and "2015" offers are weighted equally based on relative total shareholder return (TSR) performance and absolute post tax return on equity (ROE). For the "2016" and "2017" offer, the measures are weighted equally between relative TSR performance and absolute post tax underlying ROE. The relative TSR is a measure which incorporates both dividends paid and movements in share prices, whilst the post tax underlying ROE are measures of corporate profitability.

4. Key Management Personnel

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

Name	Position	Movements in 2018 Financial Year
Non-Executive Directors		
Miles Hampton	Non Executive Chairman	
Peter Armstrong	Non Executive Director	
Robert Gordon	Non Executive Director	
Colin Hollingsworth	Non Executive Director	Retired 19 October 2017
Sibylle Krieger	Non Executive Director	
Warren Lee	Non Executive Director	Appointed 19 October 2017
Stephen Lonie	Non Executive Director	
Andrea Waters	Non Executive Director	Appointed 19 October 2017
Executive Directors		
Melos Sulicich	Managing Director and Chief Executive Officer	
Executives		
Huw Bough	General Manager Mortgage Broker, Business and Agri Banking	
Katherine Dean	General Manager Retail Banking Sales and Service	
David Harradine	Chief Financial Officer	
Colleen Harris	General Manager People	Appointed 25 July 2017 Ceased 15 December 2017
Mandakini Khanna	Chief Risk Officer	
Jessica Kingston	Acting General Manager Human Resources & Property	Ceased 24 July 2017
Paul Moss	General Manager Technology, Operations and Product	
Craig Mowll	General Manager Wealth Management	Appointed 16 July 2018
Andrew Polson	General Manager Wealth Management	Ceased 11 May 2018
Chris Thornton	General Manager Product and Marketing	Ceased 15 December 2017
Janelle Whittle	General Manager People and Culture	Appointed 22 January 2018

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. 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 $88,400 per annum, inclusive of statutory superannuation, and the Chairman receives $221,000 per annum, inclusive of statutory superannuation.

The Chairs of the Groups Audit Committee and Risk Committee receive an additional $15,000 per annum, inclusive of statutory superannuation. The Chairs of the Group Technology Committee and the Group People and Remuneration Committee receive an additional $12,500, per annum inclusive of statutory superannuation.

Additionally, Members of Board Committees who are not Chairs are paid $5,000 per annum per committee, inclusive of statutory superannuation. The Chairman's fee is inclusive of Chairing the Group Nominations and Corporate Governance Committee, membership of the Group Audit Committee and membership of Group People and Remuneration Committee.

6. Managing Director and Executive Remuneration

6.1 Total Fixed Reward

The Total Fixed Reward (TFR) is paid by way of cash salary, superannuation and salary sacrificed other benefits and is reviewed annually by the Group People and 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 Group's goals. The maximum potential payment is calculated as a percentage of the TFR of each EMT member and is payable in cash and/or superannuation contributions.

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

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

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

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

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

Current STI Offers

Details of the STI that affects the calculation of KMP remuneration for the 2017/18 financial year are set out in the following tables. In assessing the STI payments, the Group People and Remuneration Committee has considered risk and reputational matters in determining the payment amount.

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

FY18 STI

Key Management Personnel	Max. % (of TFR)	Max Payable	% Awarded	% Forfeited	Amount Paid $	% Which is not yet assessed for payment
Melos Sulicich	50%	$287 500	55.00%	45.00%	$158,125	0%
Huw Bough	30%	$99,000	72.22%	27.78%	$71,500	0%
Katherine Dean	30%	$96,000	42.75%	57.25%	$41,040	0%
David Harradine	30%	$111,000	72.52%	27.48%	$80,500	0%
Mandakini Khanna	30%	$103,500	75.07%	24.93%	$77,700	0%
Paul Moss	30%	$99,000	72.73%	27.27%	$72,000	0%
Andrew Polson(1)	30%	$85,483	0.00%	100.00%	$0	0%
Chris Thornton(1)	30%	$46,258	0.00%	100.00%	$0	0%
Janelle Whittle(1)	30%	$38,137	43.33%	56.67%	$16,525	0%

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

2) Colleen Harris and Jessica Kingston were KMP during the financial year, however, were not assessed as eligible for a short term incentive and, as such, are excluded from the table.

During the financial year, KMP were paid their STI entitlement, as assessed, in respect of the 2016/17 financial year. Assessment and payment of STI bonuses in respect of the 2016/17 financial year was completed in August 2017. Details of the amounts paid and forfeited are set-out in the accompanying table.

FY17 STI

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

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

6.3 Executive Long Term Incentive Plan (ELTIP)

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

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

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

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

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

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

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

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

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

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

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

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

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 cannot hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and may result in forfeiture of the offer and/or dismissal.

Future Offers (2018 offers onwards)

In respect of offers made on or after 1 July 2018, the ELTIP will give effect to new requirements imposed under the Banking Executive Accountability Regime (BEAR) as it applies to prudentially regulated Authorised Deposit-taking Institutions (ADIs) and their related bodies corporate. The

BEAR commences on 1 July 2018 and imposes a heightened accountability regime on ADIs and people with significant influence over conduct and behaviour in the ADI (referred to as an 'accountable person'). Subject to new accountability obligations, those persons are required to conduct themselves with honesty and integrity, as well as effectively carry out the business activities for which they are responsible.

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

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

Offer	"2015"	"2016"	"2017"
Performance Period	1 July 2015 to 30 June 2018	1 July 2016 to 30 June 2019	1 July 2017 to 30 June 2020

Performance Criteria

Measure	50% TSR 50% Absolute Post tax ROE	50% TSR 50% Absolute Post tax underlying ROE	
The comparator group	Members of the S&P/ASX300		

Calculation of the reward

Shares will vest in accordance with the following schedule

Share value on offer date	$4.71	$4.11	$4.90
Fair value of shares used for TSR calculation	$2.27	$1.96	Managing Director $2.57 Other eligible Executives $2.44
Offer Date			
– Managing Director	27 November 2015	29 November 2016	8 November 2017
– Other Eligible Executives	Huw Bough 27 Nov 2015 David Harradine 27 Nov 2015 Mandakini Khanna[2] 29 Apr 2016 Paul Moss 27 Nov 2015 Andrew Polson[2] 29 Apr 2016 Chris Thornton 27 Nov 2015	Huw Bough 5 Sept 2016 Katherine Dean[2] 15 May 2017 David Harradine 5 Sept 2016 Mandakini Khanna 5 Sep 2016 Paul Moss 5 Sept 2016 Andrew Polson 5 Sept 2016 Chris Thornton 5 Sept 2016	Huw Bough 11 Sept 2017 Katherine Dean 11 Sept 2017 David Harradine 11 Sept 2017 Mandakini Khanna 11 Sept 2017 Paul Moss 11 Sept 2017 Andrew Polson 11 Sept 2017 Chris Thornton 11 Sept 2017 Janelle Whittle[2] 13 Feb 2018
Value of Offer[1]			
– Managing Director	$274,998	$287,500	$287,500
– Other Eligible Executives	$478,272	$691,455	$800,136

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

2) Pro-rata offer.

Calculation of the Reward

TSR Component

For the 2015, 2016, 2017 and 2018 Offers, the ELTIP TSR component will vest on the following basis:

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

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

ROE Component

The performance period for the ROE component for the ELTIP reward will be based upon the Company's post tax ROE and will be payable on the following basis:

For the 2015 Offers:

MYS aggregate absolute post tax ROE for the three periods:	Percentage of the applicable reward that will vest:
• Below 31.30%	0%
• 31.30%	25%
• 31.30% to 33.00%	Opportunity vests pro-rata on a straight line basis from 25% to 100%
• 33.00% or above	100%

For the 2016 and 2017 Offers:

MYS aggregate absolute post tax underlying ROE for the three periods:	Percentage of the applicable reward that will vest:
• Below 31.80%	0%
• 31.80%	25%
• 31.80% to 33.50%	Opportunity vests pro-rata on a straight line basis from 25% to 100%
• 33.50% or above	100%

For the 2018 Offer:

MYS aggregate absolute post tax underlying ROE for the three periods:	Percentage of the applicable reward that will vest:
• Below 30.00%	0%
• 30.00%	25%
• 30.00% to 31.50%	Opportunity vests pro-rata on a straight line basis from 25% to 100%
• 31.50% or above	100%

Actual and Potential ELTIP Share Allocations

The following tables detail, for current and former KMP, the status of offers made under the ELTIP. The "2014" offer performance period was completed on 30 June 2017. The "2015" offer performance period was completed on 30 June 2018.

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

Name	Component	Maximum Offer	Forfeited	Vested in the 2017/18 Financial Year	Not yet assessed for Vesting
			Number of Shares		
"2015" Offer					
Melos Sulicich	TSR	29,193	29,193	–	–
	ROE	29,193	29,193	–	–
Huw Bough	TSR	10,191	10,191	–	–
	ROE	10,191	10,191	–	–
David Harradine	TSR	11,306	11,306	–	–
	ROE	11,305	11,305	–	–
Mandakini Khanna	TSR	6,116	6,116	–	–
	ROE	6,116	6,116	–	–
Paul Moss	TSR	9,235	9,235	–	–
	ROE	9,235	9,235	–	–
Andrew Polson	TSR	3,733	3,733	–	–
	ROE	3,733	3,733	–	–
Chris Thornton	TSR	10,191	10,191	–	–
	ROE	10,191	10,191	–	–

1) "2014" Offer revised 20 April 2016.

The "2016", "2017" and "2018" offers have not been assessed for vesting and no shares have been forfeited. The following table shows the maximum number of shares available under each of these offers:

Name		"2016" Offer	"2017" Offer	"2018" Offer
	Component	**Number of Shares**		
Melos Sulicich	TSR	34,976	29,307	32,188
	ROE	34,975	29,307	32,187
Huw Bough	TSR	12,044	10,092	–
	ROE	12,044	10,092	–
Katherine Dean	TSR	4,192	9,786	9,888
	ROE	4,191	9,786	9,888
David Harradine	TSR	13,504	11,315	11,742
	ROE	13,503	11,315	11,742
Colleen Harris(1)	TSR	–	9,714	–
	ROE	–	9,714	–
Mandakini Khanna	TSR	12,044	10,551	11,124
	ROE	12,044	10,551	11,124
Paul Moss	TSR	12,044	10,092	10,506
	ROE	12,044	10,092	10,506
Craig Mowll(3)	TSR	–	–	11,556
	ROE	–	–	11,555
Andrew Polson	TSR	12,044	10,092	–
	ROE	12,044	10,092	–
Chris Thornton	TSR	11,679	10,245	–
	ROE	11,679	10,245	–
Janelle Whittle(2)	TSR	–	3,888	8,961
	ROE	–	3,887	8,961

1) Offer made in 2017 but not accepted.
2) Pro-rata offer made for "2017".
3) Pro-rata offer made for "2018".

7. Remuneration of Key Management Personnel

		Salary and Fees $	Cash Bonus[1] $	Non-Monetary Benefits[2] $	Post Employment Super-annuation $	Termination Benefits $	Share Based Payment[3] $	Total $
Non-Executive Directors								
Miles Hampton	**2018**	**193,532**	**–**	**–**	**18,386**	**–**	**–**	**211,918**
	2017	193,532	–	–	18,386	–	–	211,918
Peter Armstrong	**2018**	**75,151**	**–**	**–**	**27,068**	**–**	**–**	**102,219**
	2017	75,151	–	–	27,068	–	–	102,219
Brian Bissaker[4]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	76,870	–	–	7,303	–	–	84,173
Robert Gordon	**2018**	**82,305**	**–**	**–**	**24,901**	**–**	**–**	**107,206**
	2017	72,705	–	–	34,501	–	–	107,206
Colin Hollingsworth[5]	**2018**	**8,064**	**–**	**5,085**	**24,558**	**–**	**–**	**37,707**
	2017	69,888	–	–	34,825	–	–	104,713
Sibylle Krieger[6]	**2018**	**91,074**	**–**	**–**	**8,652**	**–**	**–**	**99,726**
	2017	51,387	–	–	4,882	–	–	56,269
Warren Lee[7]	**2018**	**63,051**	**–**	**–**	**5,990**	**–**	**–**	**69,041**
	2017	–	–	–	–	–	–	–
Stephen Lonie	**2018**	**97,905**	**–**	**–**	**9,301**	**–**	**–**	**107,206**
	2017	91,836	–	–	8,724	–	–	100,560
Andrea Waters[7]	**2018**	**66,204**	**–**	**–**	**6,289**	**–**	**–**	**72,493**
	2017	–	–	–	–	–	–	–
Sarah Merridew[4]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	72,939	–	–	17,879	–	–	90,818
Total NED	**2018**	**677,286**	**–**	**5,085**	**125,145**	**–**	**–**	**807,516**
	2017	704,308	–	–	153,568	–	–	857,876

		Salary and Fees $	Cash Bonus[1] $	Non-Monetary Benefits[2] $	Post Employment Super-annuation $	Termination Benefits $	Share Based Payment[3] $	Total $
Executives								
Melos Sulicich	**2018**	**550,385**	**158,125**	**2,892**	**24,631**	**–**	**55,088**	**791,121**
	2017	540,288	56,063	–	34,600	–	101,992	732,943
Huw Bough	**2018**	**305,303**	**71,500**	**–**	**24,697**	**–**	**19,270**	**420,770**
	2017	300,246	19,438	24,663	32,861	–	33,427	410,635
Katherine Dean [8]	**2018**	**292,237**	**41,040**	**6,325**	**28,342**	**–**	**17,837**	**385,781**
	2017	104,531	6,680	101	9,930		9,453	130,695
David Harradine	**2018**	**345,546**	**80,500**	**–**	**24,454**	**–**	**24,214**	**474,714**
	2017	336,214	19,635	1,194	37,146	–	31,112	425,301
Colleen Harris[9]	**2018**	**117,099**	**–**	**–**	**10,341**	**–**	**–**	**127,440**
	2017	–	–	–	–	–	–	–
Mandakini Khanna	**2018**	**314,963**	**77,700**	**–**	**31,354**	**–**	**26,281**	**450,298**
	2017	301,370	21,384	–	34,992	–	19,168	376,914
Jessica Kingston[10]	**2018**	**14,990**	**–**	**–**	**1,590**	**–**	**–**	**16,580**
	2017	79,566	5,298	–	6,903	–	–	91,767
Paul Moss	**2018**	**301,370**	**72,000**	**–**	**28,630**	**–**	**19,755**	**421,755**
	2017	296,874	21,384	1,194	28,203	–	30,741	378,396
Aaron Pidgeon [11]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	185,195	8,500	965	17,593	269,175	–	481,428
Andrew Polson [12]	**2018**	**272,957**	**–**	**–**	**23,032**	**–**	**2,871**	**298,860**
	2017	301,370	17,919	–	29,797	–	16,000	365,086
Chris Thornton	**2018**	**143,449**	**–**	**42,753**	**15,146**	**194,670**	**(6,145)**	**389,873**
	2017	289,281	17,497	52,052	30,952	–	32,514	422,296
Janelle Whittle[13]	**2018**	**115,104**	**16,525**	**–**	**10,935**	**–**	**2,806**	**145,370**
	2017	–	–	–	–	–	–	–
Total Executive	**2018**	**2,773,403**	**517,390**	**51,970**	**223,152**	**194,670**	**161,977**	**3,922,562**
	2017	2,734,935	193,798	80,169	262,977	269,175	274,407	3,815,461
Total KMP	**2018**	**3,450,689**	**517,390**	**57,055**	**348,297**	**194,670**	**161,977**	**4,730,078**
	2017	3,439,243	193,798	80,169	416,545	269,175	274,407	4,673,337

1) The cash bonus shown is the actual amount awarded in respect of the 2017/18 financial year STI offers.
2) Non-Monetary Benefits consist of car parking expense, travel & accommodation and entertainment.
3) Share based payment amounts have been calculated in accordance with the relevant accounting policy and Accounting Standard. The fair value of the share grant is calculated at the date of grant and is allocated to each reporting period evenly over the period from grant date to vesting date. This fair value will generally be different to the value of shares at the time they vest. The value disclosed is the portion of the fair value of the share grant allocated to this reporting period. These amounts represent share grants which will only vest to the KMP when certain performance and service criteria are met. In some circumstances all, or a portion, of the shares may never vest to the KMP.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.
4) Brian Bissaker and Sarah Merridew ceased as KMP on 18 May 2017.

5) Colin Hollingsworth ceased as a KMP on 19 October 2017.
6) Sibylle Krieger commenced as a KMP on 1 December 2016.
7) Warren Lee and Andrea Waters commenced as KMP on 19 October 2017.
8) Katherine Dean commenced as a KMP on 20 February 2017.
9) Colleen Harris commenced as a KMP on 25 July 2017 and ceased as a KMP on 15 December 2017.
10) Jessica Kingston commenced as a KMP on 22 February 2017 and ceased as a KMP on 24 July 2017.
11) Aaron Pidgeon ceased as a KMP on 22 February 2017. The termination benefit amount shown Includes annual and long service leave entitlements paid on cessation.
12) Andrew Polson ceased as a KMP on 11 May 2018.
13) Janelle Whittle commenced as a KMP on 22 January 2018.

8. Shareholdings of Key Management Personnel

Non Executive Director Minimum Shareholding Requirement

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

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

Executive Minimum Shareholding Requirement

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

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

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

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

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

Key Management Personnel	Balance at commencement of financial year	Granted as compensation	Net change other	Balance at end of financial year	Balance at end of financial year held by ELTIP trustee
Non-Executive Directors					
Miles Hampton	650,000	–	50,000	700,000	–
Peter Armstrong	10,713	–	360	11,073	–
Robert Gordon	20,387	–	–	20,387	–
Sibylle Krieger	5,000	–	311	5,311	–
Warren Lee(1)	–	–	–	–	–
Stephen Lonie	53,499	–	3,330	56,829	–
Andrea Waters(1)	–	–	–	–	–
Sub Total	**739,599**	**–**	**54,001**	**793,600**	**–**
Executives					
Melos Sulicich	42,100	15,498	10,472	68,070	15,498
Huw Bough	–	4,475	–	4,475	4,475
Katherine Dean	–	–	–	–	–
David Harradine	2,000	1,685	–	3,685	1,685
Mandakini Khanna	–	–	–	–	–
Paul Moss	–	–	–	–	–
Janelle Whittle(2)	1,404	–	–	1,404	–
Craig Mowll(3)	–	–	–	–	–
Sub Total	**45,504**	**21,658**	**10,472**	**76,634**	**–**

1) Appointed as KMP on 19 October 2017.
2) Appointed as KMP on 22 January 2018.
3) Appointed as KMP on 16 July 2018.

9. Loans to Key Management Personnel

There are no loans guaranteed or secured by the Company to KMP and their related parties in 2018.

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.

<table>
<tr><th>Incumbent</th><th>Commenced in role</th><th>Contract term</th><th>TFR(1)</th><th>Short Term Incentive (maximum)</th><th>ELTIP (maximum)</th><th>Termination Provisions
In the event of termination by the Company(2)</th></tr>
<tr><td>Melos Sulicich</td><td>1 July 2014</td><td>Ongoing</td><td>$625,000</td><td>50% of TFR</td><td>50% of TFR</td><td rowspan="2">Notice:
The contract may be terminated by the Company with 26 weeks notice or payment in lieu of notice.
Entitlement:
• Pro-rata STI payment applied as at the date of termination.
• Payment of STI if the performance period is complete but not yet paid
• Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.
Other:
Required to purchase and maintain shares to the value of 50% of TFR.</td></tr>
<tr><td></td><td colspan="5">Share Ownership: Required to purchase and maintain shares to the value of 50% of TFR by 30 June 2018.</td></tr>
<tr><td>Huw Bough</td><td>13 August 2014</td><td>Ongoing</td><td>$340,000</td><td rowspan="7">30% of TFR</td><td rowspan="7">Between 15% and 30% of TFR upon invitation to participate</td><td rowspan="7">Notice:
The contract can be terminated by the Company upon provision of 3 months notice.
Entitlement:
• Payment of the equivalent of 6 months TFR (inclusive of the provision of 3 months notice).
• Pro-rata STI payment applied as at the date of termination.
• Payment of STI if the performance period is complete but not yet paid
• Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.
Other
• Required to purchase and maintain shares to the value of 25% of TFR.</td></tr>
<tr><td>Katherine Dean</td><td>22 February 2017</td><td>Ongoing</td><td>$320,000</td></tr>
<tr><td>David Harradine</td><td>16 March 2015</td><td>Ongoing</td><td>$380,000</td></tr>
<tr><td>Mandakini Khanna</td><td>1 December 2015</td><td>Ongoing</td><td>$360,000</td></tr>
<tr><td>Paul Moss</td><td>13 May 2015</td><td>Ongoing</td><td>$340,000</td></tr>
<tr><td>Craig Mowll</td><td>16 July 2018</td><td>Ongoing</td><td>$390,000</td></tr>
<tr><td>Janelle Whittle</td><td>22 January 2018</td><td>Ongoing</td><td>$290,000</td></tr>
</table>

(1) TFR is per year and subject to market based review mechanisms.

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

Signed in accordance with a resolution of the Directors.

M L Hampton
Chairman

Hobart
Dated this 17 August 2018

M A Sulicich
Managing Director

Results for the year

for the year ended 30 June 2018

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Consolidated Income Statement

for the year ended 30 June 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Interest income	2.1	**188,264**	182,220
Less: Interest expense	2.1	**(97,435)**	(94,088)
Net interest income		**90,829**	88,132
Non-interest income from banking activities	2.1	**16,988**	18,360
Net banking operating income		**107,817**	106,492
Income from wealth management activities	2.2	**18,516**	16,738
Profit from sale of other investments	2.3	**–**	1,362
Income from other activities	2.3	**6**	24
Total operating income		**126,339**	124,616
Less: Expenses			
Personnel costs		**38,196**	38,069
Administration costs	2.4	**18,027**	18,874
Significant due dilligence project costs		**–**	1,279
Technology costs	2.4	**12,071**	10,838
Occupancy costs	2.4	**6,287**	6,930
Marketing costs		**3,768**	3,542
Governance costs		**2,546**	2,633
Total operating expenses		**80,895**	82,165
Profit before bad and doubtful debts and income tax expense		**45,444**	42,451
Less: Impairment expense on loans and advances	4.3	**455**	213
Profit before income tax		**44,989**	42,238
Income tax expense	6.1	**13,528**	12,158
Profit for the year		**31,461**	30,080
Profit attributable to the:			
Equity holders of MyState Limited		**31,461**	30,080
Basic earnings per share (cents per share)	2.5	**34.97**	34.04
Diluted earnings per share (cents per share)	2.5	**34.97**	34.04

The accompanying notes form part of these financial statements.

Results for the year

for the year ended 30 June 2018

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Profit for the year		**31,461**	30,080
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – net gains/(losses) taken to equity		**(14)**	(289)
Change in fair value of financial assets at fair value through other comprehensive income		**–**	(619)
Income tax effect		**4**	272
Total other comprehensive income/(expense) for the year		**(10)**	(636)
Total comprehensive income for the year		**31,451**	29,444
Total comprehensive income for the year is attributable to:			
Equity holders of MyState Limited		**31,451**	29,444

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Assets			
Cash and liquid assets	4.1	**67,876**	64,226
Due from other financial institutions		**25,826**	35,161
Other assets		**6,950**	6,577
Financial instruments	4.2	**406,864**	420,769
Loans and advances	4.3	**4,565,256**	4,282,525
Property, plant and equipment	5.1	**7,034**	8,296
Deferred tax assets	6.1	**3,948**	4,718
Intangible assets and goodwill	5.2	**89,577**	88,179
Total assets		**5,173,331**	4,910,451
Liabilities			
Due to other financial institutions		**33,334**	34,319
Other liabilities		**7,666**	6,801
Deposits and other borrowings including subordinated notes	4.5	**4,801,404**	4,548,966
Employee benefits provision	5.3	**5,341**	5,370
Tax liabilities	6.1	**4,924**	4,091
Total liabilities		**4,852,669**	4,599,547
Net assets		**320,662**	310,904
Equity			
Share capital	5.4	**145,380**	141,349
Retained earnings		**170,568**	164,358
Reserves		**4,714**	5,197
Total equity		**320,662**	310,904

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2018

	Note	Share capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Net unrealised gains reserve $'000	Total $'000
At 1 July 2016		134,756	159,320	4,428	675	16	433	**299,628**
Profit for the year		–	30,080	–	–	–	–	**30,080**
Other comprehensive income/(expense)		–	–	–	–	(203)	(433)	**(636)**
Total comprehensive income for the year		**–**	**30,080**	**–**	**–**	**(203)**	**(433)**	**29,444**
Equity issued under employee share scheme	5.4	80	–	–	–	–	–	**80**
Equity issued under dividend reinvestment plan	5.4	6,513	–	–	–	–	–	**6,513**
Share based payment expense recognised		–	–	–	281	–	–	**281**
Dividends paid	2.6	–	(25,042)	–	–	–	–	**(25,042)**
At 30 June 2017		**141,349**	**164,358**	**4,428**	**956**	**(187)**	**–**	**310,904**
At 1 July 2017		141,349	164,358	4,428	956	(187)	–	**310,904**
Profit for the year		–	31,461	–	–	–	–	**31,461**
Other comprehensive income/(expense)		–	–	–	–	(10)	–	**(10)**
Total comprehensive income for the year		**–**	**31,461**	**–**	**–**	**(10)**	**–**	**31,451**
Equity issued under employee share scheme	5.4	82	–	–	–	–	–	**82**
Equity issued under executive long term incentive plan	5.4	104	–	–	(104)	–	–	**–**
Equity issued under dividend reinvestment plan	5.4	3,845	–	–	–	–	–	**3,845**
Share based payment expense recognised		–	–	–	174	–	–	**174**
Transfer to retained earnings		–	543	–	(543)		–	**–**
Dividends paid	2.6	–	(25,794)	–	–	–	–	**(25,794)**
At 30 June 2018		**145,380**	**170,568**	**4,428**	**483**	**(197)**	**–**	**320,662**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Interest received		**198,704**	190,677
Interest paid		**(98,573)**	(94,283)
Fees and commissions received		**33,861**	33,457
Dividends received		**–**	15
Other non-interest income received		**1,836**	774
Payments to suppliers and employees		**(74,223)**	(76,855)
Income tax paid		**(11,924)**	(13,157)
Net cash flows from/(used in) operating activities	4.1	**49,681**	40,628
Cash flows from investing activities			
Purchase of intangible assets		**(5,952)**	(12,166)
Proceeds from sale of property, plant and equipment		**7**	15
Purchase of property, plant and equipment		**(313)**	(714)
Net (increase) in loans to customers		**(293,196)**	(428,054)
Net increase/(decrease) in amounts due from other financial institutions		**22,507**	(86,066)
Proceeds from sale of other investments		**648**	3,857
Proceeds from/(payments for) other investments		**–**	168
Net cash flows from/(used in) investing activities		**(276,299)**	(522,960)
Cash flows from financing activities			
Employee share issue		**82**	80
Dividends paid net of dividend reinvestment plan	2.6	**(21,953)**	(18,629)
Net increase/(decrease) in subordinated notes		**(50)**	10,032
Net increase in deposits and other borrowings		**72,808**	289,769
Net increase/(decrease) in due to other financial institutions		**179,381**	185,180
Net cash flows from (used in) financing activities		**230,268**	466,432
Net increase/(decrease) in cash held		**3,650**	(15,900)
Cash at beginning of financial year		**64,226**	80,126
Closing cash carried forward	4.1	**67,876**	64,226

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

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 17 August 2018.

1.2 Basis of accounting

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

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

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

Early Adoption of AASB 9 Financial Instruments (2010)

Under s. 334(5) of the Corporations Act 2001, the Directors have elected to apply Accounting Standard AASB 9 (2010) *Financial Instruments* (with the exception of impairment requirements) 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 2018.

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

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

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

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

Rounding of amounts

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

1.3 Use of estimates and judgement

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

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

1.4 Provisions (other than for impairment of financial assets)

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

2.1 Net banking operating Income

	30 June 2018 $'000	30 June 2017 $'000
Interest income		
Loans and advances	**177,869**	172,163
Investment securities	**10,395**	10,057
Total interest income	**188,264**	182,220
Interest expense		
At call deposits	**14,281**	11,161
Fixed term deposits	**83,154**	82,927
Total interest expense	**97,435**	94,088
Non-interest income from banking activities		
Transaction fees	**7,224**	7,776
Loan fee income	**4,725**	5,100
Banking commissions	**3,665**	3,797
Other banking operations income	**1,374**	1,687
Total non-interest income from banking activities	**16,988**	18,360

Income accounting policy

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

Interest, fees and commissions

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

Interest income is accrued using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument. Loan origination fees are recognised as components of the calculation of the effective interest rate method in relation to originated loans. They, therefore, affect the interest recognised in relation to this portfolio of loans. The average life of loans in the relevant loan portfolios is reviewed annually to ensure the amortisation methodology for loan origination fees is appropriate.

Interest expense is calculated on an accruals basis using the effective interest rate method. The effective interest rate method is the rate that exactly discounts future payments through the expected life of the financial instrument.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

2.2 Income from wealth management activities

	30 June 2018 $'000	30 June 2017 $'000
Funds management income	**10,122**	9,456
Other fees and commissions	**8,394**	7,282
Total Income from wealth management activities	**18,516**	16,738

Funds management income and fiduciary activities

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

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

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

	30 June 2018 $'M	30 June 2017 $'M
Funds under management	**1,153**	1,089
Funds under advice	**809**	778

Other fees and commissions

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

Income accounting policy

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

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

2.3 Income from other activities

	30 June 2018 $'000	30 June 2017 $'000
Profit from sale of other investments	**–**	1,362
In 2017, Tasmanian Perpetual Trustees Limited disposed of its investment in listed shares. The carrying value of these shares at the date of disposal was $3.84m.		
Dividends from other corporations	**–**	15
Profit on sale of property plant and equipment assets	**6**	9
Total income from other activities	**6**	24

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 2018 $'000	30 June 2017 $'000
Occupancy costs include:		
Operating lease payments	**4,060**	4,117
Depreciation – buildings and leasehold improvements	**1,014**	1,548
Technology costs include:		
Amortisation – computer software	**3,236**	2,167
Administration costs include:		
Amortisation – other intangibles	**1,318**	803
Depreciation – furniture and equipment	**427**	675

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

2.5 Earnings per share

	30 June 2018 cents	30 June 2017 cents
Basic earnings per share	**34.97**	34.04
Diluted earnings per share	**34.97**	34.04

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 2018 $'000	30 June 2017 $'000
Profit for the year	**31,461**	30,080

	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**89,959,758**	88,355,988

2.6 Dividends

	Date of payment	30 June 2018 $'000	30 June 2017 $'000
Dividends paid			
2016 Final dividend paid – 14.5 cents per share	3 Oct 2016	**–**	12,740
2017 Interim dividend paid – 14.0 cents per share	10 Mar 2017	**–**	12,302
2017 Final dividend paid – 14.5 cents per share	13 Sep 2017	**12,970**	–
2018 Interim dividend paid – 14.25 cents per share	29 Mar 2018	**12,824**	–
		25,794	25,042

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

	30 June 2018 $'000	30 June 2017 $'000
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the period at 30%	**63,933**	61,797
Franking credits that will arise from the payment of income tax payable at the end of the period	**2,561**	837

Dividends not recognised at the end of the financial year

On 17 August 2018, the Directors resolved to pay a final dividend for the 2018 financial year of 14.5 cents per share or $13.10m total to be paid on the 25th of September 2018, 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 $5.61m.

2.7 Segment financial information

Operations of reportable segments

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

Banking division

The banking division's product offerings include lending; encompassing home loans, personal, overdraft, line of credit and commercial products, transactional savings accounts and fixed term deposits and insurance products. It delivers these products and services through its branch network, digital channels and third party channels. The banking division is conducted by the MyState Bank Group.

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 $1.15 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 allocated between the banking division and the wealth management division.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

2.7 Segment financial information (continued)

	Banking $'000	Wealth Management $'000	Corporate and Consolidation $'000	Total $'000
Year ended 30 June 2018				
Interest income	187,999	184	81	188,264
Interest expense	(97,435)	–	–	(97,435)
Other income				
Transaction fees	7,224	–	–	7,224
Loan fee income	4,725	–	–	4,725
Banking commissions	3,665	–	–	3,665
Other banking operations income	1,615	–	(241)	1,374
Funds management income	–	10,122	–	10,122
Other wealth management fees and commissions	–	8,394	–	8,394
Profit from sale of other investments	–	–	–	–
Income from other activities	6	–	–	6
Total operating income	107,799	18,700	(160)	126,339
Expenses				
Personnel costs	25,475	7,476	5,245	38,196
Administration costs	22,325	3,210	(7,508)	18,027
Significant due diligence project costs	–	–	–	–
Technology costs	11,599	410	62	12,071
Occupancy costs	5,403	741	143	6,287
Marketing costs	3,501	230	37	3,768
Governance costs	655	68	1,823	2,546
Impairment expense on loans and advances	441	14	–	455
Income tax expense	11,495	1,986	47	13,528
Segment profit for the year	26,905	4,565	(9)	31,461
Segment balance sheet information				
Segment assets	5,094,131	27,646	51,554	5,173,331
Segment liabilities	4,847,633	3,291	1,745	4,852,669

	Banking $'000	Wealth Management $'000	Corporate and Consolidation $'000	Total $'000
Year ended 30 June 2017				
Interest income	181,875	159	186	182,220
Interest expense	(94,088)	–	–	(94,088)
Other income				
Transaction fees	7,776	–	–	7,776
Loan fee income	5,100	–	–	5,100
Banking commissions	3,797	–	–	3,797
Other banking operations income	1,821	–	(134)	1,687
Funds management income	–	9,456	–	9,456
Other wealth management fees and commissions	–	7,282	–	7,282
Profit from sale of other investments	–	1,387	–	1,387
Income from other activities	24	–	(25)	(1)
Total operating income	**106,305**	**18,284**	**27**	**124,616**
Expenses				
Personnel costs	25,565	7,336	5,168	38,069
Administration costs	21,879	4,022	(7,027)	18,874
Significant due diligence project costs	1,279	–	–	1,279
Technology costs	10,325	430	83	10,838
Occupancy costs	5,990	805	135	6,930
Marketing costs	3,255	182	105	3,542
Governance costs	492	70	2,071	2,633
Impairment expense on loans and advances	213	–	–	213
Income tax expense	11,038	1,624	(504)	12,158
Segment profit for the year	**26,269**	**3,815**	**(4)**	**30,080**
Segment balance sheet information				
Segment assets	4,834,688	25,385	50,378	4,910,451
Segment liabilities	4,596,089	2,652	806	4,599,547

3.1 Capital management strategy

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

The Group's capital management objectives are to:

- Comply with internal and regulatory capital requirements;
- Ensure sufficient capital resource is available to support the Group's business, operational and investment activities;
- Maintain balance sheet resilience to safeguard the Group's ability to continue as a going concern; and
- Support MyState Bank Limited's credit rating.

The Group's capital management policy considers each of internal, regulatory and rating agency capital requirements. Under APS 110 Capital Adequacy, the ultimate responsibility for the prudent management of capital resides with the Board of Directors. The Board must ensure that an appropriate level and quality of capital is maintained, commensurate with the type, amount and concentration of risk exposures.

The Group's regulatory capital requirements are measured on a Level 1 and Level 2 basis.

Level 1 is comprised of MyState Bank Limited (the ADI).

Level 2 is comprised of the wider MyState Limited prudential group. This group includes MyState Limited (the non-operating holding company), MyState Bank Limited and Connect Asset Management (the Securitisation programme Manager).

All entities that are consolidated for accounting purposes are included within the Level 2 regulatory capital calculation except for certain securitisation vehicles and Tasmanian Perpetual Trustees Limited.

The Group has developed a detailed Internal Capital Adequacy Assessment Plan (ICAAP). This plan covers the capital requirements of the Group on a Level 1 and Level 2 basis (as previously described) as well as Tasmanian Perpetual Trustees. The Group's capital position is monitored on a frequent basis and is reported to the Board monthly. The ICAAP also includes a three year forecast of capital adequacy which is prepared and submitted to the Board at least annually.

The ICAAP aims to ensure that adequate planning activities take place so that the Group is effectively capitalised and also includes a three year forecast of capital adequacy which is prepared and submitted to the Board at least annually. The ICAAP encompasses known financial events, dividend policy, capital raisings, securitisation and stress testing.

The Board has currently set a minimum total capital adequacy ratio of 12.5% for the Group. Capital adequacy of the Group on a level 2 basis as at 30 June 2018 is detailed in the following table:

	30 June 2018 $'000	30 June 2017 $'000
Qualifying capital		
Common equity tier 1 capital		
Paid-up ordinary share capital	**145,400**	141,349
Retained earnings(2)	**182,262**	177,819
Reserves excluding general reserve for credit losses	**483**	956
Total common equity tier 1 capital	**328,145**	320,124
Regulatory adjustments		
Deferred expenditure including deferred tax assets	**25,950**	24,270
Goodwill and intangibles	**49,800**	49,760
Other deductions	**54,065**	53,141
Total regulatory adjustments	**129,815**	127,171
Net common equity tier 1 capital	**198,330**	192,953
Tier 2 capital		
Subordinated notes(1)	**29,323**	29,944
General reserve for credit losses	**4,400**	4,428
Total capital	**232,053**	227,325
Risk weighted assets	**1,722,248**	1,710,329
Capital adequacy ratio	**13.47%**	13.29%

(1) On the 14th 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 14th 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 14th August 2020 and each quarterly interest payment date thereafter, and for certain regulatory events (in each case subject to APRA's prior written approval).

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

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

(2) The impact of AASB 9 *Financial Instruments (2010), specifically impairment requirements*, on capital is discussed further in note 8.4.

3.2 Financial risk management

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

Risk exposure profile

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

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

3.2.1 Credit risk

Approach to credit risk management

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

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

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

Maximum exposure to credit risk

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

	30 June 2018 $'000	30 June 2017 $'000
Cash and liquid assets	**67,876**	64,226
Due from other financial institutions	**25,826**	35,161
Other assets	**6,950**	6,577
Financial instruments	**406,864**	420,769
	507,516	526,733
Loans and advances	**4,565,256**	4,282,525
Customer commitments(1)	**142,924**	117,472
Maximum exposure to credit risk	**5,215,696**	4,926,730

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

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

	30 June 2018 $'000	30 June 2017 $'000
Credit quality of financial assets		
Financial assets other than loans and advances at amortised cost		
Equivalent S&P rating A+ and above	**251,611**	263,302
Equivalent S&P rating A- and below	**256,053**	263,431
Loans and advances at amortised cost		
New Facilities – not closely monitored	**1,153,123**	1,271,704
New Facilities – closely monitored	**1,769**	730
Continuing facilities – not closely monitored	**3,391,212**	2,990,147
Continuing facilities – closely monitored	**19,152**	19,944
Total on balance sheet exposure to credit risk	**5,072,920**	4,809,258

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

Neither past due or impaired	**4,543,568**	4,260,413
Past due but not impaired – loans and advances at amortised cost		
31 to 60 days	**9,736**	5,402
61 to 90 days	**3,645**	4,560
More than 90 days	**7,420**	10,577
Total past due but not impaired	**20,801**	20,539
Impaired – loans and advances at amortised cost	**887**	1,573
Maximum exposure to credit risk	**4,565,256**	4,282,525
Estimate of collateral held against past due but not impaired assets	**31,640**	35,119
Estimate of collateral held against impaired assets	**420**	2,360

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.

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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 2018 $'000	30 June 2017 $'000
Tasmania	**2,135,169**	2,181,829
Victoria	**698,673**	556,010
New South Wales	**950,419**	762,536
Queensland	**630,015**	614,823
Western Australia	**76,106**	84,366
Australian Capital Territory	**34,551**	39,869
Northern Territory	**37,691**	41,615
South Australia	**3,213**	2,434
Gross loans and advances at amortised cost	**4,565,837**	4,283,482

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 2018 $'000	30 June 2017 $'000
Value at risk (post-tax) based on historic data		
Average	**1,437**	2,326
Minimum	**818**	1,455
Maximum	**2,019**	3,444

Derivatives

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

Derivatives accounting policy

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

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

Cash flow hedges

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

Derivatives that do not qualify for hedge accounting

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

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

3.2.3 Liquidity risk

Managing liquidity risk

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

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

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

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

Liquidity risk exposure

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

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

3.2 Financial risk management (continued)

	On demand $'000	< 3 months $'000	3 months to 1 year $'000	1 year to 5 years $'000	> 5 years $'000	Total $'000
2018						
At call deposits	**1,564,556**	**–**	**–**	**–**	**–**	**1,564,556**
Due to other financial institutions	**–**	**33,334**	**–**	**–**	**–**	**33,334**
Term deposits	**–**	**688,696**	**980,795**	**21,984**	**–**	**1,691,475**
Negotiable certificates of deposit	**–**	**330,950**	**72,000**	**–**	**–**	**402,950**
Subordinated notes	**–**	**591**	**1,773**	**9,456**	**42,624**	**54,444**
Securitisation liabilities	**–**	**75,314**	**225,943**	**1,034,104**	**–**	**1,335,361**
Contractual amounts payable	**1,564,556**	**1,128,885**	**1,280,511**	**1,065,544**	**42,624**	**5,082,120**
Derivative liability	**–**	**1,573**	**2,635**	**4,622**	**–**	**8,830**
2017						
At call deposits	1,460,758	–	–	–	–	1,460,758
Due to other financial institutions	–	34,319	–	–	–	34,319
Term deposits	–	825,776	819,453	34,743	–	1,679,972
Negotiable certificates of deposit	–	376,200	69,500	–	–	445,700
Subordinated notes		570	1,710	9,120	40,318	51,718
Securitisation liabilities	–	49,997	149,991	799,950	111,104	1,111,042
Contractual amounts payable	1,460,758	1,286,862	1,040,654	843,813	151,422	4,783,509
Derivative liability	–	209	1,308	9,734	–	11,251

Contractual maturity of assets and liabilities

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

	30 June 2018			30 June 2017		
	Less than 12 months $'000	More than 12 months $'000	Total $'000	Less than 12 months $'000	More than 12 months $'000	Total $'000
Financial assets						
Cash and liquid assets	**67,876**	**–**	**67,876**	64,226	–	64,226
Due from other financial institutions	**25,826**	**–**	**25,826**	35,161	–	35,161
Other assets	**6,950**	**–**	**6,950**	6,577	–	6,577
Financial instruments	**245,023**	**161,841**	**406,864**	257,322	163,447	420,769
Loans and advances	**92,773**	**4,472,483**	**4,565,256**	105,727	4,176,798	4,282,525
Total financial assets	**438,448**	**4,634,324**	**5,072,772**	**469,013**	**4,340,245**	**4,809,258**
Financial liabilities						
Due to other financial institutions	**(33,334)**	**–**	**(33,334)**	(34,319)	–	(34,319)
Other liabilities	**(7,666)**	**–**	**(7,666)**	(6,801)	–	(6,801)
Deposits	**(3,604,154)**	**(20,751)**	**(3,624,905)**	(3,519,810)	(32,336)	(3,552,146)
Subordinated notes	**–**	**(34,745)**	**(34,745)**	–	(34,695)	(34,695)
Securisation liabilities	**(257,580)**	**(884,174)**	**(1,141,754)**	(173,183)	(788,942)	(962,125)
Total financial liabilities	**(3,902,734)**	**(939,670)**	**(4,842,404)**	**(3,734,113)**	**(855,973)**	**(4,590,086)**
Net contractual amounts receivable/(payable)	**(3,464,286)**	**3,694,654**	**230,368**	**(3,265,100)**	**3,484,272**	**219,172**

Notes to the Consolidated Financial Statements

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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 2018			30 June 2017		
	Average balance $'000	Interest $'000	Average rate %	Average balance $'000	Interest $'000	Average rate %
Average interest earning assets and interest income						
Interest-earning assets						
Cash and liquid assets	**61,418**	**279**	**0.45%**	78,636	567	0.72%
Financial instruments	**408,321**	**10,116**	**2.48%**	380,293	9,490	2.50%
Loans and advances	**4,337,717**	**177,869**	**4.10%**	4,100,642	172,163	4.20%
Total average interest-earning assets	**4,807,456**	**188,264**	**3.92%**	**4,559,571**	**182,220**	**4.00%**
Non-interest earning assets	**107,074**	**–**	**–**	126,301	–	–
Total average assets	**4,914,530**	**188,264**	**3.83%**	**4,685,872**	**182,220**	**3.89%**
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits and derivatives	**3,533,281**	**64,106**	**1.81%**	3,442,306	65,742	1.91%
Notes and bonds on issue	**1,058,130**	**33,329**	**3.15%**	903,172	28,346	3.14%
Total average interest-bearing liabilities	**4,591,411**	**97,435**	**2.12%**	**4,345,478**	**94,088**	**2.17%**
Non-interest bearing liabilities	**49,657**	**–**	**–**	34,923	–	–
Total average liabilities	**4,641,068**	**97,435**	**2.10%**	**4,380,401**	**94,088**	**2.15%**
Reserves	**295,266**	**–**	**–**	285,200	–	–
Total average liabilities and reserves	**4,936,334**	**97,435**	**1.97%**	**4,665,601**	**94,088**	**2.02%**

4.1 Cash and liquid assets

	30 June 2018 $'000	30 June 2017 $'000
Notes, coins and cash at bank	**62,452**	62,125
Other short term liquid assets	**5,424**	2,101
Total cash and liquid assets	**67,876**	64,226
Notes to the statements of cash flows		
Reconciliation of profit for the year to net cash provided by operating activities		
Profit for the year	**31,461**	30,080
Add/(less) items classified as investing/financing activities or non-cash items:		
Depreciation of property, plant and equipment	**1,441**	2,223
Amortisation of intangible assets	**4,554**	2,970
Gain on sale of investment		(1,362)
Loss on disposal of equipment	**162**	–
Gain on sale of equipment	**(6)**	(9)
Bad and doubtful debts expense net of recoveries	**455**	213
Deferred upfront lending costs	**9,959**	8,476
Share based payment	**174**	281
Tax movement within reserves	**4**	272
Changes in assets and liabilities		
Decrease/(increase) in due from other financial institutions	**449**	215
Decrease/(increase) in other assets	**(373)**	(758)
Decrease/(increase) in deferred tax assets	**770**	(1,054)
Increase/(decrease) in due to other financial institutions	**(1,038)**	(298)
Increase/(decrease) in other liabilities	**865**	(160)
Increase/(decrease) in employee benefit provisions	**(29)**	(145)
Increase/(decrease) in tax liabilities	**833**	(316)
Net cash flows used in operating activities	**49,681**	40,628

Accounting policies

Cash and liquid assets

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

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4.1 Cash and liquid assets (continued)

Cash Flow statement

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

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

4.2 Financial instruments

	30 June 2018 $'000	30 June 2017 $'000
Financial instruments at amortised cost		
Negotiable certificates of deposits	**177,022**	186,003
Term deposits	**35,700**	35,700
Floating rate notes	**191,542**	196,181
Other deposits	**2,028**	1,504
Total financial instruments at amortised cost	**406,292**	419,388
Financial instruments at fair value		
Derivatives	**(428)**	(267)
Other financial instruments at fair value	**1,000**	1,648
Total financial assets	**406,864**	420,769

Accounting policies

Financial instruments at amortised cost

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

Financial instruments at fair value

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

Derecognition of financial assets and liabilities

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

4.3 Loans and advances

	30 June 2018 $'000	30 June 2017 $'000
Classification of loans and advances at amortised cost		
Residential loans secured by mortgage	**4,374,002**	4,090,546
Personal loans and unsecured overdrafts	**74,450**	77,249
Overdrafts secured by mortgage	**44,915**	52,261
Commercial loans	**72,470**	63,426
Total loans and advances at amortised cost	**4,565,837**	4,283,482
Specific provision for impairment	**222**	620
Collective provision for impairment	**359**	337
Total loans and advances at amortised cost net of provision for impairment	**4,565,256**	4,282,525

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

Specific provision for impairment		
Opening balance	**620**	567
Charge/(credit) against profit	**39**	94
Write-off of previously provisioned facilities	**(437)**	(41)
Closing balance of specific provision for impairment	**222**	620
Collective provision for impairment		
Opening balance	**337**	491
Charge/(credit) against profit	**685**	322
Write-off of previously provisioned facilities	**(663)**	(476)
Closing balance of collective provision for impairment	**359**	337
Charge to profit for impairment on loans and advances		
Increase/(decrease) in specific provision for impairment	**(398)**	53
Increase/(decrease) in collective provision for impairment	**22**	(154)
Bad debts recovered	**(988)**	(1,131)
Bad debts written off directly	**1,819**	1,445
Total impairment expense on loans and advances	**455**	213

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

4.3 Loans and advances (continued)

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)

Some 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 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 2018 $'000	30 June 2017 $'000
Transferred financial assets:		
Loans and advances	**449,344**	420,232
Associated financial liabilities		
Securitisation liabilities to external investors	**440,490**	400,692

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 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 2018 $'000	30 June 2017 $'000
Deposits		
At call deposits	**1,564,556**	1,460,758
Term deposits	**1,660,665**	1,648,766
Negotiable certificates of deposit	**399,684**	442,622
Total deposits	**3,624,905**	3,552,146
Other borrowings		
Subordinated notes[1]	**34,745**	34,695
Securitisation liabilities	**1,141,754**	962,125
Total deposits and other borrowings including subordinated notes	**4,801,404**	4,548,966
Concentration of deposits:		
Customer deposits	**3,266,732**	2,988,057
Wholesale deposits	**358,173**	564,089
Subordinated notes[1]	**34,745**	34,695
Securitisation liabilities	**1,141,754**	962,125
Total deposits	**4,801,404**	4,548,966

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.

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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 2018		30 June 2017	
	Carrying value $'000	Net fair value $'000	Carrying value $'000	Net fair value $'000
Financial assets				
Financial instruments	**406,292**	**404,923**	419,388	419,023
Loans and advances	**4,565,256**	**4,558,478**	4,282,525	4,275,447
Total financial assets	**4,971,548**	**4,963,401**	**4,701,913**	**4,694,470**
Financial liabilities				
Deposits	**3,624,905**	**3,623,058**	3,552,146	3,544,954
Other borrowings including subordinated notes	**1,176,499**	**1,176,499**	996,820	996,820
Total financial liabilities	**4,801,404**	**4,799,557**	**4,548,966**	**4,541,774**

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
2018				
Financial assets				
Financial instruments	**–**	**404,923**	**–**	**404,923**
Loans and advances	**–**	**–**	**4,558,478**	**4,558,478**
Financial liabilities				
Deposits	**–**	**3,623,058**	**–**	**3,623,058**
Other borrowings including subordinated notes	**–**	**1,176,499**	**–**	**1,176,499**
2017				
Financial assets				
Financial instruments	–	419,023	–	419,023
Loans and advances	–	–	4,275,447	4,275,447
Financial liabilities				
Deposits	–	3,544,954	–	3,544,954
Other borrowings including subordinated notes	–	996,820	–	996,820

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

5.1 Property, plant and equipment

	30 June 2018 $'000	30 June 2017 $'000
Land and buildings		
At revalued amount	**12,895**	13,648
Accumulated depreciation	**(7,115)**	(6,711)
	5,780	6,937
Plant and equipment		
At cost	**4,387**	4,171
Accumulated depreciation	**(3,133)**	(2,812)
	1,254	1,359
Total property, plant and equipment	**7,034**	8,296

Property, plant and equipment accounting policy

Plant and equipment

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

Land and buildings

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

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

Impairment of property, plant and equipment

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

Derecognition of property, plant and equipment

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

5.2 Intangible assets and goodwill

	Goodwill $'000	Software $'000	Other $'000	Total $'000
Year ended 30 June 2017:				
At 1 July 2017, net of accumulated amortisation	**65,978**	**18,038**	**4,163**	**88,179**
Additions	**–**	**3,771**	**2,181**	**5,952**
Disposals	**–**	**–**	**–**	**–**
Impairment	**–**	**–**	**–**	**–**
Amortisation	**–**	**(3,236)**	**(1,318)**	**(4,554)**
At 30 June 2018, net of accumulated amortisation	**65,978**	**18,573**	**5,026**	**89,577**
At 30 June 2018				
Cost (gross carrying amount less impairment)	**65,978**	**31,537**	**7,737**	**105,252**
Accumulated amortisation	**–**	**(12,964)**	**(2,711)**	**(15,675)**
Net carrying amount	**65,978**	**18,573**	**5,026**	**89,577**
Year ended 30 June 2017:				
At 1 July 2016, net of accumulated amortisation	65,978	11,016	1,988	78,982
Additions	–	9,189	2,978	12,167
Disposal	–	–	–	–
Impairment	–	–	–	–
Amortisation	–	(2,167)	(803)	(2,970)
At 30 June 2017, net of accumulated amortisation	65,978	18,038	4,163	88,179
At 30 June 2017				
Cost (gross carrying amount less impairment)	65,978	27,766	5,556	99,300
Accumulated amortisation	–	(9,728)	(1,393)	(11,121)
Net carrying amount	65,978	18,038	4,163	88,179

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 (limited to Goodwill), 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 2018 $'000	30 June 2017 $'000
Banking Business	**40,189**	40,189
Wealth Management Business	**25,789**	25,789
Total goodwill	**65,978**	65,978

The Company's assessment of goodwill value-in-use exceeds the carrying value allocated to the CGU's and included in the financial statements.

The recoverable amounts for each CGU's value-in-use was determined using cash flow projections from Board approved financial budgets for the year ending 30 June 2018. Growth rates have been applied from year two through to year twenty. Cash flows are projected by undertaking detailed calculations for each income and expense category over a five year period and are then extrapolated off the 5th year, which is the lowest point of growth. An exit value is calculated at the end of 20 years, based on an implied terminal value earnings multiple of 12.8 for both CGU's and a long-term growth rate not exceeding industry. A post-tax discount rate of 10% and a pre-tax discount rate of 14.3% was used. Certain income categories are modelled by projecting growth in relevant portfolio balances and the resulting income derived there-from. Other non-portfolio related income streams and expense categories are modelled by projecting real rates of growth (above inflation) for each category. Terminal value is determined at year twenty using the assumption that the CGU achieves no real growth above inflation into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business which the CGU operates. The discount rate used of 10% reflects the Group's post-tax nominal weighted average cost of capital, in which has been reviewed by externally engaged advisers and approved by the Board. Average inflation is projected to be 2.0%. 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. Management expects that, over time, these assumptions will be positively exceeded and that any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

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

Goodwill accounting policy

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

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

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

Impairment of subsidiaries accounting policy

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

5.3 Employee benefits provision

	30 June 2018 $'000	30 June 2017 $'000
Balances		
Provision for annual leave	**2,130**	2,015
Provision for long service leave	**3,211**	3,355
Total employee benefits provisions	**5,341**	5,370
Due to be settled within 12 months	**3,319**	4,230
Due to be settled more than 12 months	**2,022**	1,140
Total employee benefits provisions	**5,341**	5,370

Employee benefits accounting policy

Liabilities for salaries, wages and annual leave are recognised in respect of 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 2018 $'000	30 June 2017 $'000
Issued and paid up ordinary shares	**145,380**	141,349

	30 June 2018		30 June 2017	
	Number of shares	Amount $'000	Number of shares	Amount $'000
Movements in ordinary share capital				
Opening balance	**89,445,395**	**141,349**	87,854,255	134,756
Shares issued pursuant to the				
– employee share scheme of the Group	**16,727**	**82**	18,729	80
– executive long term incentive plan	**21,658**	**104**	–	–
– dividend reinvestment plan	**824,337**	**3,845**	1,572,411	6,513
Closing balance	**90,308,117**	**145,380**	89,445,395	141,349

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 2018 $'000	30 June 2017 $'000
The major components of income tax expense/(benefit) are:		
Income tax expense		
Current income tax charge	**13,665**	12,037
Adjustment in respect of current income tax of previous years	**58**	62
Adjustments in respect of deferred income tax of previous years	**(37)**	(563)
Relating to origination and reversal of temporary differences	**(158)**	622
Total Income tax expense	**13,528**	12,158
A reconciliation between tax expense and accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Income tax expense attributable to:		
Accounting profit before tax	**44,989**	42,238
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	**13,497**	12,671
– Under/(over) provision in prior year	**21**	(500)
Expenditure not allowable for income tax purposes	**27**	42
Tax effect of tax credits and adjustments	**–**	(55)
Other	**(17)**	–
Income tax expense reported in the consolidated income statement	**13,528**	12,158
Weighted average effective tax rates	**30.1%**	28.8%
Deferred income tax relates to the following:		
Deferred tax assets		
Employee entitlements	**1,602**	1,611
Provisions	**184**	158
Doubtful debts	**108**	101
Other	**2,054**	2,848
Total deferred tax assets	**3,948**	4,718
Deferred tax liabilities		
Financial assets at fair value	**69**	70
Property, plant and equipment	**1,263**	1,460
Other	**1,026**	1,776
Total deferred tax liabilities	**2,358**	3,306
Current tax payable	**2,566**	785
Total tax liabilities	**4,924**	4,091

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

Movements in deferred tax balances

	Deferred tax assets		Deferred tax liabilities	
	30 June 2018 $'000	30 June 2017 $'000	30 June 2018 $'000	30 June 2017 $'000
Opening balance	**4,718**	3,664	**3,306**	2,562
(Charged)/credited to income statement	**(262)**	550	**(399)**	1,172
Credited/(charged) to equity	**84**	99	**80**	(270)
Adjustments for deferred tax of prior years	**(592)**	405	**(629)**	(158)
Closing balance	**3,948**	4,718	**2,358**	3,306

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.

Statement of Financial Position	30 June 2018 $'000	30 June 2017 $'000
Assets		
Cash and liquid assets	**2,705**	1,214
Other receivables	**176**	102
Related party receivables	**1,749**	1,810
Investments in subsidiaries	**253,674**	249,811
Deferred tax assets	**1,312**	1,236
Total assets	**259,616**	254,173
Liabilities		
Other liabilities	**1,044**	786
Related party payables	**36**	443
Tax liabilities	**2,561**	1,246
Employee benefit provisions	**283**	195
Total liabilities	**3,924**	2,670
Net assets	**255,692**	251,503
Equity		
Share capital	**251,308**	247,176
Retained earnings	**3,901**	3,370
Reserves	**483**	957
Total equity	**255,692**	251,503
Financial performance		
Profit after income tax for the year	**25,785**	25,041
Other comprehensive income	**–**	–
Total comprehensive income	**25,785**	25,041

The parent entity has not entered in to any guarantees and does not have any contingent liabilities as at 30 June 2018 (30 June 2017: 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.

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for the year ended 30 June 2018

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%

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 in 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 receive 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 2018 $'000	30 June 2017 $'000	30 June 2018 $'000	30 June 2017 $'000
Management fees received	**10,122**	9,456	**10,122**	9,456
Balance of investment held at year end	**9,867**	7,216	**5,120**	3,863
Distributions received from managed funds	**205**	275	**152**	129

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 $20.25 million (2017: $30.75 million); and
- Invested in the ConQuest Trusts Residential Mortgage Backed Securities Program in the form of Class A and B notes totalling $33.16 million (2017: $38.07 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 2018 $'000	30 June 2017 $'000
Key management personnel compensation		
The key management personnel compensation comprised:		
Short-term employee benefits	**4,025**	3,713
Post employment benefits	**342**	417
Share-Based payment(i)	**162**	274
Termination benefits	**195**	269

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

8.1 Contingent liabilities and expenditure commitments

	30 June 2018 $'000	30 June 2017 $'000
Operating lease expenditure commitments		
not later than 1 year	**3,793**	3,726
later than 1 and not later than 5 years	**10,973**	9,498
later than 5 years	**8,423**	8,199
Total lease expenditure contracted for at balance date	**23,189**	21,423

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. In the 2015 period, the Group also entered into a lease of a property situated in Launceston, which is principally used to house elements of the Tasmanian Perpetual Trustees Limited (TPT) business. The term of the lease is five years, with an option for two further five year terms. Rental increases over the term of the lease are determined by reference to movements in the consumer price index. If the options for further terms are exercised, the rental is to be determined by market appraisal at that time.

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

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

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

	30 June 2018 $'000	30 June 2017 $'000
Customer commitments		
Loans approved but not advanced to borrowers	**76,319**	42,520
Undrawn continuing lines of credit	**63,658**	72,952
Performance guarantees	**2,947**	2,000
Total customer commitments	**142,924**	117,472

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

	30 June 2018 $'000	30 June 2017 $'000
Bank Guarantee	**1,000**	1,000

The Group is a non-broker participant in the Clearing House Electronic Sub Register System operated by the Australian Securities Exchange and has provided a guarantee and indemnity for the settlement account from Bendigo and Adelaide Bank Limited (BABL). The Group maintains a deposit with BABL for $1,000,000 (2017: $1,000,000) as collateral for the 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 of the Group, Wise Lord & Ferguson:

	30 June 2018 $'000	30 June 2017 $'000
Audit services		
Audit of the financial statements of the consolidated entities	**380**	372
Total remuneration for audit services	**380**	372
Audit related services		
Assurance related services	**45**	89
Audit of loans and other services to the securitisation program	**21**	51
Total remuneration for audit related services	**66**	140
Other non-external audit related services		
Other services	**51**	32
Total remuneration for non-audit related services	**51**	32
Total remuneration for services provided	**497**	544

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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

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 2017 that have been issued by the Australian Accounting Standards Board (AASB). The adoption of these accounting standards have not resulted in any significant changes to the financial statements:

- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11].*
- AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 & 138).
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses.
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.*
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.
- AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation.
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures.
- AASB 2018-1 Amendments to Australian Accounting Standards – Further Annual Improvements 2016-2017 Cycles.

The following standards have been identified as accounting standards which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2018, but have not been applied in preparing this financial report. The Group will adopt these standards on their effective dates.

AASB 9 Financial Instruments

In December 2014, the AASB issued AASB 9 *Financial Instruments* which replaces AASB 139 Financial Instruments: Recognition and Measurement. The standard covers four broad topics: Impairment, Classification, Measurement and Hedging. AASB 9 *Financial Instruments* is effective for periods beginning on or after 1 January 2018. This standard introduces changes in the classification and measurement of financial assets and liabilities and simplifications to hedge accounting all of which the Group early adopted in 2014 (refer note 1.2) and also includes a new expected loss model for impairment. The Group is implementing the expected loss model for impairment on 1 July 2018.

Impairment

The impairment requirements are based on an expected credit loss model (ECL) that is forward looking and replaces the incurred loss model under the current accounting standard. AASB 9 will change the Group's current methodology for calculating the provision for doubtful debts, in particular for collective provisioning. The Group has undertaken impact assessments of the financial impact on adopting the new provision methodology. Whilst the Group is not anticipating any material impact on the financial statements on adoption of the new standard, it is expected that the collective provision will increase as is the expectation for financial institutions due to incorporating lifetime expected credit losses into the impairment assessment. Any increase in impairment provisions on transition to AASB 9 is not reflective of a change in underlying portfolio credit quality.

Impact of AASB 9

Any increase in the provision for doubtful debts on adoption of the standard will be taken through opening retained earnings at 1 July 2018 with no impact on the income statement but there will be a consequential impact on the Group's capital adequacy ratio. The Group will not restate prior period comparative balances on adoption of the new standard. The Group's current estimate of the opening balance sheet adjustment based on the economic conditions, forecast economic scenarios, management judgements and assumptions as at 1 July 2018, is an increase in impairment provisions of approximately $1.98M before tax. This would result in a corresponding decrease in shareholders' equity of approximately $1.39M after tax. The increase in impairment provisions under AASB 9 is mainly driven by the requirement to hold provisions equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination and the impact of forward looking factors on expected credit losses estimates. Under AASB 139, provisions are only held for incurred losses on the portfolio and forward looking factors are not considered.

AASB 15 Revenue from contracts

AASB 15 Revenue from contracts with customers will replace AASB 118 Revenue and is effective for periods beginning on 1 July 2018. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group has undertaken impact assessments of the financial impact on adopting the new revenue methodology and this has not resulted in identifying a change to the timing of recognition of income. The impact that the Group expects is that certain income, where the group acts as principal in a settlement arrangement, will be shown net of the related costs as opposed to those costs forming part of administration expenses. The Group has estimated that there would not be an opening balance sheet adjustment, if the standard had been applied on 1 July 2017. The Group will be adopting the standard using the modified retrospective approach.

AASB 16 Leases

AASB 16 *Leases* will replace AASB 117 Leases and is effective for periods beginning on or after 1 January 2019. AASB 16 requires lessees to recognise most leases on balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. The Group is currently undertaking an assessment of the potential impact of this standard. The potential impacts of this standard are yet to be determined. Refer to note 8.1 for the Group's operating lease expenditure commitments.

Directors' Declaration

for the year ended 30 June 2018

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 44 – 88 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 2018 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 2018.
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

Miles Hampton
Chairman

Melos Sulicich
Managing Director and Chief Executive Officer

Hobart
Dated this 17 August 2018

Independent Auditor's Report

To the Shareholders of MyState Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of MyState Limited (the Company) including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Company.

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

i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

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Independent Auditor's Report

for the year ended 30 June 2018

1. Operation of IT systems and Controls

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

2. Recognition and Measurement – Intangible Assets

Refer to Note 5.2 'Intangible assets and goodwill'

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

3. Provision for Doubtful Debts

Refer to Note 4.3 'Loans and advances'

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

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 43 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of MyState Limited, for the year ended 30 June 2018 complies with section 300A of the Corporations Act 2001.

Responsibilities

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

JOANNE DOYLE
Partner
Wise Lord & Ferguson
Chartered Accountants

Date: 17 August 2018

Information relating to shareholders

Range of Units (Snapshot) as at 20 August 2018

Range	Total holders	Units	% of Issued Capital
1 – 1,000	58,297	23,249,153	25.74
1,001 – 5,000	3,032	8,299,608	9.19
5,001 – 10,000	1,111	8,267,325	9.15
10,001 – 100,000	919	21,111,483	23.38
100,001 Over	41	29,380,548	32.53
Rounding			**0.01**
Total	**63,400**	**90,308,117**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $4.90 per unit	103	330	12,079

Information relating to shareholders

Top Holders (Snapshot) as at 20 August 2018

Rank	Name	Units	% of Units
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	6,005,144	6.65
2.	CITICORP NOMINEES PTY LIMITED	4,409,570	4.88
3.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,488,851	3.86
4.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,632,105	2.91
5.	NATIONAL NOMINEES LIMITED	2,427,064	2.69
6.	SELECT MANAGED FUNDS LTD	1,225,960	1.36
7.	MR BRIAN DAVID FAULKNER	750,000	0.83
8.	BEECHWORTH HOLDINGS PTY LTD <BEECHWORTH SUPER FUND A/C>	700,000	0.78
9.	NEALE EDWARDS PTY LTD	549,269	0.61
10.	BNP PARIBAS NOMS PTY LTD <DRP>	481,396	0.53
11.	MILTON CORPORATION LIMITED	444,992	0.49
12.	PRESTIGE FURNITURE PTY LTD	434,000	0.48
13.	IOOF INVESTMENT MANAGEMENT LIMITED <IPS IOOF EMPLOYER SUPER A/C>	432,842	0.48
14.	MRS WENDY JEAN FAULKNER	405,000	0.45
15.	MR IAN GREGORY GRIFFITHS + MRS SUSAN JANE GRIFFITHS <GLENLORE SUPER SCHEME A/C>	356,241	0.39
16.	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	351,588	0.39
17.	MRS JOAN ELIZABETH EVERSHED	312,547	0.35
18.	GARMARAL PTY LTD	253,011	0.28
19.	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	247,450	0.27
20.	LYMAL PTY LTD	244,140	0.27
Totals: Top 20 holders of Ordinary Fully Paid Shares (Total)		**26,151,170**	**28.96**
Total Remaining Holders Balance		**64,156,947**	**71.04**

Corporate Directory

Registered Office:
MyState Limited
ABN: 26 133 623 962
Level 2, 137 Harrington Street
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Website: mystatelimited.com.au
Email: info@mystatelimited.com.au

Directors

Miles Hampton (Chairman – non-executive)
Melos Sulicich (Managing Director and Chief Executive Officer)
Peter Armstrong (non-executive Director)
Robert Gordon (non-executive Director)
Sibylle Krieger (non-executive Director)
Warren Lee (non-executive Director)
Stephen Lonie (non-executive Director)
Andrea Waters (non-executive 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

Auditors

Wise Lord and Ferguson
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Hobart TAS 7000

Australian Securities Exchange Listing

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

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Email: info@mystate.com.au

The Rock

A division of MyState Bank Limited
Phone: 1800 806 645
Website: therock.com.au
Email: rock@therock.com.au

Tasmanian Perpetual Trustees

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MyState

Limited

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