MyState Limited

2019
Annual Report

Content

Annual General Meeting

Best Western Hotel,
156 Bathurst Street, Hobart
on Thursday 17 October 2019
commencing at 10.30 am (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 and is current as at 23 August 2019.

MyState Limited
ABN 26 133 623 962

OUR PURPOSE

To help people achieve their dreams

OUR MISSION

To make financial services simple and trustworthy

OUR VISION

To make a genuine difference to our customers and communities every day

OUR VALUES

Integrity We do what we say, and we hold ourselves and each other accountable for our actions and our commitments. We 'do the right thing'.

Innovation We embrace change and are always looking to improve the way we do things. If there's a better, more efficient way to do something, we'll find it and make it happen.

Courage Our actions are bold, our decision-making brave, and we won't be scared to challenge convention.

Relationships We are obsessive about customer experience and are committed to building quality customer and stakeholder relationships. We're one team, we're stronger together and we celebrate success.

Community We live, work and play locally. We're passionate about the communities we serve, and we understand that everyone has a valuable contribution to make.

MyStateLimited

01 Performance Highlights

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

Highlights

We are modernising to reflect
how customers want to bank.

Shareholders

$31.0m
net profit after tax

28.75c
full year dividends, fully franked

Exceptional customer service

2.7
days faster loan-application turnaround compared to industry average

+42
customer net promoter score (NPS) for MyState Group

5
pays services including Apple Pay, Google Pay™, Samsung Pay, Garmin Pay™ and Fitbit Pay™

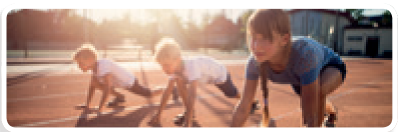
Customers

$3.7b
customer deposits

58%
of home loan portfolio based outside Tasmania

$5.0b
loan portfolio

Community



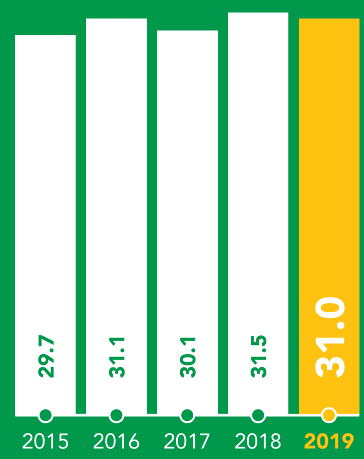
$2.2m
invested through the MyState Community Foundation since 2001

100+
not-for-profit organisations assisted since 2001

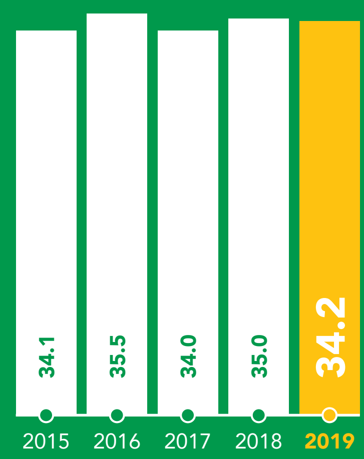
1,500
students participated in the MyState Student Film Festival

Group Performance

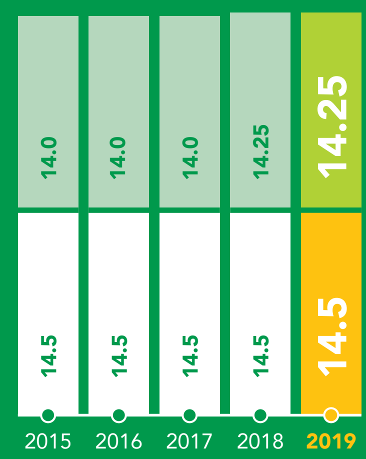
Underlying NPAT
($ million)



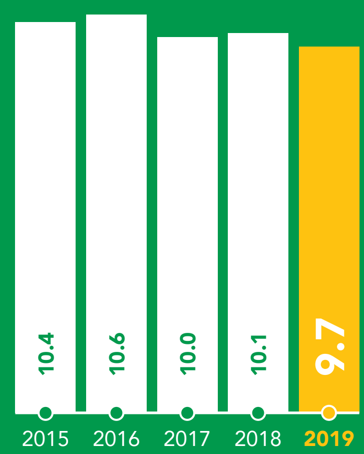
Underlying earnings per share (cents)



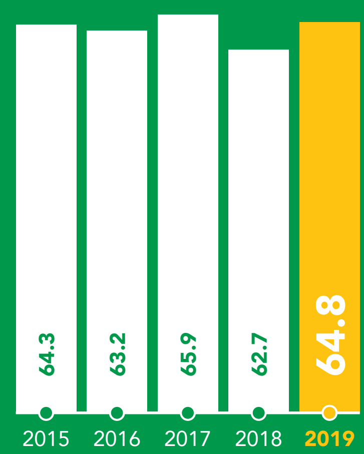
Dividends – fully franked per share (cents) 1H 2H



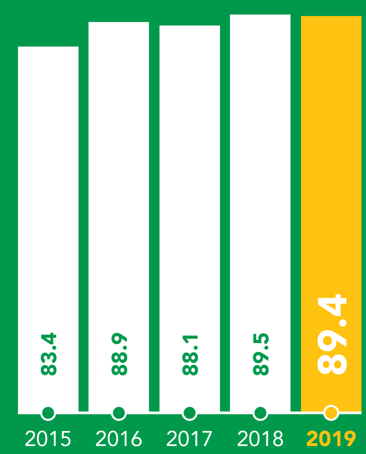
Underlying return on average equity (%)



Underlying cost to income ratio (%)



Net interest income
($ million)



Chairman's Report

Miles Hampton
Chairman

Statutory net profit after tax
$31.0m

5 year investment in technology
$25.0m

> "The operating result for the year under review was slightly disappointing. However, in the context of considerable progress in our transition to a digital bank and the overall circumstances of the banking sector, it was nonetheless a solid performance.

Operating Performance

The operating result for the year under review was slightly disappointing. However, in the context of considerable progress in our transition to a digital bank and the overall circumstances of the banking sector, it was nonetheless a solid performance.

Statutory net profit after tax fell 1.5% to $31 million. The result included a one–off benefit of $1.2 million arising from the sale of the financial planning business and, excluding discontinued operations, net profit after tax fell from $31.3 million to $29.8 million.

The result was significantly impacted by a spike in bank bill swap rate (BBSW) linked funding costs in the first half. However, the spike abated in the second half when net profit after tax was $15.9 million, compared with $13.9 million in the first half.

Earnings per share including discontinued operations fell from 34.97 cps to 34.17 cps.

Whilst a strong focus on expense control was maintained, the group's cost-to-income ratio increased from 62.7% to 64.8%. The metric was adversely impacted by growth in technology related costs and reduced income related to movements in BBSW linked funding costs.

The loan book continued to grow at a rate well above system, and the overall loan book increased by 10.7%. At 30 June 2019 the loan book was $5 billion, an all-time record.

At the same time it is pleasing to note that credit quality was maintained and this remains one of the key differentiators of our business.

Capital adequacy ratio decreased in the year from 13.5% to 12.9%, but remains very strong.

Unlike many of our peers it is pleasing to report that we have not had to make any provision for remediation costs.

The wealth management business had a strong year with funds under management increasing to $1.17 billion.

The directors have declared a final dividend of 14.5cps, unchanged from the previous corresponding period.

> "At MyState conduct risk has always been an important focus and is embedded in our risk framework. The risk framework has been updated to ensure that we fully reflect the precepts identified by the Royal Commission.

Significant Initiatives

- We continue to develop our digital offering and in FY19 we invested a further $5 million in technology, taking the total investment over the past five years to $25 million. Our focus is to make banking easier for our customers and at the same time, deliver operational efficiencies, enabling us to do more business without increasing costs.
- The sale of the financial planning arm in June 2019 followed a review of the growth options available to us in that business. Further, whilst comfortable that we were appropriately managing conflicts of interest, we came to the view that returns did not justify the attendant risks.
- The Board has approved a revised business plan for the funds management business that will see an enhanced technology offering for customers. It is anticipated that we will reduce the number of funds and target a range of initiatives to improve scale and the returns to investors in our funds.

The Royal Commission into Banking and Financial Services

MyState was not called on to submit any evidence at the Royal Commission. However, we have critically examined our business in the light of the following recommendations that were applicable to us.

Role of mortgage brokers
The Royal Commission recommended a number of changes to the responsibility of mortgage brokers and their remuneration arrangements. We support the changes but hope that they will be implemented in a manner that does not diminish the important role that brokers play in facilitating competition in banking.

The Royal Commission upheld the Banking Code of Practice as a good self-governance tool for the industry. MyState is a signatory to the Code and is committed to ensuring that we fully comply with both its key principles but also its spirit.

Remuneration Practices
The Royal Commission observed that incentive remuneration arrangements could influence behaviours and customer outcomes. MyState has undertaken a comprehensive review of incentive remuneration at all levels of the organisation. Our incentive plans have risk, compliance and customer outcome gateways, we have adopted the applicable Sedgwick recommendations and are fully compliant with BEAR requirements.

Conduct Risk
The Royal Commission made a particular emphasis on conduct risk, detailing six fundamental precepts. At MyState conduct risk has always been an important focus and is embedded in our risk framework. This has been updated to ensure that we fully reflect the precepts identified by the Royal Commission.

Culture & Governance self-assessment
The commission recommended that financial entities undertake an assessment of culture and governance. MyState will engage an external party to facilitate this review and we anticipate that it will be completed in FY20.

Conflicts of Interest
The Royal Commission noted the importance of appropriate management of conflicts on interest. MyState has at all times sought to ensure that our governance processes appropriately manage conflicts of interest.

Banking Executive Accountability Regime

The application of the legislated Banking Executive Accountability Regime (BEAR) involved strengthening governance around accountability and providing greater visibility between accountability and remuneration.

MyState was fully compliant with the BEAR regime on 1 July 2019, with accountability documentation lodged and approved by APRA.

Changes to remuneration arrangements that form part of BEAR have also been fully implemented.

Remuneration Matters

In recent times there has been much written about bank remuneration arrangements and the potential for them to lead to unacceptable customer outcomes.

We have undertaken a comprehensive review of remuneration arrangements across the business to ensure that our remuneration structures do not inadvertently frame behaviours that work against good customer outcomes.

At the executive level we maintain risk, compliance and customer outcomes overlays to variable remuneration that ensure that even if defined performance metrics are achieved, the board can cause variable remuneration payments to be diminished or forfeited.

Below the executive level we have undertaken a comprehensive review of remuneration structures in light of the findings of the Sedgwick Review. Where necessary we have made changes to ensure that our variable pay structures support good customer outcomes.

Competition in Banking

The competitive landscape continues to be balanced against smaller players.

It is a pity that the Royal Commission failed to explicitly call out that one of the best ways of ensuring the absence of complacency that sits behind so many of its egregious findings was to improve the competitive landscape.

Apart from the obvious scale disadvantage, smaller banks have to maintain higher capital ratios to fund their loan books and their funding costs are inevitably higher.

At the same time we are seeing significant growth in non-bank lending which is placing additional pressure on all players, but particularly the smaller banks.

While new regulations arising from the Royal Commission recommendations will rightly aim to enforce greater industry accountability, it is to be hoped that consideration will be given to ensuring that, to the maximum extent possible, changes to the regulatory regime do not disproportionately impact smaller players.

Board changes

During the year non-executive director Peter Armstrong retired from the Board following a distinguished career that included serving as chairman and director of some of our formational credit unions.

We acknowledge the contribution that Peter made to our business and we wish him well in retirement.

We welcomed Vaughn Richtor to the Board in September 2019. Vaughn is a highly experienced bank chief executive with significant experience and success in digital banking both in Australia and overseas.

Acknowledgement

I would like to acknowledge the contribution of my fellow board members in the face of the ever-increasing demands being placed on bank directors.

I also acknowledge the focus of the executive team on building a digital bank and the contribution of our people who are committed to delivering unparalleled service for our customers.

Miles Hampton
Chairman

Managing Director's Report

"During the year we continued our strategy of developing our digital banking capability, which allows our customers to bank where they want, whenever they want.

Anticipating customers' demands for more convenient, secure financial services, we have expanded and enhanced the customer experience to make it easy for people to manage their money.

Our investment in technology continues to focus on serving human needs, delivering our customers superior service and greater access to our full suite of banking and wealth management products.

The financial services industry is changing faster than any other time in history. Today we have an increasing proportion of customers using online and mobile services, without a need for support through a traditional branch network. The use of and need for cash are falling rapidly.

We have improved our services by streamlining processes, reorganising our business structure to deepen customer relationships and provide a highly differentiated customer experience.

Most importantly, our customers are telling us they like these improvements. 2019 saw this demonstrated by another improvement in MyState's net promoter score (NPS). We continue be a leader in the banking industry with a Group score of +42, a large improvement on +27 last year, which was already a high score.

Financial overview

The Group's total operating income was $120.4 million, slightly lower than $120.9 million in the previous year. The contribution of our banking business to profit was $25.9 million compared to $26.9 million. The profitability of our wealth management business increased to $5.1 million (including profit from the sale of the financial planning business), up from $4.6 million from the prior year.

At 30 June 2019, MyState's capital adequacy ratio was 12.9%, with Common Equity Tier 1 (CET1) capital at 11.1%, meaning the Group already meets APRA's 'unquestionably strong' capital targets that come into effect on 1 January 2020.

Ratings agency Moody's provides a Baa1 rating for MyState Bank, recognising the strength of our risk management systems and the strength of our capital management strategy.

MyState's return on average equity at the end of the year was 9.7%, which remained high compared to regional bank peers.

Banking overview

Strong lending growth propelled our loan book above $5 billion for the first time, supported by record applications and settlements. Having consistently delivered above-system growth for several years, we are now a much larger organisation, able to improve our economies of scale.

Enhanced technology, including new finance and risk management systems, helps us to manage our business more efficiently and effectively. Systems and process improvements have led to much faster loan approval times with our turnaround times around two days faster than the industry average. Also, all of our banking products are able to be originated online, making our bank a truly national bank.

Our successful channel strategy has helped build scale across Australia's eastern seaboard. Our loan book in New South Wales now represents 21.8% of the portfolio, Victoria 17.3% and Queensland 15.8%. While our Tasmanian book is growing, the proportion it represents reduced to 41.8%, decreasing our concentration risk on a single state economy.

Customer deposits increased to $3.7 billion. This strong 12.1% growth from $3.3 billion last year was driven by the success of new online deposit products. These contemporary services have been well received and include personal accounts with a range of payment options. We have a wonderful brand in MyState Bank and continue to invest heavily in building brand awareness across new markets through more targeted marketing campaigns.

During the year, the banks' funding costs were heavily impacted by elevated wholesale funding rates. As a result, the net interest margin declined to 1.80%. Wholesale funding costs reduced towards the end of the financial year as expectations of a Reserve Bank cash rate cut reduced pressure on margins. As we move forward, we will increase the proportion of customer deposits that we hold and reduce reliance on wholesale funding markets, which we consider will allow us to manage our net interest margin more actively.

Simplified wealth management business

In June 2019, we took the decision to divest our retail financial planning business, simplifying our operations. While this decision was difficult, we felt it was in our best interest as the risk profile of this business was changing, particularly following the Hayne Royal Commission. We were pleased to receive what we considered a premium for the business, reflecting its quality.

We are investing heavily in a multi-year project that will improve the product and digital experience for our funds management customers. We are moving to a new platform for our funds management operations to increase the scalability and service levels of the business.

This is an incredibly exciting project that will support the national expansion of our business while allowing customers and investors to manage portfolios online and take advantage of the new products and services that we are developing.

Our income funds performed well, and funds under management increased to a new decade-high of $1.17 billion.

Customer deposits

+12.1%

Customer NPS

+42

Loan portfolio

$5.0b

Melos Sulicich
Managing Director and Chief Executive Officer

Our people

We are operating in a fast-changing environment and are building a competitive advantage through technology and nimble processes, including continual changes to our business structure to serve customers. However, while technology and process improvement are critical to our business, it is the quality of our people that really make the difference. During the year we strengthened our executive team, adding additional banking distribution, digital and marketing skills.

The change that the banking industry is going through is exciting and unprecedented. It means that traditional skills of customer engagement and risk management are augmented by increased analytical, digital and automation skill sets that are part of a new world that did not exist in our business just a few years ago. It's exciting but challenging at the same time as we continually move to change the shape of our business to a much more contemporary model.

I would like to take this opportunity to congratulate our team which provides the superior service that delights our customers. We have a strong customer-centric culture with high levels of engagement and responsiveness, and I thank all our people for their dedication and passion.

Building customer trust

The Hayne Royal Commission has seen significantly heightened regulatory oversight across the financial services industry. While there was no specific impact on MyState, we continued to invest in risk management processes, systems and people to ensure the highest standards of compliance are delivered with the customers' needs firmly at the centre of all of our decision-making.

Through the Australian Banking Association, the banking industry has launched a revitalised Banking Code of Practice, with the newest version of the code taking effect on 1 July 2019. The new Code provides an ethical, customer-oriented and sustainable framework. It sets clear standards of conduct for banks, their staff and representatives, and aims to set a new standard of customer service for the banking industry. MyState Bank is proud to be a voluntary signatory to the Code, and one of the smallest banks to make this large commitment, ensuring our customers get the very best of service and peace of mind.

During the year we strengthened our whistleblower program and we continue to provide a Customer Advocate service, offering an independent review for customer feedback and customer complaints.

However, the increased regulatory oversight has had other consequences that disproportionately impacted smaller banks. There remains work to be done by the government to 'level the playing field' and reduce some of the challenges faced by the smaller banks.

Summary

We remain focused on helping our customers achieve their dreams. We are well positioned both financially and strategically, with a strong balance sheet. As the shift to digital services continues, our investments build our competitive edge and allow us to improve and enhance the products and services that we offer our customers as well as reduce average service costs. As regulation changes and new entrants emerge, we believe we are well positioned to grow our share of Australians' everyday banking.

House prices appear to be stable or improving, and we remain focused on continuing to grow the business. Our strategy of pursuing low risk, owner-occupied lending with a loan-to-valuation ratio of less than 80% remains in place, and we have a clear expansion opportunity across Australia's eastern seaboard.

We are excited by the potential to extend our funds management business nationally through development of a modern, scalable platform, which creates a new market for our income funds products. We intend to make some exciting and significant changes to this business model in the coming period.

We continue to build deep customer relationships and place customers at the centre of everything we do.

I would like to thank my hardworking team for their outstanding work, commitment and enthusiasm in delivering better outcomes for our customers during the year. I'd also like to thank my hardworking and extremely dedicated board for their focus and help in enabling the executive to continue to deliver on an ambitious growth strategy.

Melos Sulicich

Melos Sulicich
Managing Director and Chief Executive Officer

Banking Operations

Banking customers
136,500

Over the financial year, the number of banking customers that we serve increased to 136,500. This achievement reflected having more customers with mortgages across Australia and rapid acceptance of our new online transaction and term deposit accounts.

Our strategic investment in technology has delivered a full-service online and mobile banking platform, extending the availability of our services. Online origination for home loans has expedited the experience for home loan applicants. New, innovative deposit products proved popular, including the Glide monthly fee-free transaction account, Bonus Saver deposit account and online term deposits.

We understand that customers would like to do some things themselves, and MyState's apps offer greater convenience, a broader range of features and simple-to-use, intuitive features so people can check balances, pay bills and transfer funds at their convenience.

This digital experience is supported by fast processing of payments across the New Payments Platform, e-statements, a customer contact centre and regular personal and digital communication. We provide the ability to make day-to-day tap and go payments using any device that offers these services. We are among the few banks in Australia that offer Apple Pay, Google Pay, Samsung Pay, Garmin Pay and Fitbit Pay.

Our digital platform has also reduced our cost to serve, providing low cost, low maintenance offerings that are secured by a range of security features such as electronic and manual verification. Customers can securely open new accounts and process transactions in minutes.

Behind the scenes, we are also investing heavily in cyber security and fraud detection measures to protect our customers, their money, their data and information. This is an increasingly important area that is evolving quickly, and our aim is to ensure we are at the forefront of the industry as it evolves.

Home loan growth

Our successful lending strategy continued, with new loans boosting the home loan book from $4.36 billion to $4.85 billion during the year. This included significant growth in the lower than 80% loan-to-valuation ratio loan category favoured by our prudent lending practices. Our strategy of engaging with mortgage brokers ensures this important channel continues to support our expansion plans, in concert with our online capabilities and the direct services provided through branches which remain strong in our traditional heartland areas.

We are focused on sustainable growth, and strong risk management practices ensure we maintain exceptional credit quality. Our arrears remain well below those of our regional peers and the benchmark for major banks. Our 90 day arrears were 0.26%, close to historical lows.

During the year we consolidated our banking brands, rebranding The Rock as MyState Bank. This enabled our Central Queensland customers to benefit immediately from improved, simplified digital services. We now offer a consistent suite of banking products and services nationwide.

Funding

MyState maintains a broad range of funding sources, and at the end of the year the proportion of funding provided by customer deposits was 68.6%, wholesale funding 6.9% and securitisation 24.5%.

> We provide the ability to make day-to-day tap and go payments using any device that offers these services.

Wealth Management

Digitisation creates growth opportunity

MyState's wealth management business, Tasmanian Perpetual Trustees (TPT), is one of Australia's oldest and most respected providers of wealth solutions.

TPT offers simple, contemporary financial products for customers that want to ensure their investments and estates are safe and well managed.

Funds management

Our funds management business offers risk-sensitive income funds that have an important role supporting investors desiring consistent and reliable income. These extend from retirees through to wholesale clients, such as charities and local councils.

MyState's funds management business performed very well in 2019, attracting new customers and investors. Growth and investment returns have helped to increase funds substantially over the past ten years, and we completed the year with $1.17 billion in funds under management, our highest total since 2009.

Trustee services and financial planning

2019 saw the divestment of our financial planning arm, simplifying our operations. We continue to provide 'prudent person' advice, which manages the affairs of a person's estate after they have passed away as well as advising through our Private Client Services those trustee clients who are incapacitated.

The value of estates administered in 2019 was less than the previous year when our business benefited from a number of high-value estates and probate applications.

Digital transformation

We have begun a multi-year digital transformation of our wealth business which, when complete, will offer streamlined 24x7 services. This investment will place greater control in the hands of our investors and increase transparency on the status of their investments.

The first step in this transition is the move to a new administration platform. The new platform will allow customers to manage personal details, transact, top up investments, access statements and balances, and apply online for new products.

These additional capabilities will expand our addressable market, as they enable the nationwide distribution of products, currently only available in Tasmania, through a cost-effective technology platform. Our initial focus for expansion will be the eastern seaboard, where there is significant opportunity.

We will continue to provide the exceptional customer service that differentiates our business, supplementing personal services with fast, accurate digital systems.

Funds under management
$1.17b

> We have begun a multi-year digital transformation of our wealth business which, when complete, will offer streamlined 24x7 services.

Digital Services

The way we bank and manage wealth are being transformed by new technologies and devices. We are responding to our customers' desire for products and services that simplify their lives by providing contemporary services that are intuitive and helpful.

Increasingly, customers prefer the flexibility of mobile services, with more people using an app to do their banking than any other channel. In the next four years, the global use of mobile payments is expected to increase and surpass the use of credit cards and cash.

The digital assets we have built are increasingly the ones that are driving our growth. The number of customers joining MyState online more than doubled in 2019, with a particular focus on everyday banking. Moving forward, an increased focus and investment in digital acquisition will aim to further build and extend our platforms.

Over the next year, we will further enhance our apps, digital products, internet banking, and contact centre services as we strive to provide leading services and tools for our customers.

We are innovating to increase customer self-service capability within our app and enable customers to have greater control over their account management. Investments in personal financial management capabilities will provide customers with personalised recommendations to help them better manage their money. Powered by predictive analytics, helpful insights will enable our customers to budget and plan expenditures, set targets, and actively save.

As we continue to become a more data-driven business with simplified systems and processes, we are serving customers more cost-effectively. Our use of intelligent business applications, such as analytics, predictive modelling and customer relationship management (CRM), continues to deliver step-change improvements in effectiveness. Evolving our contact centre technology will see us transform to become an integrated phone and digital operation, helping power an even better customer experience.

In recent years we have delivered important, large-scale technology changes and we are now benefiting from these investments in a simple, well-integrated modern platform. This positions us well to take advantage of opportunities such us Open Banking.

"We are responding to our customers' desire for products and services that simplify their lives by providing contemporary services that are intuitive and helpful.

mozo EXPERTS CHOICE 2019 SMALL BUSINESS NO STRINGS SAVINGS

We were awarded
Mozo selected MyState Bank as the best choice for Small Business No Strings Savings

Risk Management

Managing both financial and non-financial risks are an integral part of the Group's strategy. A robust risk and customer centric culture is at the heart of everything we do.

Our risk management framework

We examined the recommendations from the Hayne Royal Commission very closely and, where appropriate, made changes to the way we manage our business. We have a strong culture of accountability and responsibility across all business lines and have further strengthened our processes to maintain the highest standards of culture and conduct.

Our approach to risk management is built on the fundamentals of the 'three lines of defence' governance model. This is backed by an effective risk control framework embedded in our business. We have a detailed and actively managed risk appetite and regularly examine every aspect of our operations to detect and manage all forms of financial and non-financial risk that may impact our strategy.

Strategic differentiation

Our risk appetite and Group strategy are developed together, supporting a consistent approach to enterprise-wide risk management and decision-making.

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

- A **prudent approach** and a strong risk culture that help us deliver our strategic intent.
- **Robust controls** that make sure risks are identified, managed and mitigated effectively.
- **Enhanced risk accountability** that ensures business units in the first line of defence are accountable and supported by strong oversight and challenge from our risk professionals in the second line of defence.
- **Effective risk reporting** and analytics that provide insight into events that may impact the Group's risk appetite and ability to deliver strategic outcomes. This includes enhanced reporting and accountability at the first line of defence through the introduction of divisional risk management committees.
- **Supporting sustainable growth** through a risk culture that provides both proactive support and constructive challenges.

This framework helps ensure we support our mission and deliver the best outcomes for MyState and our customers.

"We have a strong culture of accountability and responsibility across all business lines and have further strengthened our processes to maintain the highest standards of culture and conduct.

Supporting the Community

We are passionate about the communities that we serve and believe we have a responsibility to make a difference by using our resources to help future generations.

Some of the ways in which we achieve this outcome are by supporting not-for-profit, charity and community groups through the **MyState Foundation**, which is focused on empowering youth. Over 19 years, the Foundation has awarded over $2 million in grants to help more than 100 not-for-profit organisations. Bridgewater PCYC, Beacon Foundation, Rural Alive & Well, Camp Quality, St Vincent de Paul Society, Brave Foundation, Edmund Rice Camps Tasmania, Story Dogs, Colony 47 and CatholicCare Tasmania were among the 2019 recipients.

The Foundation also supports **The Smith Family**, funding 100 students in the Learning for Life program for disadvantaged school children, supporting two Work Inspiration programs annually and student graduation celebrations.

Our support for the **Hobart Hurricanes** cricket team over four seasons has helped promote MyState Bank nationally. In the 2018/2019 season we were the principal partner of the **Women's Big Bash League (WBBL)** Hurricanes team and a major partner of the **Big Bash League (BBL)** team. We provided match day volunteers at home games and supported Hurricanes players' visits to local schools during Community Blitz events.

Another event that attracts national visitors is the **MyState Bank Australian Wooden Boat Festival**, a biennial event which hosted 215,000 people in Hobart over four days celebrating Tasmania's rich maritime history.

The **MyState Student Film Festival**, which was opened to national entrants for the first time last year, received a record 1,500 participants and 306 entries. This event provides an important forum for students to showcase their talent and visual arts creativity.

Tasmanian Perpetual Trustees is a proud supporter of the **Hardie Fellowship**, which provides Tasmanian teachers with financial aid to broaden their professional knowledge through university study and research in the United States.

Encouraging diversity

MyState considers workplace diversity to be a considerable asset, fostering an inclusive culture where everyone is treated with respect. The diversity plan includes clear objectives across a range of inclusion metrics and targeted initiatives to progress the Company's position on diversity. Initiatives include:

- inclusive recruitment practices;
- flexible work initiatives;
- additional leave options; and
- access to diversity awareness programs.

This year, MyState supported **International Women's Day** breakfast events in Hobart and Rockhampton. The events, attended by more than 400 people, included keynote speeches by successful business owner Janine Allis in Hobart and former professional surfer Layne Beachley in Rockhampton.

Reducing environmental impact

The environmental outcomes of our decisions are important and we continue to reduce our use of natural resources. For example, 32% of banking customers use electronic statements, up from 20% last year, and 37% of shareholders receive annual reports, notices and announcements electronically, reducing paper consumption. We use fully recycled paper stock printed with vegetable ink for customer brochures, envelopes and stationery.

During property moves, such as our Kingston branch relocation, we carefully select fixtures and fittings to minimise impact.

MyState Foundation



Foundation grants in 2019	Not-for-profit organisations helped	Students supported through The Smith Family
$159,637	10	100

MyState Bank Student Film Festival



Festival years	Festival entries	Participating students
17	306	1,500

MyState Bank Australian Wooden Boat Festival



Tasmanian economy contribution	Festival attendees	Registered boats
$30.0m	215,000	504

Hobart Hurricanes

Seasons supported

4

Principal partner

WBBL Hurricanes

Major partner

BBL Hurricanes

International Women's Day

States

2 Queensland Tasmania

Keynote speakers

2 Layne Beachley Janine Allis

People attended

400+

Hardie Fellowship

Trust support

16 years

Funding over 16 years

$5.5m

Educators supported

9

02
Directors' Report

As at 30 June 2019

Board of Directors

Miles Hampton

Chairman
BEc(Hons), FCPA, FAICD
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 and he was appointed a Director of MyState Bank Limited in September 2009.

Mr Hampton was Managing Director of ASX-listed agribusiness and real estate public company Roberts Limited from 1987 until 2006.

Mr Hampton has previously been a Director of public companies Ruralco Holdings Ltd, Australian Pharmaceutical Industries Ltd, Wentworth Holdings Ltd, Money3 Corporation Ltd, HMA Ltd and Gibsons Ltd. He was also a Director of Impact Fertilisers Pty Ltd, Deputy Chairman of the Van Diemen's Land Company and Chairman of Forestry Tasmania, Hobart Water and TasWater.

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.

Melos A Sulicich

Managing Director and Chief Executive Officer
BBus, GAICD, SA FIN
Appointed 1 July 2014

Mr Sulicich is Managing Director and Chief Executive Officer of MyState Limited and 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, health care, 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.

Robert L Gordon

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

Mr Gordon is currently 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 Community Foundation Limited and was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009.

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

Sibylle Krieger

Independent non-executive Director
LLB(Hons), LLM, FAICD, MBA
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 a non-executive director of the Australian Energy Market Operator Ltd (AEMO) and was formerly a non-executive Chair of Xenith IP Group Limited, a director of Sydney Ports Corporation, Allconnex Water, TasWater and Vector Limited (NZX:VCT), and 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.

Ms Krieger is the chair of MyState Limited Board's Group People and Remuneration Committee and a member of the Group Risk Committee and the Group Nominations and Corporate Governance Committee.

Warren Lee

Independent non-executive Director
BCom, CA
Appointed 19 October 2017

Mr Lee has extensive experience and 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.

He is currently a non-executive director of Tower Limited, Go Hold Limited and Go Blank 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 MyState Limited Board's Group Audit Committee, Group Risk Committee and Group Digital Business Committee.

Stephen E Lonie

Independent non-executive Director
BCom, MBA, FCA, FFin, FAICD, FIMCA
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.

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

Andrea Waters

Independent non-executive Director
BCom, FCA, GAICD
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 seven years she has been a professional non-executive director and is currently a Director of Grant Thornton Australia Ltd, Bennelong Funds Management Group, Citywide Service Solutions Pty Ltd and Colonial Foundation.

She was previously a Director of The Lord Mayor's Charitable Foundation, Chartered Accountants Australia & New Zealand, Cancer Council Victoria, CareSuper and Cash Converters International Limited (ASX:CCV).

Ms Waters is the Chair of MyState's Group Audit Committee and a member of the Group Risk Committee.

Key Management Personnel

David Harradine

Chief Financial Officer

BCom, FCA, BIIA, CIA

David is a chartered accountant with over 20 years' experience working in 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.

Mandakini Khanna

Chief Risk Officer

Post DipBusAdm, Post DipBusFin, BCom

Mandakini (Mandy) is responsible for the management of the financial and non-financial risks of the MyState Limited Group. Mandy and her team have worked on strengthening risk culture and risk frameworks within MyState. This has helped build a culture of accountability across the business and sharpened the focus on customer outcomes.

Mandy has over 20 years' experience in banking and retail financial and has held senior risk management positions in GE Capital across Asia Pacific. Prior to joining MyState, Mandy was the Chief Credit Officer for GE Capital in Asia Pacific.

Heather McGovern

General Manager, Digital and Marketing

BA Comms

Heather was appointed General Manager, Digital and Marketing in March 2019 and has responsibility for the Group's digital, innovation, customer experience, brand and marketing divisions.

Heather has over 20 years' experience in digital and marketing roles within the financial services sector having worked with American Express, the Royal Bank of Canada, National Australia Bank, Incitec Pivot and AIA Australia. Prior to joining MyState, Heather held the role of Chief Product & Marketing Officer with BankVic where she played a key role in the expansion of their digital offering. Her rich international career includes roles based in Italy and Canada as well as in Australia.

Tony MacRae

General Manager, Banking

BEc

Tony has responsibility for the Group's banking division which includes retail, call centres, business and agri-business as well as the mortgage broker channel. Tony's extensive career within the financial services sector includes his previous role of National General Manager, Westpac Retail Home Ownership Distribution where he was responsible for the strategic sales leadership of Westpac's physical and digital salesforce.

Prior, Tony held key positions with the RAMS/Westpac Group including Acting CEO of RAMS and General Manager, Third Party Distribution for Westpac. He also held senior roles with PMI and Virgin Money Australia. Tony is a Board member and Treasurer of the Royal Flying Doctor Service, South Eastern Section.

Paul Moss

General Manager, Technology, Operations and Product

BEng(Hons)

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.

Craig Mowll

General Manager, Wealth Management

MBA, MBSc

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 Management division, which includes investment management and trustee capabilities.

Craig was previously Managing Director of Aura Group's funds and wealth management business, following five years as the Chief Executive Officer of Certitude Global Investments. His prior roles include Director of Distribution, Product and Marketing at Credit Suisse and General Manager of Australian Distribution, Technical and Customer Service at St. George Bank.

Janelle Whittle

General Manager, People and Culture

BCom, MHRM

Janelle has overall responsibility for MyState Limited Group's human resources, including remuneration and benefits, health and safety, recruitment and employee relations. People and Culture leads internal communications and has a key role in developing and fostering organisational culture and capability to support MyState's growth aspirations.

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 include General Manager People and Culture at Aurora Energy, and Director Organisational Design and Change at the University of Tasmania.

Directors' Report

Your Directors present their report on MyState Limited for the year ended 30 June 2019.

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), Dip ED, Dip FP, CPA, FAICD (retired 22 February 2019)
  Independent non-executive Director.
- **Robert Gordon** BSc, MIFA, MAICD, FAMI
  Independent non-executive Director.
- **Sibylle Krieger** LLB (Hons), LLM, FAICD, MBA
  Independent non-executive Director.
- **Warren Lee** BCom, CA
  Independent non-executive Director.
- **Stephen Lonie** BCom, MBA, FCA, FFin, FAICD, FIMCA
  Independent non-executive Director.
- **Andrea Waters** BCom, FCA, GAICD
  Independent non-executive Director.

Company Secretary

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

Principal Activities

Banking Services	Trustee Services	Funds Management
• Personal, residential and business banking • Transactional, internet & mobile banking • Savings and investments • Insurance and other alliances	• Estate planning • Estate and trust administration • Power of attorney • Corporate trustee	• Managed fund investments

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

With the exception of the sale of retail Financial Planning on 28 June 2019, there have been no significant changes in the nature of the principal activities of the Group during the year.

Operating and Financial Review

The Group recorded a statutory profit after income tax for the year ended 30 June 2019 of $30.987m (30 June 2018: $31.461m).

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 14.5 cents per share. The dividend will be payable on 1 October 2019 to shareholders on the register at the record date of 30 August 2019.

Dividends paid in the full year ended 30 June 2019 were as follows:

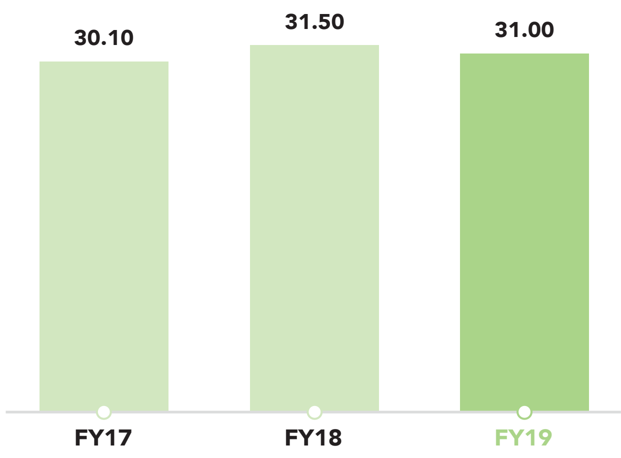
- In respect of the year ended 30 June 2018, a fully franked final dividend of 14.5 cents per share, amounting to $13.097m, was paid on 25 September 2018.
- In respect of the half year ended 31 December 2018, a fully franked dividend of 14.25 cents per share, amounting to $12.919m, was paid on 29 March 2019.

Review and Results of Operations

Financial performance
The Group recorded a net profit after income tax for the full year ended 30 June 2019 of $30.987m, a decrease of 1.5% on the prior corresponding period ended 30 June 2018 (pcp) of $31.461m.

Earnings per share decreased by 2.31% to 34.17 cents per share on the pcp and return on equity decreased 38bps to 9.70%.

Group Net Profit after Tax ($m)



The full year result for the Group was significantly impacted by a decrease in the net interest margin (NIM), which declined 17bps on the prior year. The decline in NIM reflected competitive pressures and the impact in the first half of an increase in the Bank Bill Swap Rate (BBSW) benchmark. However, as BBSW eased in the second half, NIM improved. The shifting market conditions led to a strong finish to FY19 with 2H19 delivering a much improved result on 1H19.

MyState Bank achieved above system loan book growth, the book increasing $487.835m during FY19, compared to $282.731m in the prior year.

Operating costs increased $2.220m or 2.9% on prior year (2.0% excluding depreciation and amortisation).

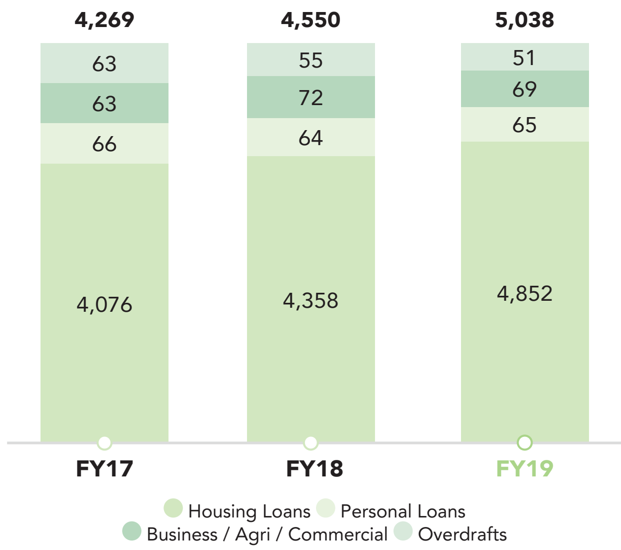
The Group's Wealth business, also reported a result in line with the prior year

High credit quality maintained in a period of significant growth
The above system loan book growth has been delivered with a focus on low risk, owner-occupied lending with a loan-to-valuation ratio of less than 80%.

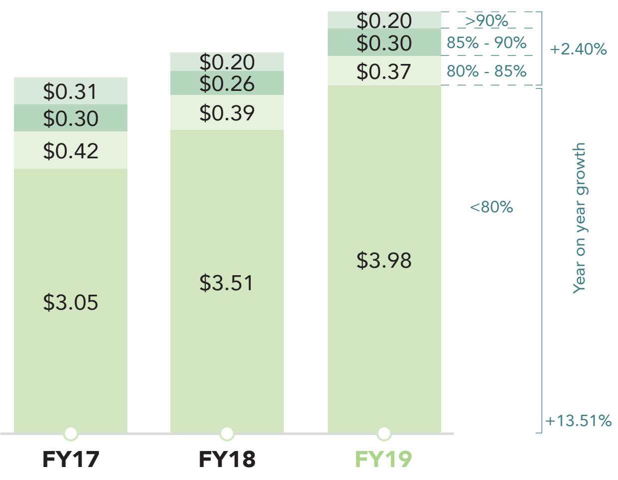
The banking loan portfolio grew 10.72% reaching a $5 billion total portfolio.

30 and 90 day arrears continue to be below peers and industry benchmarks (at 0.46% and 0.26% respectively).

Total book composition ($m)



Home Loan Book by LVR ($b)



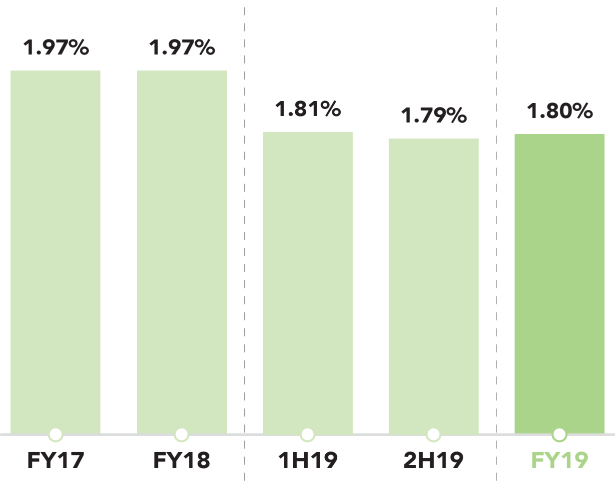
Exposure to investor and interest only lending remains very low and within regulatory guidelines.

During the period, MyState Bank continued to grow its customer base across the eastern seaboard of Australia, with the proportion of home loans outside of Tasmania increasing from 54.5% to 58.2% since 30 June 2018.

Margin pressure driven by increased cost of funding
Funding costs in 1H19 were significantly elevated on the prior year and were driven by BBSW benchmarked wholesale funding costs which increased substantially over norms of the last decade.

Despite an increase in funding costs, variable home loan rates for customers were maintained through the first half and repricing of mortgages was delayed until 29 January 2019, when variable rate mortgages were increased by 11 - 16 bps.

NIM Trend



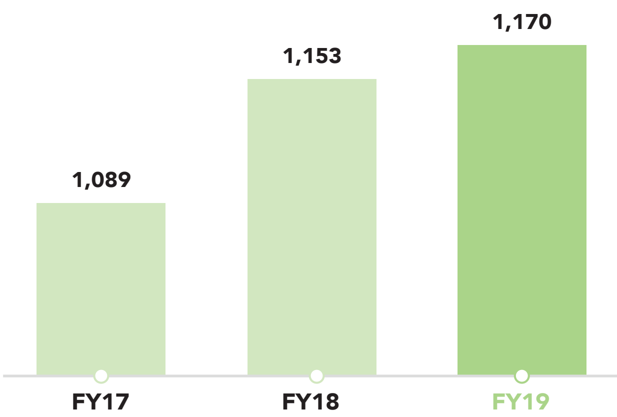
The repricing of mortgages helped to contribute to margin maintenance in 2H19. This outcome was further assisted by a steady reduction in wholesale funding costs late in the half, which benefited from an easing in BBSW. A rate cut was announced by the RBA in June 2019, and most of this reduction has been passed on to borrowers. Deposit rates also partly reduced at the end of June 2019 reflecting a downward move in the market following the RBA cut.

Customer deposits remain important to ensuring a competitive and stable funding base and customer deposits increased $394.890m or 12.09% on the prior period.

Non-interest income from banking activities
Non-interest income from banking activities continued to trend in line with market and industry trends. Increased uptake of digital products and preferences for lower cost self-serve functionality also impacted non-interest income, which declined by $0.219m (1.41%) on pcp.

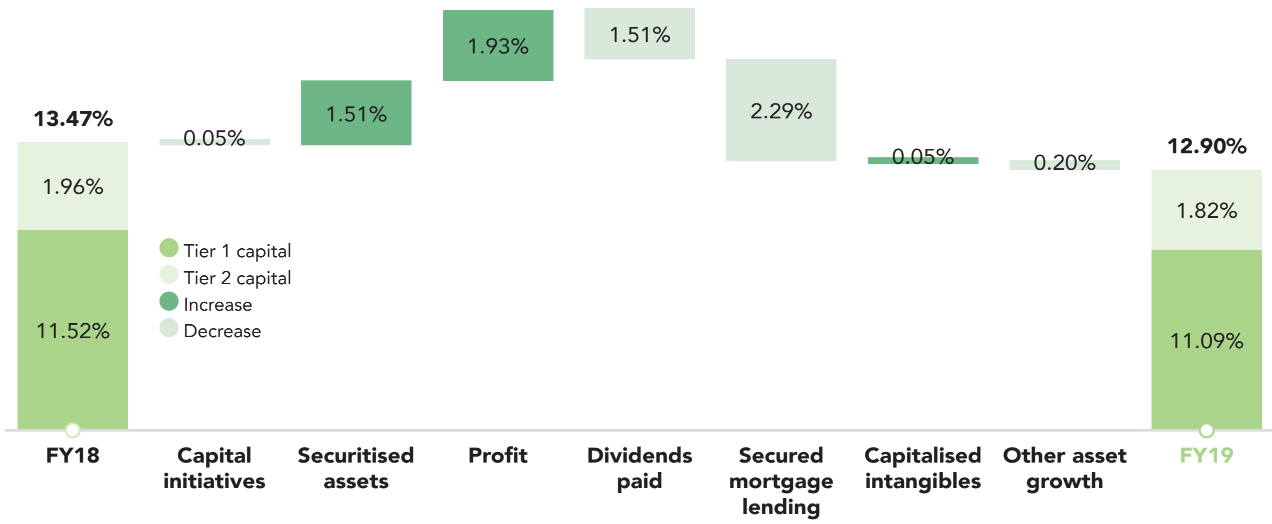
Wealth management
MyState's wealth management business continued to provide diversity in revenue for the Group, with NPAT of $5.111m, increasing 11.96% on the pcp (inclusive of a $1.209m gain on disposal of the financial planning business). Funds under management revenue increased 1.19% on the pcp in tandem with the highest Funds Under Management (FUM) recorded for the past decade at $1.170b.

Funds under management ($m)



On 28 June 2019 the retail Financial Planning business was sold.

Strong Capital position



The Group has maintained its strong balance sheet and the Group's capital adequacy ratio at 30 June 2019 was 12.90%. Notwithstanding significant lending growth, this equates to a 57 bps difference on the pcp. The Group maintained 11.09% common equity tier 1 capital adequacy ratio and remains well positioned to meet APRA's "unquestionably strong" requirements by 1 January 2020.

Robust risk & regulatory framework and track record
The Group has continued to invest in strengthening its risk management capability and embedding an even stronger risk culture.

MyState's approach to risk management continues to mature and is overseen by the Board and its Group Risk Committee, supported by a well-defined risk appetite statement, contemporary processes and systems and an industry standard three lines of defence model, which supports the identification, assessment, evaluation and management of risk.

Conduct risk is an area of risk that has attracted much attention within the sector and MyState's long-standing commitment to delivering great customer outcomes continues to be affirmed by our Customer Advocate, a role independent from the bank's existing complaints resolution process and designed to ensure the most difficult customer complaints are managed appropriately and with direct access to the CEO if necessary.

In addition, our commitment to our Code of Conduct has been reaffirmed by strengthening our whistle blower program. MyState adopted the new Banking Code of Practice on 1 July 2019. Core to the Banking Code are the concepts of being diligent and prudent bankers, and understanding our duty of care for all our customers.

Community
MyState seeks to make a genuine difference to our customers and communities each and every day.

Since 2001, the MyState Foundation has awarded more than $2.2 million in grants to help more than 90 not-for-profit organisations with a focus on empowering youth.

Outlook

MyState Bank expects to continue to be able to achieve above system growth whilst maintaining a high quality of loan book.

Margin management will continue to be important in the context of a low interest rate environment that is expected to be a feature of the industry for the foreseeable future.

The business is now realising the benefits from an extended period of significant investment in digital technology platforms. The focus in FY2020 will be to continue to build customer advocacy and grow the customer base nationally, as well as pursue further operating efficiencies.

Tasmanian Perpetual Trustees is expected to continue to provide further revenue diversity as the Group reinvigorates its funds management platform, introduces new services for investors and improved returns for investors.

Superior customer outcomes, unlocking the benefits of investments made in digitisation of the business and a focus on disciplined execution of strategy are expected to deliver improved shareholder returns over the future period.

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

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 2019, 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 23 August 2019

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.

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 operations.

Events Subsequent To Balance Date

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

Likely Developments and Expected Results

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

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

Environmental Regulation

The Company is not subject to significant environmental regulation.

Directors' Meetings

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

Director	Board Meetings		Group Audit Committee		Group People and Remuneration Committee		Group Risk Committee		Group Nominations & Corporate Governance Committee		Group Digital Business Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Peter Armstrong (Retired 22/2/19)	8	8	n/a	n/a	2	2	n/a	n/a	3	3	n/a	n/a
Robert Gordon	13	13	n/a	n/a	n/a	n/a	12	12	4	4	4	4
Miles Hampton	12	13	5	5	3	4	n/a	n/a	4	4	n/a	n/a
Sibylle Krieger	12	13	n/a	n/a	4	4	10	12	1	1	3	3
Warren Lee	12	13	5	5	n/a	n/a	11	12	n/a	n/a	3	4
Stephen Lonie	11	13	4	5	4	4	n/a	n/a	n/a	n/a	4	4
Melos Sulicich	13	13	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Andrea Waters	13	13	5	5	n/a	n/a	12	12	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 9.2 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.

Signed in accordance with a resolution of the Directors.

Miles Hampton
Chairman

Melos Sulicich
Managing Director and Chief Executive Officer

Hobart, dated 23 August 2019

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 2019, 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. 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 | Title	Movements in the 2019 Financial Year
Non-Executive Directors	
Miles Hampton *Chairman*	
Peter Armstrong	Ceased 22 February 2019
Robert Gordon	
Sibylle Krieger	
Warren Lee	
Stephen Lonie	
Andrea Waters	
Executive Directors	
Melos Sulicich *Managing Director and Chief Executive Officer*	
Executives	
Huw Bough *General Manager Mortgage Broker, Business and Agri Banking*	Ceased 1 February 2019
Katherine Dean *General Manager Retail Banking Sales and Service*	Ceased 7 December 2018
David Harradine *Chief Financial Officer*	
Mandakini Khanna *Chief Risk Officer*	
Paul Moss *General Manager Technology, Operationsand Product*	
Heather McGovern *General Manager Digital and Marketing*	Appointed 18 March 2019
Anthony MacRae *General Manager Banking*	Appointed 12 February 2019
Craig Mowll *General Manager Wealth Management*	Appointed 16 July 2018
Janelle Whittle *General Manager People and Culture*	

2. Remuneration Strategy

2.1 Remuneration Philosophy

The objective of MyState Limited's remuneration policy is to promote personal and collective behaviours that deliver sustained financial performance appropriate risk management and the, good reputation of the Group.

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 for strong performance linked to favourable customer outcomes and sustainable shareholder returns;
- 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;and
- Short term and long term incentive performance criteria being structured within the overall risk management of the Group.

Further, the Board has an overriding discretion to reduce or clawback variable pay to mitigate unintended consequences.

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

2.2 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 metrics:

Indicator	2015	2016	2017	2018	2019
Underlying Profit after income tax ($'000)	29,719	31,062	30,080	31,461	30,987
Underlying Earnings per share (cents)	34.04	35.52	34.04	34.97	34.17
Dividends paid ($'000)	24,880	24,886	25,042	25,794	26,016
Share price (dollars)	4.83	4.13	4.85	5.01	4.49
Underlying Return on equity (%)	10.4	10.6	10.0	10.1	9.7
Underlying Cost to Income Ratio (%)	64.3	63.2	65.9	64.0	64.77

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 includes financial and non-financial metrics.

ELTIP performance measures for all offers are weighted equally between relative total shareholder return (TSR) performance and absolute post tax return on equity (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.

2.3 Remuneration Governance

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. The committee makes 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 and the Banking Executive Accountability Regime (BEAR);
- 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 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.

3. 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.

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 Group's 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.

4. Managing Director and 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).

4.1 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. External remuneration consultants are appointed 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.

4.2 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, strategic, operational, cultural, risk and 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.

The Managing Director recommends KPI's for Executives to the Group People and Remuneration Committee who subsequently make a recommendation to the Board.

At the end of the financial year, the Managing Director assesses the performance of the Executives against their KPIs and makes a recommendation for each Executive 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 for 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 of a STI to the Managing Director or Executives is at the complete discretion of the Board. The Board discretion may result in a reduction or forfeiture of payment. The Board applies overall gateways to STI payments that are a combination of financial and non-financial considerations including, risk and compliance, conduct and reputation and net profit before tax. The Board have applied these gates to modify the payment awarded to Executives. 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, error, misrepresentation or act or omission which the Group People and Remuneration Committee or the Board (acting reasonably) considers would have resulted in the KPIs not being satisfied or there is otherwise a reward decision incorrectly made, the Board may require repayment of the whole or any part of the relevant STI, in addition to taking any other disciplinary actions.

Payment of a STI to the Managing Director or Executive who are accountable persons, is subject to the Board being satisfied that the payment may be made under the BEAR.

Current STI Offers

Details of the STI payments for the 2018/2019 financial year and the 2017/2018 financial year are set out in the following tables.

Key Management Personnel	Max. % (of TFR)	Max Payable	% Awarded	% Forfeited	Amount Paid $	% Which is not yet assessed for payment
2018/2019 STI						
Melos Sulicich	50%	$312,500	20.85%	79.15%	$65,156	0%
Huw Bough(i)	30%	$60,362	25.27%	74.73%	$15,256	0%
Katherine Dean (i)	30%	$42,082	0%	100%	$0	0%
David Harradine	30%	$114,000	18.37%	81.63%	$20,950	0%
Mandakini Khanna	30%	$108,000	27.68%	72.32%	$29,890	0%
Heather McGovern (i)	30%	$28,479	27.20%	72.80%	$7,755	0%
Anthony MacRae (i)	30%	$44,556	25.40%	74.60%	$11,330	0%
Craig Mowll (i)	30%	$112,192	11.48%	88.52%	$12,874	0%
Paul Moss	30%	$102,000	24.23%	75.77%	$24,710	0%
Janelle Whittle	30%	$87,000	19.72%	80.28%	$17,160	0%
2017/2018 STI						
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 (i)	30%	$85,483	0.00%	100.00%	$0	0%
Chris Thornton (i)	30%	$46,258	0.00%	100.00%	$0	0%
Janelle Whittle (i)	30%	$38,137	43.33%	56.67%	$16,525	0%

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

4.3 Executive Long Term Incentive Plan

The ELTIP provides a long term "at risk" incentive, assessed over a three year performance period. It was established by the Board to encourage the EMT, comprising the Managing Director and participating Executives, by allowing them to be rewarded with shares for helping to create long term value for the Company's shareholders. Participating Executives are allocated fully paid ordinary shares in the Company without payment on their part if performance criteria specified by the Board are satisfied in a set performance period.

Each year, an offer may be made to individual members of the EMT 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 30% for participating Executives. The maximum value of the offer is converted into a number of fully paid ordinary shares based upon the Volume Weighted Average Price (VWAP) of shares calculated over the period of twenty (20) trading days commencing on the first business day of the financial year in which the offer is made. The number of shares is then nominally fixed.

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, absolute post tax underlying ROE for the "2016" and "2017" offers and post-tax underlying ROE for the "2018" offer as the performance criteria.

At the end of the performance period, or as soon as possible after, the Board will determine, at its complete discretion, the number of shares in respect of which the Managing Director and participating Executive may be entitled under the terms of the relevant offer and ELTIP rules.

For offers made on or after 1 July 2018, the Board has also set a period of five years from commencement of the performance period before making an allocation of shares to an Executive who meets or partially meets the performance criteria, creating a deferral period of a further two years between the conclusion of the performance period and the allocation of shares.

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

Any reward that may be payable to the Managing Director and participating Executive on satisfaction of the performance criteria under any ELTIP offer is subject to reassessment and possible forfeiture, during the further deferral period, if the results on which the ELTIP reward was based, are subsequently found to have been the subject of deliberate management misstatement. In addition, where a participating Executive is also an accountable person under the BEAR, the payment of shares to the Executive will be subject to the Board's positive assessment that their accountability obligations have been met. The payment and allocation of shares may be reduced or cancelled to the extent that the Board determines that the accountability obligations have not been met.

Vesting of shares to the Managing Director and eligible Executives is at the complete discretion of the Board. The ELTIP rules provide for an independent Trustee to act at the direction of the Company, and the Trustee may acquire and hold shares on behalf of Executives that have received an allocation of shares. The participating Executive cannot transfer or dispose of shares which have vested to them until the time specified in the ELTIP rules. A direction to the Trustee to allocate shares to each eligible Executive will be made in accordance with their entitlement under the relevant offer and ELTIP rules.

Any shares to be allocated to the Managing Director under this Plan require shareholder approval in accordance with ASX Listing Rules.

Commencement of employment during a financial year
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; and
- 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.

Cessation of employment
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.

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.

Where an ELTIP participant ceases employment with MYS during a performance period, the offer will be assessed by the Board 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.

The allocation of shares to any ELTIP participant where the Executive is an accountable person, is subject to the BEAR. Shares will not be vested for ELTIP participants to the extent it would cause the Company to contravene its obligations under the BEAR.

Entitlement to dividend income on shares
During the period that allocated shares for a participating Executive are held by the Trustee, the participating Executive 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.

For the avoidance of doubt, for ELTIP offers made after 1 July 2018, the Company will not direct the Trustee to allocate the shares to the participating Executive's account during the specified 2 year deferral period. The 2 year deferral period commences after the end of the relevant performance period. During this period, such participants have no entitlement to any dividends or voting rights in respect of the shares.

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

Offer	2016	2017	2018
Performance Period	1 July 2016 to 30 June 2019	1 July 2017 to 30 June 2020	1 July 2018 to 30 June 2021
The comparator group	Members of the S&P/ASX300		
Fair value of shares used for TSR calculation (i)	$1.96	Managing Director $2.57 Other Executives $2.44	Managing Director $2.52 Other Executives $2.17
Offer date - Managing Director - Other executives (iii)	29 November 2016 5 September 2016	8 November 2017 11 September 2017	7 January 2019 7 January 2019
Value of offer (ii) - Managing Director - Other eligible Executives	$287,500 $691,455	$287,500 $800,136	$312,500 $651,727

(i) The fair value of offers that are assessed and awarded on market based conditions is determined on the grant date in accordance with AASB 2. The fair value is used by the Group to recognise an expense over the performance period for the TSR component of offers.

(ii) 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.

(iii) Pro-rata offer made to Katherine Dean in respect of the "2016" Offer on 15 May 2017, in respect of the "2017" Offer to Janelle Whittle on 13 February 2018, in respect of the "2018" Offer to Anthony MacRae and Heather McGovern on the 25th of February 2019 and 29th of May 2019 respectively

Calculation of the Reward

TSR Component
For the 2016, 2017, 2018 and 2019 Offers, the ELTIP TSR component will vest on the following basis:

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

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

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

For the 2016 and 2017 Offers:	
MYS aggregate absolute post tax underlying ROE for the performance period:	**Percentage of the applicable reward that will vest:**
Below 31.80%	0%
31.80%	25%
31.80% to 33.50%	Straight line from 25% to 100%
33.50% or above	100%

For the 2018 & 2019 Offer:	
MYS aggregate post tax underlying ROE for the performance period:	**Percentage of the applicable reward that will vest:**
Below 30.00%	0%
30.00%	50%
30.00% to 31.50%	Straight line basis from 50% 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 "2015" offer performance period was completed on 30 June 2018. The "2016" offer performance period was completed on 30 June 2019.

Name	Component	Maximum Offer	Forfeited/ Lapsed	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 (i)	TSR	6,116	6,116	-	-
	ROE	6,116	6,116	-	-
Paul Moss	TSR	9,235	9,235	-	-
	ROE	9,235	9,235	-	-
Andrew Polson (i)	TSR	3,733	3,733	-	-
	ROE	3,733	3,733	-	-
Chris Thornton	TSR	10,191	10,191	-	-
	ROE	10,191	10,191	-	-

(i) Pro-rata Max Payable based on commencement dates as applicable

Name	Component	Maximum Offer	Forfeited/ Lapsed	Vested in the 2018/19 Financial Year	Not yet assessed for Vesting
			Number of Shares		
"2016" Offer					
Melos Sulicich	TSR	34,976	16,719	18,257	-
	ROE	34,975	34,975	-	-
Huw Bough	TSR	12,044	12,044	-	-
	ROE	12,044	12,044	-	-
Katherine Dean (i)	TSR	4,192	4,192	-	-
	ROE	4,191	4,191	-	-
David Harradine	TSR	13,504	6,455	7,049	-
	ROE	13,503	13,503	-	-
Mandakini Khanna	TSR	12,044	5,757	6,287	-
	ROE	12,044	12,044	-	-
Paul Moss	TSR	12,044	5,757	6,287	-
	ROE	12,044	12,044	-	-
Andrew Polson	TSR	12,044	12,044	-	-
	ROE	12,044	12,044	-	-
Chris Thornton	TSR	11,679	11,679	-	-
	ROE	11,679	11,679	-	-

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

The "2017", "2018" and "2019" offers have not been assessed for vesting. The following table shows the maximum number of shares available under each of these offers:

Name	Component	"2017" Offer	"2018" Offer	"2019" Offer
			Number of Shares	
Melos Sulicich	TSR	29,307	32,188	34,036
	ROE	29,307	32,187	34,035
Huw Bough	TSR	10,092	-	-
	ROE	10,092	-	-
Katherine Dean (iv)	TSR	9,786	-	-
	ROE	9,786	-	-
David Harradine	TSR	11,315	11,742	-
	ROE	11,315	11,742	-
Colleen Harris (i)	TSR	9,714	-	-
	ROE	9,714	-	-
Mandakini Khanna	TSR	10,551	11,124	12,743
	ROE	10,551	11,124	12,743
Heather McGovern (iii)	TSR	-	2,934	10,783
	ROE	-	2,933	10,782
Anthony MacRae (iii)	TSR	-	4,590	12,743
	ROE	-	4,589	12,743
Paul Moss	TSR	10,092	10,506	11,926
	ROE	10,092	10,506	11,926
Craig Mowll (iii)	TSR	-	11,556	12,743
	ROE	-	11,555	12,743
Andrew Polson	TSR	10,092	-	-
	ROE	10,092	-	-
Chris Thornton	TSR	10,245	-	-
	ROE	10,245	-	-
Janelle Whittle (ii)	TSR	3,888	8,961	9,476
	ROE	3,887	8,961	9,475

(i) Offer made in 2017 but not accepted.
(ii) Pro-rata offer made for "2017".
(iii) Pro-rata offer made for "2018".
(iv) The "2018" Offer extended to Katherine Dean was forfeited due to less than 12 months of the performance period having been served.

4.4 Banking Executive Accountability Regime

MyState accountable persons are registered with APRA. Each accountable person has an agreed accountability statement that sets out the accountabilities relevant to their role in relation to BEAR. Each accountability statement is endorsed by the Board and approved by APRA. Any entitlement to variable remuneration maybe subject to deferral, reduction or forfeiture under the BEAR even if performance criteria have been met.

The BEAR requires authorised deposit-taking institutions (including the Company) to defer payment of a minimum amount of variable remuneration for a minimum period of 4 years. The requirement for variable remuneration to be deferred does not apply if the amount that would be deferred is less than $50,000.

The deferral period is subject to extension, as determined by the Board, or reduction, as determined by the Board and approved by APRA. At the end of the applicable deferral period, any entitlement to deferred variable remuneration will be assessed against each individual meeting their accountable person obligations. If an accountable person fails to comply with his or her accountability obligations, their deferred variable remuneration will reduced by an amount that is proportionate to the failure or may be cancelled, as determined by the Board.

5. Statutory Tables

$		Salary and Fees	Cash Bonus (i)	Other Short Term Benefits	Non-Monetary Benefits (ii)	Post Employment Super-annuation	Termination Benefits	Share Based Payment (iii)	Total
Non-Executive Directors									
Miles Hampton	**2019**	**201,214**	**-**	**-**	**-**	**19,115**	**-**	**-**	**220,329**
	2018	193,532	-	-	-	18,386	-	-	211,918
Peter Armstrong	**2019**	**51,740**	**-**	**-**	**5,000**	**18,099**	**-**	**-**	**74,839**
	2018	75,151	-	-	-	27,068	-	-	102,219
Robert Gordon	**2019**	**87,637**	**-**	**-**	**-**	**25,407**	**-**	**-**	**113,044**
	2018	82,305	-	-	-	24,901	-	-	107,206
Colin Hollingsworth	**2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2018	8,064	-	-	5,085	24,558	-	-	37,707
Sibylle Krieger	**2019**	**96,590**	**-**	**-**	**-**	**9,176**	**-**	**-**	**105,766**
	2018	91,074	-	-	-	8,652	-	-	99,726
Warren Lee	**2019**	**94,147**	**-**	**-**	**-**	**8,944**	**-**	**-**	**103,091**
	2018	63,051	-	-	-	5,990	-	-	69,041
Stephen Lonie	**2019**	**100,977**	**-**	**-**	**-**	**9,593**	**-**	**-**	**110,570**
	2018	97,905	-	-	-	9,301	-	-	107,206
Andrea Waters	**2019**	**98,701**	**-**	**-**	**-**	**9,376**	**-**	**-**	**108,077**
	2018	66,204	-	-	-	6,289	-	-	72,493
Total NED	**2019**	**731,006**	**-**	**-**	**5,000**	**99,710**	**-**	**-**	**835,716**
	2018	677,286	-		5,085	125,145	-	-	807,516

5. Statutory Tables (Continued)

$		Salary and Fees	Cash Bonus (i)	Other Short Term Benefits	Non-Monetary Benefits (ii)	Post Employment Super-annuation	Termination Benefits	Share Based Payment (iii)	Total
Executives									
Melos Sulicich	**2019**	**599,616**	**65,156**	**-**	**-**	**25,000**	**-**	**64,527**	**754,299**
	2018	550,385	158,125	-	2,892	24,631	-	55,088	791,121
Huw Bough	**2019**	**219,078**	**15,256**	**25,000**	**-**	**17,808**	**-**	**(4,345)**	**272,797**
	2018	305,303	71,500	-	-	24,697	-	19,270	420,770
Katherine Dean	**2019**	**146,057**	-	**-**	**6,916**	**16,054**	**-**	**(4,705)**	**164,322**
	2018	292,237	41,040	-	6,325	28,342	-	17,837	385,781
David Harradine	**2019**	**354,923**	**20,950**	**-**	**-**	**25,000**	**-**	**21,770**	**422,643**
	2018	345,546	80,500	-	-	24,454	-	24,214	474,714
Colleen Harris	**2019**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**
	2018	117,099	-	-	-	10,341	-	-	127,440
Mandakini Khanna	**2019**	**328,662**	**29,890**	**-**	**-**	**37,964**	**-**	**20,505**	**417,021**
	2018	314,963	77,700	-	-	31,354	-	26,281	450,298
Jessica Kingston	**2019**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**
	2018	14,990	-	-	-	1,590	-	-	16,580
Anthony MacRae	**2019**	**136,173**	**11,330**	**-**	**-**	**9,327**	**-**	**3,701**	**160,531**
	2018	-	-	-	-	-	-	-	-
Heather McGovern	**2019**	**84,615**	**7,755**	**-**	**-**	**8,038**	**-**	**2,273**	**102,681**
	2018	-	-	-	-	-	-	-	-
Paul Moss	**2019**	**310,432**	**24,710**	**-**	**-**	**29,491**	**-**	**19,452**	**384,085**
	2018	301,370	72,000	-	-	28,630	-	19,755	421,755
Craig Mowll	**2019**	**333,517**	**12,874**	**-**		**20,586**		**11,578**	**378,555**
	2018	-	-	-	-	-	-	-	-
Andrew Polson	**2019**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**
	2018	272,957	-	-	-	23,032	-	2,871	298,860
Chris Thornton	**2019**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**
	2018	143,449	-	-	42,753	15,146	194,670	(6,145)	389,873
Janelle Whittle	**2019**	**248,054**	**17,160**	**-**	**-**	**24,533**	**-**	**11,908**	**301,655**
	2018	115,104	16,525	-	-	10,935	-	2,806	145,370
Total Executive	**2019**	**2,761,127**	**205,081**	**25,000**	**6,916**	**213,801**	**-**	**146,664**	**3,358,589**
	2018	2,773,403	517,390	-	51,970	223,152	194,670	161,977	3,922,562
Total KMP	**2019**	**3,492,133**	**205,081**	**25,000**	**11,916**	**313,511**	**-**	**146,664**	**4,194,305**
	2018	3,450,689	517,390	-	57,055	348,297	194,670	161,977	4,730,078

(i) The cash bonus shown is the actual amount awarded in respect of the 2018/19 financial year STI offers.

(ii) Non-Monetary Benefits consist of car parking expense, travel & accommodation and entertainment.

(iii) 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.

6. Shareholdings of Key Management Personnel

Non-Executive Director Minimum Shareholding Requirement
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
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 50% of Fixed Annual Remuneration (FAR) for the Managing Director and CEO and 25% of TFR for all other executives and must be achieved within 4 years of the date that the policy becomes applicable to the Executive.

Any Shares issued into deferral, from the 2018 ELTIP Offer onwards, will be recognised for the purposes of Executive MSR.

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 (i)	Net change other	Balance at end of financial year	Balance at end of financial year held by ELTIP trustee (ii)
Non-Executive Directors					
Miles Hampton	700,000	-	21,700	721,700	-
Robert Gordon	20,387	-	5,000	25,387	-
Sibylle Krieger	5,311	-	19,132	24,443	-
Warren Lee	-	-	11,972	11,972	-
Stephen Lonie	56,829	-	1,761	58,590	-
Andrea Waters	-	-	20,665	20,665	-
Sub Total	**782,527**	**-**	**80,230**	**862,757**	**-**
Executives					
Melos Sulicich	68,070	18,257	9,908	96,235	17,014
Heather McGovern	-	-	-	-	-
Anthony MacRae	-	-	-	-	-
David Harradine	3,685	7,049	-	10,734	1,685
Mandakini Khanna	-	6,287	-	6,287	-
Paul Moss	-	6,287	-	6,287	-
Janelle Whittle	1,404	-	-	1,404	-
Craig Mowll	-	-	-	-	-
Sub Total	**73,159**	**37,880**	**9,908**	**120,947**	**18,699**

(i) These amounts are the shares awarded for the "2016 Offer". The awarding of these shares was approved on the 23 of August 2019 with the exception of those relating to Melos Sulicich whose shares are subject to shareholder approval. These shares have not yet been issued to the Trustee to hold on behalf of the Executives.

(ii) The shares that are held in trust are also shown in the balance at the end of the financial year totals.

7. Loans to Key Management Personnel

There are no loans guaranteed or secured by the Company to KMP and their related parties in 2019.

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.

8. Executive Employment Agreements

The Managing Director and Executives are employed under individual open ended employment contracts that set out the terms of their employment.

Incumbent	Commenced in role	Contract term	TFR	Short Term Incentive (maximum)	ELTIP (maximum)	Termination Provisions In the event of termination by the Company
Melos Sulicich (i)	1 July 2014	Ongoing	$625,000	50% of TFR	50% of TFR	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.
David Harradine (ii)	16 March 2015	Ongoing	$390,000	30% of TFR	30% of TFR upon invitation to participate	Notice: The contract can be terminated by the Company upon provision of 3 months notice. Entitlement: • Payment of the equivalent of 6 months TFR (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.
Mandakini Khanna (ii)	1 December 2015	Ongoing	$390,000			
Anthony MacRae (ii)	12 February 2019	Ongoing	$390,000			
Heather McGovern (ii)	18 March 2019	Ongoing	$330,000			
Paul Moss (ii)	13 May 2015	Ongoing	$365,000			
Craig Mowll (ii)	16 July 2018	Ongoing	$390,000			
Janelle Whittle (ii)	22 January 2018	Ongoing	$290,000			

(i) Required to hold shares to the value of 50% of TFR.
(ii) Required to hold shares to the value of 25% of TFR within 4 years from commencement.

Signed in accordance with a resolution of the Directors.

Miles Hampton
Chairman

Melos Sulicich
Managing Director and Chief Executive Officer

Hobart, dated this 23 August 2019

03
Financial Report

As at 30 June 2019

Results for the year

Contents

Consolidated Income Statement
for the year ended 30 June 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Interest income	2.1	**202,103**	188,264
Interest expense (i)	2.1	**(112,720)**	(98,753)
Net interest income		**89,383**	89,511
Non-interest income from banking activities (ii)	2.1	**15,733**	15,514
Net banking operating income		**105,116**	105,025
Income from wealth management activities (iii)	2.2	**15,298**	15,884
Income from other activities	2.3	**-**	6
Total operating income		**120,414**	120,915
Less: Expenses			
Personnel costs (iii)		**35,657**	36,147
Administration costs (i), (ii) & (iii)	2.4	**15,131**	15,053
Technology costs	2.4	**13,614**	12,071
Occupancy costs (iii)	2.4	**6,060**	6,190
Marketing costs		**4,589**	3,768
Governance costs		**2,944**	2,546
Total operating expenses		**77,995**	75,775
Profit before impairment and tax expense		**42,419**	45,140
Impairment (recovery) / expense on loans and advances (iii)	4.3	**(201)**	441
Profit before tax from continuing operations		**42,620**	44,699
Income tax expense (iii)	7.1	**12,842**	13,441
Profit for the year from continuing operations		**29,778**	31,258
Discontinued operations			
Profit / (loss) after tax for the year from discontinued operations	6.1	**1,209**	203
Profit for the year		**30,987**	31,461
Profit attributable to the:			
Equity holders of MyState Limited		**30,987**	31,461
Basic earnings per share (cents per share)	2.5	**34.17**	34.97
Diluted earnings per share (cents per share)	2.5	**34.17**	34.97

(i) Comparatives restated to reflect change in accounting policy disclosed in note 9.4 (iv).
(ii) Comparatives restated to reflect change in accounting policy disclosed in note 9.4. (iii) (b).
(iii) Comparatives restated to exclude the discontinued operations disclosed in note 6.1.

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Profit for the year		**30,987**	31,461
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges - Net gains / (losses) taken to equity		**(400)**	(14)
Income tax effect		**120**	4
Total other comprehensive income / (expense) for the year		**(280)**	(10)
Total comprehensive income for the year		**30,707**	31,451
Total comprehensive income for the year is attributable to:			
Equity holders of MyState Limited		**30,707**	31,451

Consolidated Statement of Financial Position

for the year ended 30 June 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Assets			
Cash and liquid assets	4.1	**79,994**	67,876
Due from other financial institutions		**27,168**	25,826
Other assets		**7,405**	6,950
Financial instruments	4.2	**450,333**	406,864
Loans and advances	4.3	**5,053,091**	4,565,256
Property, plant and equipment	5.1	**5,779**	6,360
Deferred tax assets	7.1	**4,133**	3,948
Intangible assets and goodwill (i)	5.2	**84,979**	85,225
Total assets		**5,712,882**	5,168,305
Liabilities			
Due to other financial institutions		**38,180**	33,334
Other liabilities		**7,092**	7,666
Deposits and other borrowings including subordinated notes (i)	4.5	**5,331,516**	4,796,378
Employee benefit provisions	5.3	**5,384**	5,341
Tax liabilities	7.1	**3,211**	4,924
Total liabilities		**5,385,383**	4,847,643
Net assets		**327,499**	320,662
Equity			
Share capital	5.4	**148,707**	145,380
Retained earnings		**175,880**	170,568
Reserves		**2,912**	4,714
Total equity		**327,499**	320,662

(i) Comparatives are restated to reflect change in accounting policy disclosed in note 9.4 (iv).

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2019

	Note	Share capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Total $'000
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 / from 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**
At 1 July 2018		**145,380**	**170,568**	**4,428**	**483**	**(197)**	**320,662**
Impact of adoption of new accounting standards	9.4	-	(1,338)	-	-	-	**(1,338)**
Restated opening total equity							
Profit for the year		-	30,987	-	-	-	**30,987**
Other comprehensive income / (expense)		-	-	-	-	(280)	**(280)**
Total comprehensive income for the year		**-**	**30,987**	**-**	**-**	**(280)**	**30,707**
Equity issued under employee share scheme	5.4	81	-	-	-	-	**81**
Equity issued under executive long term incentive plan	5.4	-	-	-	-	-	**-**
Equity issued under dividend reinvestment plan	5.4	3,246	-	-	-	-	**3,246**
Share based payment expense recognised		-	-	-	157	-	**157**
Transfer to retained earnings		-	1,679	(1,679)	-		**-**
Dividends paid	2.6	-	(26,016)	-	-	-	**(26,016)**
At 30 June 2019		**148,707**	**175,880**	**2,749**	**640**	**(477)**	**327,499**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 30 June 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Cash flows from operating activities			
Interest received		**214,453**	198,704
Interest paid		**(107,476)**	(98,573)
Fees and commissions received (i)		**32,026**	35,335
Other non-interest income received		**1,224**	1,836
Payments to suppliers and employees		**(76,409)**	(75,697)
Income tax paid		**(14,306)**	(11,924)
Net cash flows from / (used in) operating activities	4.1	**49,512**	49,681
Cash flows from investing activities			
Purchase of intangible assets (ii)		**(4,934)**	(3,771)
Proceeds from sale of property, plant and equipment		**39**	7
Purchase of property, plant and equipment		**(610)**	(313)
Net (increase) / decrease in loans to customers		**(501,783)**	(293,196)
Net (increase) / decrease in amounts due from other financial institutions		**(45,851)**	22,507
Proceeds from sale of discontinued operations		**3,398**	-
Proceeds from sale of other investments		**-**	648
Net cash flows from / (used in) investing activities		**(549,741)**	(274,118)
Cash flows from financing activities			
Employee share issue		**81**	82
Dividends paid net of dividend reinvestment plan	2.6	**(22,845)**	(21,953)
Net increase / (decrease) in subordinated notes		**118**	(50)
Net increase / (decrease) in deposits and other borrowings		**369,020**	70,627
Net increase / (decrease) in due to other financial institutions (ii)		**165,973**	179,381
Net cash flows from / (used in) financing activities		**512,347**	228,087
Net increase / (decrease) in cash held		**12,118**	3,650
Cash at beginning of financial year		**67,876**	64,226
Closing cash carried forward	4.1	**79,994**	67,876

(i) Comparatives restated to reflect change in accounting policy disclosed in note 9.4. (iii)(b).
(ii) Comparatives restated to reflect change in accounting policy disclosed in note 9.4 (iv).

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

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 23 August 2019.

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.

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.

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 judgements

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:

- Loan origination cost amortisation, refer note 2.1;
- Impairment losses on loans and advances, refer note 4.3;
- Fair value of financial instruments, refer note 4.6;
- Impairment assessment of intangibles and goodwill, refer note 5.2; and
- Recoverability of deferred tax assets, refer note 7.1. .

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 2019 $'000	30 June 2018 $'000
Interest income		
Loans and advances	**190,352**	177,869
Investment securities	**11,751**	10,395
Total interest income	**202,103**	188,264
Interest expense		
At call deposits	**5,814**	14,281
Fixed term deposits (i)	**106,906**	84,472
Total interest expense	**112,720**	98,753
Non-interest income from banking activities		
Transaction fees (ii)	**5,164**	5,750
Loan fee income	**4,839**	4,725
Banking commissions	**4,035**	3,665
Other banking operations income	**1,695**	1,374
Total non-interest income from banking activities	**15,733**	15,514

(i) Comparatives restated to reflect change in accounting policy disclosed in note 9.4 (iv).
(ii) Comparatives restated to reflect change in accounting policy disclosed in note 9.4. (iii) (b).

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
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.

Non-interest income from banking activities
Refer to the "income accounting policy" in note 2.2.

2.2 Income from wealth management activities

	30 June 2019 $'000	30 June 2018 $'000
Funds management income	**10,242**	10,122
Other fees and commissions	**5,056**	5,762
Total Income from wealth management activities	**15,298**	15,884

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 mortgage backed securities, term deposits and other investments. The clients include individuals, superannuation funds 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 2019 $'M	30 June 2018 $'M
Funds under management	**1,170**	1,153
Funds under advice (i)	**438**	415

(i) Comparatives restated to exclude the discontinued operations disclosed in note 6.

Other fees and commissions
Tasmanian Perpetual Trustees Pty Limited provides 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
The Group earns three main types of fees and commissions under contracts with customers. The first is single performance obligation contracts, such as transaction services, where the performance obligation is performed and consideration received in quick succession. Income from these contracts is recorded as the performance obligations are satisfied. The second is where contracts with the customer are for the performance of multiple obligations over time and the customer only benefits from delivery of all those obligations together over time, for example the provision of trustee services and services to funds under management. For these contracts, income is recognised over the service period. The third type of income is insurance intermediary income where the performance obligations are satisfied substantially at the time of referring the customer and economic benefits flow to the Group over time. The Group has estimated that nil income will be brought forward as a contract asset under these contracts due to the insufficient probability of the timing and amount of future income that will flow from these contracts. This income is therefore recorded when received.

While this policy has changed in the 2019 financial year, it has not resulted in a change to the timing or amount of income recognised. Refer also to note 9.4 (iii) (b).

2.3 Income from other activities

	30 June 2019 $'000	30 June 2018 $'000
Profit on sale of property, plant and equipment assets	-	6

2.4 Expenses

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

	30 June 2019 $'000	30 June 2018 $'000
Occupancy costs include:		
Operating lease payments	**4,153**	4,060
Depreciation – buildings and leasehold improvements	**767**	1,014
Technology costs include:		
Amortisation – computer software	**4,354**	3,236
Administration costs include: (i)		
Loss on sale of property, plant and equipment assets	**8**	-
Depreciation - furniture, equipment and computer hardware	**375**	427

(i) Comparatives restated to reflect change in accounting policy disclosed in note 9.4 (iv)

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	4-15 years.
Computer hardware	3 years.
Software	3-10 years.

2.5 Earnings per share

	30 June 2019 cents	30 June 2018 cents
Basic earnings per share from continuing operations	**32.84**	34.74
Basic earnings per share from discontinued operations	**1.33**	0.23
Total basic earnings per share	**34.17**	34.97
Diluted earnings per share from continuing operations	**32.84**	34.74
Diluted earnings per share from discontinued operations	**1.33**	0.23
Total diluted earnings per share	**34.17**	34.97

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 weighted average number of shares used in the calculation of basic and diluted earnings per share:

	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**90,676,336**	89,959,758

2.6 Dividends

	Date of payment	30 June 2019 $'000	30 June 2018 $'000
Dividends paid			
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
2018 Final dividend paid - 14.5 cents per share	25 Sep 2018	**13,097**	-
2019 Interim dividend paid - 14.25 cents per share	29 Mar 2019	**12,919**	-
		26,016	25,794

The dividends paid during the year were fully franked at the 30 per cent 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%	**65,666**	63,933
Franking credits that will arise from the payment of income tax payable at the end of the period	**682**	2,561

Dividends not recognised at the end of the financial year
On 23 August 2019, the Directors resolved to pay a final dividend for the 2019 financial year of 14.5 cents per share or $13.201m total to be paid on the 1 October 2019, 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 $5.657m.

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 and trustee services. It operates predominantly within Tasmania. It holds $1.17 billion in funds under management on behalf of personal, business and wholesale investors as the responsible entity for 10 managed investment schemes. The division also provided financial planning however ceased to do so in June 2019, refer to note 6. The results relating to financial planning have been excluded from the segment note below for the current and prior financial year. 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.

	Banking $'000	Wealth Management $'000	Corporate and Consolidation $'000	Total $'000
Year ended 30 June 2019				
Interest income	201,763	244	96	202,103
Interest expense	(112,720)	-	-	(112,720)
Other income				
Transaction fees	5,164	-	-	5,164
Loan fee income	4,839	-	-	4,839
Banking commissions	4,035	-	-	4,035
Other banking operations income	1,814	-	(119)	1,695
Funds management income	-	10,242	-	10,242
Other wealth management fees and commissions	-	5,056	-	5,056
Income from other activities	-	-	-	-
Total operating income	104,895	15,542	(23)	120,414
Expenses				
Personnel costs	25,552	5,744	4,361	35,657
Administration costs	18,655	2,936	(6,460)	15,131
Technology costs	13,398	442	(226)	13,614
Occupancy costs	5,399	497	(164)	6,060
Marketing costs	4,338	209	42	4,589
Governance costs	705	132	2,107	2,944
Impairment expense / (recovery)	(201)	-	-	(201)
Income tax expense	11,135	1,679	28	12,842
Segment profit for the year	25,914	3,903	(39)	29,778
Segment balance sheet information				
Segment assets	5,634,791	29,283	48,808	5,712,882
Segment liabilities	5,382,178	4,342	(1,137)	5,385,383

	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 (i)	(98,753)	-	-	(98,753)
Other income(i)				
Transaction fees	5,750	-	-	5,750
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	-	5,762	-	5,762
Income from other activities	6	-	-	6
Total operating income	105,007	16,068	(160)	120,915
Expenses (i)				
Personnel costs	25,475	5,427	5,245	36,147
Administration costs	19,532	3,029	(7,508)	15,053
Technology costs	11,599	410	62	12,071
Occupancy costs	5,403	644	143	6,190
Marketing costs	3,501	230	37	3,768
Governance costs	655	68	1,823	2,546
Impairment expense / (recovery)	441	-	-	441
Income tax expense	11,495	1,899	47	13,441
Segment profit for the year	26,906	4,361	(9)	31,258
Segment balance sheet information				
Segment assets	5,089,105	27,646	51,554	5,168,305
Segment liabilities	4,842,607	3,291	1,745	4,847,643

(i) Comparatives restated to reflect change in accounting policy disclosed in note 9.4 (iii) and (iv).

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 2019 is detailed in the following table:

	30 June 2019 $'000	30 June 2018 $'000
Qualifying capital		
Common equity tier 1 capital		
Paid-up ordinary share capital	**148,708**	145,400
Retained earnings (ii)	**189,669**	182,262
Reserves excluding general reserve for credit losses	**640**	483
Total common equity tier 1 capital	**339,017**	328,145
Regulatory adjustments		
Deferred expenditure including deferred tax assets	**24,804**	25,950
Goodwill and intangibles	**49,760**	49,800
Other deductions	**58,875**	54,065
Total regulatory adjustments	**133,439**	129,815
Net common equity tier 1 capital	**205,578**	198,330
Tier 2 capital		
Subordinated notes (i)	**30,929**	29,323
General reserve for credit losses	**2,749**	4,400
Total capital	**239,256**	232,053
Risk weighted assets	**1,854,273**	1,722,248
Capital adequacy ratio	**12.90%**	13.47%

(i) 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's Level 1 Tier 2 regulatory capital is 100%.

(ii) The impact of adopting AASB 9 Financial Instruments *(2010)* impairment requirements on capital, is discussed further in note 9.4 (iii) a.

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 Enterprise Risk 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 2019 $'000	30 June 2018 $'000
Cash and liquid assets	**79,994**	67,876
Due from other financial institutions	**27,168**	25,826
Other assets	**7,405**	6,950
Financial instruments	**450,333**	406,864
	564,900	507,516
Loans and advances	**5,053,091**	4,565,256
Customer commitments(i)	**112,999**	142,924
Maximum exposure to credit risk	**5,730,990**	5,215,696

(i) For further information regarding these commitments, refer to note 9.1.

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 2019 $'000	30 June 2018 $'000
Credit quality of financial assets		
Financial assets other than loans and advances at amortised cost		
Equivalent S&P rating A+ and above	**310,243**	251,611
Equivalent S&P rating A- and below	**253,963**	256,053
Loans and advances at amortised cost		
New Facilities - not closely monitored	**1,370,251**	1,153,123
New Facilities - closely monitored	**1,116**	1,769
Continuing facilities - not closely monitored	**3,661,887**	3,391,212
Continuing facilities - closely monitored	**19,837**	19,152
Total on balance sheet exposure to credit risk	**5,617,297**	5,072,920

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

Neither past due or impaired	**5,030,032**	4,543,568
Past due but not impaired - loans and advances at amortised cost		
31 to 60 days	**7,552**	9,736
61 to 90 days	**4,076**	3,645
More than 90 days	**10,879**	7,420
Total past due but not impaired	**22,507**	20,801
Impaired – loans and advances at amortised cost	**552**	887
Maximum exposure to credit risk	**5,053,091**	4,565,256
Estimate of collateral held against past due but not impaired assets	**34,033**	31,640
Estimate of collateral held against impaired assets	**-**	420

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.

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 2019 $'000	30 June 2018 $'000
Tasmania	**2,160,122**	2,135,168
Victoria	**856,584**	698,673
New South Wales	**1,084,744**	950,419
Queensland	**787,477**	630,015
Western Australia	**79,966**	76,106
Australian Capital Territory	**40,498**	34,551
South Australia	**41,009**	37,691
Northern Territory	**5,055**	3,214
Gross loans and advances at amortised cost	**5,055,455**	4,565,837

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 2019 $'000	30 June 2018 $'000
Value at risk (post-tax) based on historic data		
Average	**952**	1,437
Minimum	**795**	818
Maximum	**1,249**	2,019

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.

	On demand $'000	< 3 months $'000	3 months to 1 year $'000	1 year to 5 years $'000	> 5 years $'000	Total $'000
2019						
At call deposits	**1,592,811**	**-**	**-**	**-**	**-**	**1,592,811**
Due to other financial institutions	**-**	**38,180**	**-**	**-**	**-**	**38,180**
Term deposits	**-**	**863,963**	**1,146,745**	**24,399**	**-**	**2,035,107**
Negotiable certificates of deposit	**-**	**170,440**	**275,821**	**-**	**-**	**446,261**
Subordinated notes	**-**	**551**	**1,653**	**8,816**	**51,418**	**62,438**
Securitisation liabilities	**-**	**84,831**	**254,493**	**1,144,969**	**-**	**1,484,293**
Contractual amounts payable	**1,592,811**	**1,157,965**	**1,678,712**	**1,178,184**	**51,418**	**5,659,090**
Derivative liability	**-**	**95**	**960**	**7,722**	**-**	**8,777**
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**

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 2019			30 June 2018		
	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	**79,994**	**-**	**79,994**	67,876	-	67,876
Due from other financial institutions	**27,168**	**-**	**27,168**	25,826	-	25,826
Other assets	**7,405**	**-**	**7,405**	6,950	-	6,950
Financial instruments	**295,956**	**154,377**	**450,333**	245,023	161,841	406,864
Loans and advances	**89,100**	**4,963,991**	**5,053,091**	92,773	4,472,483	4,565,256
Total financial assets	**499,623**	**5,118,368**	**5,617,991**	**438,448**	**4,634,324**	**5,072,772**
Financial liabilities						
Due to other financial institutions	**(38,180)**	**-**	**(38,180)**	(33,334)	-	(33,334)
Other liabilities	**(7,092)**	**-**	**(7,092)**	(7,666)	-	(7,666)
Deposits	**(3,969,844)**	**(24,398)**	**(3,994,242)**	(3,604,154)	(20,751)	(3,624,905)
Subordinated notes	**-**	**(34,698)**	**(34,698)**	-	(34,745)	(34,745)
Securitisation liabilities (i)	**(296,987)**	**(1,005,589)**	**(1,302,576)**	(257,580)	(879,148)	(1,136,728)
Total financial liabilities	**(4,312,103)**	**(1,064,685)**	**(5,376,788)**	**(3,902,734)**	**(934,644)**	**(4,837,378)**
Net contractual amounts receivable / (payable)	**(3,812,480)**	**4,053,683**	**241,203**	**(3,464,286)**	**3,699,680**	**235,394**

(i) Comparatives are restated to reflect change in accounting policy disclosed in note 9.4 (iv).

3.3 Average balance sheet and sources of net interest income

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

	30 June 2019			30 June 2018		
	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	**67,178**	**370**	**0.55%**	61,418	279	0.45%
Financial instruments	**425,122**	**11,381**	**2.68%**	408,321	10,116	2.48%
Loans and advances (i) & (ii)	**4,481,845**	**190,352**	**4.25%**	4,070,257	177,869	4.37%
Total average interest-earning assets	**4,974,145**	**202,103**	**4.06%**	**4,539,996**	**188,264**	**4.15%**
Non-interest earning assets	**102,811**	**-**	**-**	107,074	-	-
Total average assets	**5,076,956**	**202,103**	**3.98%**	**4,647,070**	**188,264**	**4.05%**
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits and derivatives (i)	**3,550,144**	**72,419**	**2.04%**	3,270,165	65,424	2.00%
Notes and bonds on issue	**1,193,405**	**40,301**	**3.38%**	1,058,130	33,329	3.15%
Total average interest-bearing liabilities	**4,743,549**	**112,720**	**2.38%**	**4,328,295**	**98,753**	**2.28%**
Non-interest bearing liabilities	**46,903**	**-**	**-**	49,657	-	-
Total average liabilities	**4,790,452**	**112,720**	**2.35%**	**4,377,952**	**98,753**	**2.26%**
Reserves	**302,877**	**-**	**-**	295,266	-	-
Total average liabilities and reserves	**5,093,329**	**112,720**	**2.21%**	**4,673,218**	**98,753**	**2.11%**

(i) Comparatives restated to reflect change in accounting policy disclosed in note 9.4 (iv).
(ii) The offset account average balance included in Loans and advances is $263.897m (Jun 18 : $267.460m).

4.1 Cash and liquid assets

	30 June 2019 $'000	30 June 2018 $'000
Notes, coins and cash at bank	**66,972**	62,452
Other short term liquid assets	**13,022**	5,424
Total cash and liquid assets	**79,994**	67,876

Notes to the statements of cash flows		
Reconciliation of profit for the year to net cash provided by operating activities		
Profit for the year	**30,987**	31,461
Add / (less) items classified as investing / financing activities or non-cash items:		
Depreciation of property, plant and equipment	**1,142**	1,441
Amortisation of intangible assets	**4,354**	4,554
Gain on disposal of discontinued operations	**(1,544)**	-
Loss on disposal of equipment	**-**	162
Loss / (gain) on sale of equipment	**(8)**	(6)
Bad and doubtful debts expense net of recoveries	**(41)**	455
Deferred upfront lending costs	**12,123**	9,959
Deferred upfront bond issuance costs	**1,696**	-
Share based payment	**157**	174
Tax movement within reserves	**769**	4
Changes in assets and liabilities		
Decrease / (increase) in due from other financial institutions	**228**	449
Decrease / (increase) in other assets	**(455)**	(373)
Decrease / (increase) in deferred tax assets	**(185)**	770
Increase / (decrease) in due to other financial institutions	**3,562**	(1,038)
Increase / (decrease) in other liabilities	**(1,510)**	865
Increase / (decrease) in employee benefit provisions	**(50)**	(29)
Increase / (decrease) in tax liabilities	**(1,713)**	833
Net cash flows used in operating activities	**49,512**	49,681

Cash and liquid assets accounting policies

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

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

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

4.2 Financial instruments

	30 June 2019 $'000	30 June 2018 $'000
Financial instruments at amortised cost		
Negotiable certificates of deposits	**204,115**	177,022
Term deposits	**35,700**	35,700
Floating rate notes	**208,611**	191,542
Other deposits	**1,699**	2,028
Total financial instruments at amortised cost	**450,125**	406,292
Financial instruments at fair value		
Derivatives	**(792)**	(428)
Other financial instruments at fair value	**1,000**	1,000
Total financial assets	**450,333**	406,864

Financial instruments accounting policies

Financial instruments at amortised cost
Financial instruments at amortised cost are those non-derivative financial assets that the Group 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 2019 $'000	30 June 2018 $'000
Classification of loans and advances at amortised cost		
Residential loans secured by mortgage	**4,870,272**	4,374,002
Personal loans and unsecured overdrafts	**74,752**	74,450
Overdrafts secured by mortgage	**41,068**	44,915
Commercial loans	**69,363**	72,470
Total loans and advances at amortised cost	**5,055,455**	4,565,837
Specific provision for impairment	**266**	222
Collective provision for impairment	**2,098**	359
Total loans and advances at amortised cost net of provision for impairment	**5,053,091**	4,565,256

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

Provision for impairment

	30 June 2019 $'000	30 June 2018 $'000
Specific provision for impairment		
Opening balance	**222**	620
Net specific provision funding	**514**	39
Write-off of previously provisioned facilities	**(470)**	(437)
Closing balance of specific provision for impairment	**266**	222
Collective provision for impairment		
Opening balance (i)	**2,271**	337
Net collective provision funding	**(173)**	685
Write-off of previously provisioned facilities	**-**	(663)
Closing balance of collective provision for impairment	**2,098**	359
Charge to profit for impairment on loans and advances		
Increase / (decrease) in specific provision for impairment	**44**	(398)
Increase / (decrease) in collective provision for impairment	**(173)**	22
Bad debts recovered	**(932)**	(988)
Bad debts written off directly (ii)	**1,020**	1,805
Less charge related to discontinued operation	**(160)**	-
Total impairment (recovery) / expense on loans and advances	**(201)**	441

(i) On adoption of the provisioning chapter of AASB 9, the collective provisions opening balance was increased by $1.912M and therefore the opening balance shown for FY2019 differs to the closing balance in FY2018.

(ii) Comparatives restated to exclude the discontinued operations disclosed in note 6.1.

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

Specific provisions for impairment are made against individual risk rated credit facilities where a loss is expected. The provisions are measured as the difference between a financial asset's carrying amount and the expected future cash flows.

All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment. In the 2018 financial year, an evaluation process was undertaken by categorising all loans into a credit risk hierarchy based on a series of estimates and judgements based on APRA Prudential Standard APS 220 - Credit Quality. On 1 July 2019 the Group adopted the Provisioning chapter of AASB 9 Financial Instruments. Collective provisions are calculated using an Expected Credit Loss (ECL) model. This model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised, resulting in an acceleration of impairment recognition.

The Group applies a three-stage approach to measuring the ECL based on credit risk since origination. The Group estimates ECL through modelling the probability of default, loss given default and exposure at default, as follows:

Stage 1 - Performing - This category includes financial assets that have not experienced a significant increase in credit risk since their origination. For these financial assets an allowance equivalent to 12 month's ECL is recognised, which represents the credit losses expected to arise from defaults occurring over the next 12 months.

Stage 2 - Under-performing - This category includes financial assets that have experienced a significant increase in credit risk since their origination and are not credit impaired. For these financial assets an allowance equivalent to lifetime ECL is recognised. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of the financial assets.

Stage 3 - Non-performing (impaired) - This category includes financial assets that are credit impaired. The provision is also equivalent to the lifetime ECL. The difference to the provision calculated on stage 2 loans is that the stage 3 loan calculation is not discounted over a future period, but rather the provision is calculated at present value.

Financial assets in stage 1 and stage 2 are assessed for impairment collectively, whilst those assets in stage 3 are subject to either collective or specific impairment assessment. The Group's methodology for specific provisions remains largely unchanged.

Key judgements and estimates made by the Group include the following:

Significant changes in credit risk
Significant increases in credit risk for financial assets are assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Group considers qualitative and quantitative information. The judgement to determine this is primarily based on changes in internal customer risk grades since origination of the facility. For all of the Group's loan portfolios, in addition to the primary indicator, a mathematical model has been developed to identify where a facility's recent behaviour has deteriorated significantly from its original behaviour.

Forward looking information
The measurement of expected credit losses needs to reflect an unbiased probability-weighted range of possible future outcomes. AASB 9 provides limited guidance on how to meet this requirement and consequently, the Group has developed an approach considered appropriate for its credit portfolio, informed by emerging market practices.

In applying forward looking information in the Group's AASB 9 credit models, the Group considered three alternate economic scenarios (base case, strong recovery and moderate recession), to ensure a sufficient unbiased representative sample is included in estimating ECL.

The inclusion of a forward looking component in the model anticipates changes in the economic outlook, which will likely increase the volatility of the provision. Where applicable, further adjustments may be made to account for situations where known or expected risks and information have not been considered in the modelling process.

It is important to note that the increase in impairment provisions on transition to AASB 9 is not reflective of a change in underlying portfolio 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 2019 $'000	30 June 2018 $'000
Transferred financial assets:		
Loans and advances	**468,506**	449,344
Associated financial liabilities		
Securitisation liabilities to external investors	**435,200**	440,490

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 (SPEs). 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 accounting standards 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 2019 $'000	30 June 2018 $'000
Deposits		
At call deposits	**1,592,811**	1,564,556
Term deposits	**2,035,107**	1,660,665
Negotiable certificates of deposit	**366,324**	399,684
Total deposits	**3,994,242**	3,624,905
Other borrowings		
Subordinated notes (i)	**34,698**	34,580
Securitisation liabilities	**1,302,576**	1,136,893
Total deposits and other borrowings including subordinated notes	**5,331,516**	4,796,378
Concentration of deposits:		
Customer deposits	**3,661,618**	3,266,731
Wholesale deposits	**332,624**	358,174
Subordinated notes (i)	**34,698**	34,580
Securitisation liabilities	**1,302,576**	1,136,893
Total deposits	**5,331,516**	4,796,378

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

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

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

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

4.6 Fair value of financial instruments

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

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

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

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

	30 June 2019		30 June 2018	
	Carrying value $'000	Net fair value $'000	Carrying value $'000	Net fair value $'000
Financial assets				
Financial instruments	**450,125**	**451,903**	406,292	404,923
Loans and advances	**5,053,091**	**5,043,730**	4,565,256	4,558,478
Total financial assets	**5,503,216**	**5,495,633**	**4,971,548**	**4,963,401**
Financial liabilities				
Deposits	**3,994,242**	**3,992,342**	3,624,905	3,623,058
Other borrowings including subordinated notes	**1,337,274**	**1,337,274**	1,176,499	1,176,499
Total financial liabilities	**5,331,516**	**5,329,616**	**4,801,404**	**4,799,557**

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
2019				
Financial assets				
Financial instruments	**-**	**451,903**	**-**	**451,903**
Loans and advances	**-**	**-**	**5,043,730**	**5,043,730**
Financial liabilities				
Deposits	**-**	**3,992,342**	**-**	**3,992,342**
Other borrowings including subordinated notes	**-**	**1,337,274**	**-**	**1,337,274**
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

The Group has performed a VaR analysis at note 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.

5.1 Property, plant and equipment

	30 June 2019 $'000	30 June 2018 $'000
Land and buildings		
At revalued amount	**12,758**	12,895
Accumulated depreciation	**(7,734)**	(7,115)
	5,024	5,780
Plant and equipment		
At cost	**5,044**	3,713
Accumulated depreciation	**(4,289)**	(3,133)
	755	580
Total property, plant and equipment	**5,779**	6,360

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	Total $'000
Year ended 30 June 2019			
At 1 July 2018, net of accumulated amortisation (i)	**65,978**	**19,247**	**85,225**
Additions	**-**	**4,934**	**4,934**
Disposals	**(826)**	**-**	**(826)**
Amortisation	**-**	**(4,354)**	**(4,354)**
At 30 June 2019, net of accumulated amortisation	**65,152**	**19,827**	**84,979**
At 30 June 2019			
Cost (gross carrying amount less impairment)	**65,152**	**32,550**	**97,702**
Accumulated amortisation	**-**	**(12,723)**	**(12,723)**
Net carrying amount	**65,152**	**19,827**	**84,979**
Year ended 30 June 2018			
At 1 July 2017, net of accumulated amortisation	65,978	18,712	84,690
Additions	-	3,771	3,771
Amortisation	-	(3,236)	(3,236)
At 30 June 2018, net of accumulated amortisation (i)	**65,978**	**19,247**	**85,225**
At 30 June 2018			
Cost (gross carrying amount less impairment)	65,978	32,211	98,189
Accumulated amortisation	-	(12,964)	(12,964)
Net carrying amount (i)	**65,978**	**19,247**	**85,225**

(i) Comparatives are restated to reflect change in accounting policy disclosed in note 9.4 (iv).

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.

Impairment testing of goodwill
For the purpose of impairment testing, goodwill has been allocated to the Group's two cash-generating units (CGUs) 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 2019 $'000	30 June 2018 $'000
Banking Business	**40,189**	40,189
Wealth Management Business	**24,963**	25,789
Total goodwill	**65,152**	65,978

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

The recoverable amounts for each CGUs value-in-use was determined using cash flow projections from Board approved financial budgets for the year ending 30 June 2019. 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 12.1 for both CGUs and a long-term growth rate not exceeding industry. A post-tax discount rate of 8.3% and a pre-tax discount rate of 11.9% 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 8.3% 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 are its Trustee Services division. Taking into account Management's past experiences and external evidence, the assumptions adopted are 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 CGUs) 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 investment's 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 2019 $'000	30 June 2018 $'000
Balances		
Provision for annual leave	**2,105**	2,130
Provision for long service leave	**3,279**	3,211
Total employee benefits provisions	**5,384**	5,341
Due to be settled within 12 months	**4,187**	3,319
Due to be settled more than 12 months	**1,197**	2,022
Total employee benefits provisions	**5,384**	5,341

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 2019 $'000	30 June 2018 $'000
Issued and paid up ordinary shares	**148,707**	145,380

	30 June 2019		30 June 2018	
	Number of shares	Amount $'000	Number of shares	Amount $'000
Movements in ordinary share capital				
Opening balance	**90,308,117**	**145,380**	89,445,395	141,349
Shares issued pursuant to the				
– employee share scheme of the Group	**15,983**	**81**	16,727	82
– executive long term incentive plan	**-**	**-**	21,658	104
– dividend reinvestment plan	**716,445**	**3,246**	824,337	3,845
Closing balance	**91,040,545**	**148,707**	90,308,117	145,380

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 8.3 and the Remuneration Report for further information regarding these arrangements.

6.1 Discontinued operations

On 17 June 2019, the Group publicly announced the decision of its Board of Directors to sell its retail financial planning business, a division of its wholly-owned subsidiary, Tasmanian Perpetual Trustees Limited. The sale was completed on 28 June 2019.

The post-tax gain on disposal of discontinued operations was determined as follows:

	30 June 2019 $'000	30 June 2018 $'000
Cash consideration received	**3,491**	-
Transfer of employee entitlements	**(93)**	-
Total consideration received	**3,398**	-
Net assets disposed of (other than cash):		
Intangibles - Goodwill	**825**	-
Transfer of employee entitlements	**(93)**	-
Costs associated with the sale:		
Cost associated with onerous lease contract	**140**	-
Make good requirements	**160**	-
Consulting and sale costs	**599**	-
Redundancies	**223**	-
Gain on disposal of discontinued operation	**1,544**	-
Less tax expense	**(332)**	
Post-tax gain on disposal of discontinued operation	**1,212**	-

The retail financial planning business previously formed part of the "Wealth" segment. As the division is now classified as a discontinued operation, it is no longer presented in the segment note. The results of the division for the year are presented in the following table:

	30 June 2019 $'000	30 June 2018 $'000
Revenue from contracts with customers	**2,447**	2,632
Expenses	**(2,291)**	(2,342)
Gain from selling discontinued operation before tax	**1,544**	-
Profit / (loss) before impairment	**1,700**	290
Impairment on write down to fair value of assets	**(160)**	-
Profit / (loss) before tax from discontinued operations	**1,540**	290
Tax benefit / (expense):		
Tax on disposal of discontinued operations	**(332)**	-
Tax related to operations of the discontinued operations	**(47)**	(87)
Tax on remeasurement to fair value	**48**	-
Profit / (loss) for the year from discontinued operations	**1,209**	203

The net cash flows of the retail financial planning business are as follows:

	30 June 2019 $'000	30 June 2018 $'000
Operating	**(535)**	117
Investing	**3,398**	-
Total	**2,863**	117

Write-down of trade receivables
Following the classification of the retail financial planning business as a discontinued operation, the recoverable amount was estimated for certain trade receivables. An impairment loss was identified of $0.16M, which was recognised in the carrying amount of the assets in the disposal group and in the Statement of Profit or Loss within Discontinued Operations.

7.1 Income tax expense, current and deferred tax balances

	30 June 2019 $'000	30 June 2018 $'000
The major components of income tax expense / (benefit) are:		
Income tax expense		
Current income tax charge	**12,705**	13,665
Adjustment in respect of current income tax of previous years	**(139)**	58
Adjustments in respect of deferred income tax of previous years	**(458)**	(37)
Adjustments in respect of equity / goodwill	**693**	-
Relating to origination and reversal of temporary differences	**372**	(158)
Total Income tax expense	**13,173**	13,528
A reconciliation between tax expense and accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Income tax expense attributable to:		
Accounting profit before income tax	**42,620**	44,699
The income tax expense comprises amounts set aside as:		
Provision attributable to the current year at the statutory rate of 30%, being:		
- Prima facie tax on accounting profit before tax	**12,786**	13,410
- Under / (over) provision in prior year	**(24)**	21
Expenditure not allowable for income tax purposes	**80**	27
Other	**-**	(17)
Income tax expense reported in the consolidated income statement	**12,842**	13,441
Profit before income tax from discontinued operations	**1,540**	290
Income tax expense related to discontinued operations:		
- Tax on disposal of discontinued operations	**332**	-
- Tax related to operations of discontinued operations	**47**	87
- Tax related to fair values less cost to sell	**(48)**	-
Income tax expense related to discontinued operations	**331**	87
Total income tax expense	**13,173**	13,528
Weighted average effective tax rates	**29.8%**	30.1%

	30 June 2019 $'000	30 June 2018 $'000
Deferred income tax relates to the following:		
Deferred tax assets		
Employee entitlements	**1,615**	1,602
Provisions	**266**	184
Doubtful debts	**629**	108
Other	**1,623**	2,054
Total deferred tax assets	**4,133**	3,948
Deferred tax liabilities		
Financial assets at fair value	**68**	69
Property, plant and equipment	**1,715**	1,263
Other	**584**	1,026
Total deferred tax liabilities	**2,367**	2,358
Current tax payable	**844**	2,566
Total tax liabilities	**3,211**	4,924

Movements in deferred tax balances

	Deferred tax assets		Deferred tax liabilities	
	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Opening balance	**3,948**	4,718	**2,358**	3,306
(Charged) / credited to income statement	**(482)**	(262)	**(110)**	(399)
Credited/(charged) to equity	**68**	84	**-**	80
Adjustments for deferred tax of prior years	**599**	(592)	**119**	(629)
Closing balance	**4,133**	3,948	**2,367**	2,358

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 reporting 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.

8.1 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 2019 $'000	30 June 2018 $'000
Assets		
Cash and liquid assets	**193**	2,705
Other receivables	**297**	176
Related party receivables	**2,393**	1,749
Investments in subsidiaries	**256,867**	253,674
Deferred tax assets	**920**	1,312
Total assets	**260,670**	259,616

Statement of Financial Position (continued)	30 June 2019 $'000	30 June 2018 $'000
Liabilities		
Other liabilities	**564**	1,044
Related party payables	**-**	36
Tax liabilities	**630**	2,561
Employee benefit provisions	**353**	283
Total liabilities	**1,547**	3,924
Net assets	**259,123**	255,692
Equity		
Share capital	**254,634**	251,308
Retained earnings	**3,849**	3,901
Reserves	**640**	483
Total equity	**259,123**	255,692
Financial performance		
Profit after income tax for the year	**25,965**	25,785
Other comprehensive income	**–**	–
Total comprehensive income	**25,965**	25,785

The parent entity has not entered in to any guarantees and does not have any contingent liabilities as at 30 June 2019 (30 June 2018: 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.

8.2 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.

8.3 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 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Management fees received	**10,242**	10,122	**10,242**	10,122
Balance of investment held at year end	**10,802**	9,867	**8,499**	5,120
Distributions received from managed funds	**289**	205	**217**	152

The Funds have:

- Accepted money on deposit from Directors and Executives or entities associated with Directors and Executives at prevailing Fund rates and conditions;
- Loaned money to MyState Bank, in the form of term deposits, totalling $17.75 million (2018: $20.25 million); and
- Invested in the ConQuest Trusts Residential Mortgage Backed Securities Program in the form of Class A and B notes totalling $57.77 million (2018: $33.16 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 2019 $'000	30 June 2018 $'000
Key management personnel compensation		
The key management personnel compensation comprised:		
Short-term employee benefits	**3,734**	4,025
Post employment benefits	**314**	342
Share-Based payment (i)	**147**	162
Termination benefits	**-**	195

(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.

9.1 Contingent liabilities and expenditure commitments

	30 June 2019 $'000	30 June 2018 $'000
Operating lease expenditure commitments		
not later than 1 year	**3,767**	3,793
later than 1 and not later than 5 years	**10,024**	10,973
later than 5 years	**4,900**	8,423
Total lease expenditure contracted for at balance date	**18,691**	23,189

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.

Customer commitments		
Loans approved but not advanced to borrowers	**50,529**	76,319
Undrawn continuing lines of credit	**59,092**	63,658
Performance guarantees	**3,378**	2,947
Total customer commitments	**112,999**	142,924

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.

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 (2018: $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.

9.2 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 2019 $'000	30 June 2018 $'000
Audit services		
Audit of the financial statements of the consolidated entities	**382**	380
Total remuneration for audit services	**382**	380
Audit related services		
Assurance related services	**46**	45
Audit of loans and other services to the securitisation program	**12**	21
Total remuneration for audit related services	**58**	66
Other non-external audit related services		
Other services	**33**	51
Total remuneration for non-audit related services	**33**	51
Total remuneration for services provided	**473**	497

9.3 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.

9.4 Other significant accounting policies, new accounting standards and disclosures

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.

(i) 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.

(ii) 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.

(iii) 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 2018 that have been issued by the Australian Accounting Standards Board (AASB). The adoption of these accounting standards has not resulted in any impacts to the 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 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 – Annual Improvements 2015-2017 Cycles.
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement.
- AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements.

The adoption of the following new standards has impacted the financial statements this financial year:

(a) 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 was effective for periods beginning on or after 1 January 2018. The standard introduced 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. Additionally, AASB 9 included a new Expected Credit Loss (ECL) model for impairment. The Group implemented the ECL model for impairment on 1 July 2018 as outlined further within this note.

Impairment
The Group has developed a AASB 9 Expected Credit Loss model, which replaces the previous incurred loss approach under AASB 139. Refer to note 4.3 for the new accounting policy. The impact upon adoption on 1 July 2018 is as follows.

Transition to ECL Model pre-tax
The impairment requirements have been applied prospectively from 1 July 2018 by adjusting opening retained earnings at that date. The Group has elected not to restate prior period comparative balances on adoption of the new standard.

Impact
The following table provides a pre-tax breakdown of the transition to AASB 9 ECL model from AASB 139 as at 1 July 2018:

	AASB 139 $' 000	AASB 9 $' 000	Movement $' 000
Collective Provisions	359	2,271	1,912
Specific Provisions	222	222	-
Total Provisions	**581**	**2,493**	**1,912**

The Group's opening balance sheet adjustment, based on the economic conditions, forecast economic scenarios, management judgements and assumptions as at 1 July 2018, was an increase in impairment provisions of $1.912m before tax, with a corresponding decrease in shareholders' equity of $1.338m after tax.

The increase in the provision for doubtful debts on adoption of the standard has been taken through opening retained earnings as at 1 July 2018, with no impact on the income statement. The impact on the Group's Common Equity Tier 1 capital adequacy ratio (CET1 ratio) on the date of adoption was a reduction of 12bps.

Governance
The Asset and Liability Committee (ALCO) is responsible for reviewing and approving forecast economic scenarios and the associated probability weights applied to each scenario.

The Risk and Credit Committee (RCC) is responsible for recommending any adjustments required to account for situations where known or expected risks have not been adequately addressed in the modelling process.

The Group's provision for impairment, impairment on loans and advances and any areas of judgement are reported to the Group's Audit Committee (GAC) and Board at each reporting period.

(b) AASB 15 Revenue from Contracts with Customers
AASB 15 Revenue from Contracts with Customers replaces 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 based on the transfer of promised goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. The model in AASB 15 features a contract based five-step analysis of transactions, to determine whether, how much and when revenue is recognised.

The adoption of the new revenue methodology has resulted in no change to the timing of recognition of income. The only adjustment to Group reported revenue is where the Group acts as principal in a settlement arrangement. In these circumstances, the income and expense is required to be shown net. Previously, the Group had certain interchange income and expense that was reported gross, but now, this interchange income and expense has been netted and the comparative restated accordingly.

The Group has not had an opening balance sheet adjustment.

The following accounting standards will impact the financial statements in future financial years:

(c) AASB 16 Leases
AASB 16 Leases replaces AASB 117 Leases and is effective for periods beginning on or after 1 January 2019. MyState Limited will adopt this standard on 1 July 2019.

AASB 16 requires lessees to recognise most leases on balance sheet as lease liabilities at the present value of future lease payments with a corresponding right-of-use assets which will be reduced via depreciation over the lease term. 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 accounting for Lessors is largely unchanged.

The Group has assessed the impact of this standard on its operating leases (the Group does not have finance leases currently) and has determined that the impact on the timing of expenses related to leases will not differ materially as a result of adoption. The classification of that expense will be disclosed as depreciation expense, in relation to extinguishing the right-of-use-asset, and financing expense, in relation to the implied interest costs used in the valuation of the lease liability used in the valuation of the lease liability. As a result of this reclassification, the Group's "Lease expense" will reduce.

The Group will adopt the standard on 1 July 2019 and at this date will raise a right-of-use asset at a value equivalent to the lease asset. Comparatives will not be restated. On adoption the Group anticipates that the value of the right-of-use asset and corresponding liability of approximately $12.8M will be recognised on balance sheet in relation to the in-scope leases.

(iv) Changes in accounting policy and disclosure
The Group has adopted two changes to accounting policies in the current reporting period. These changes have been applied retrospectively in the financial statements. Where comparative information has been amended, references has been made back to this note.

1. Inclusion of Bond Issuance costs in the effective interest rate
Costs that are integral to the issuance of bonds have been capitalised in accordance with AASB 9 and amortised over the expected life of the issued bonds. The written down value of these costs had previously been recognised within "Intangible assets and goodwill", with the amortisation associated previously disclosed within "Administration costs" as "Amortisation - other intangibles". In the current reporting period, this policy has been changed. The costs continue to be capitalised in accordance with AASB 9 and amortised over the expected life of the issued bonds, however, the unamortised balance of these costs is now included in "Deposits and other borrowings including subordinated notes" and the expense is included in "Interest expense", to reflect the average effective interest rate calculation of the bonds issued. The value of unamortised bond issuance costs at 30 June 2019 is $3.637m (30 June 2018: $5.026m). Amortisation expense related to bond issuance costs at 30 June 2019 is $1.697m (30 June 2018: $1.318m).

2. Inclusion of Mortgage Offset Accounts in the calculation of average interest earned on assets
The balance of Mortgage Offset accounts is included within "Deposits and other borrowings including subordinated notes" on the Consolidated Statement of Financial Position, which is unchanged. In Note 3.3 "Average balance sheet and source of net interest income", offset accounts had previously been reported in the liabilities total "Deposits and derivatives". As these balances represent a proportion of Loans and advances that are non-interest earning, this disclosure has changed and offset accounts are now netted off against the balance of "Loans and advances" to reflect the interest earning balances more accurately. The quantitative impact of this change is disclosed in the Note 3.3.

Directors' Declaration

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 51-90 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 2019 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 2019.

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 23 August 2019

Independent Auditor's Report

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) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the 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 2019 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.

1st Floor 160 Collins Street, Hobart TAS 7000
GPO Box 1083 Hobart TAS 7000
03 6223 6155
Move Forward
email@wlf.com.au
www.wlf.com.au

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 reviewed the Group's processes for considering the completion of projects and commencement of amortisation; 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
The provision for doubtful debts is determined in accordance with the requirements of AASB 9 *Financial* Instruments. We focus on this area because of the significant 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 that do not have an individually assessed provision are assessed on a portfolio basis with loans with similar risk characteristics. Key areas of judgement included: • The design of the economic credit loss model used; • The selection of assumptions adopted such as the probability of default, loss given default, exposure at default and forward looking information.	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 expected credit loss model, including the specific provision and collective provision for impairment; • Ensured the methodology for write off of debt was consistent with prior periods; • 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 2019, 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 36 to 47 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of MyState Limited, for the year ended 30 June 2019 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: 23 August 2019

Information relating to shareholders

Range of Units (Snapshot) as at 23 August 2019

Range	Total holders	Units	% of Issued Capital
1 - 1,000	57,346	23,088,272	25.36
1,001 - 5,000	3,164	8,593,580	9.44
5,001 - 10,000	1,145	8,584,856	9.43
10,001 - 100,000	965	21,960,902	24.12
100,001 Over	44	28,812,935	31.65
Rounding			**0.00**
Total	**62,664**	**91,040,545**	**100.00**

Unmarketable Parcels	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $4.70 per unit	107	359	12473

Top Holders (Snapshot) as at 23 August 2019

Rank	Name	Units	% of Units
1.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,579,398	8.33
2.	CITICORP NOMINEES PTY LIMITED	5,024,494	5.52
3.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,372,799	3.70
4.	NATIONAL NOMINEES LIMITED	1,572,219	1.73
5.	SELECT MANAGED FUNDS LTD	1,225,960	1.35
6.	NEALE EDWARDS PTY LTD	901,285	0.99
7.	MR BRIAN DAVID FAULKNER	750,000	0.82
8.	BEECHWORTH HOLDINGS PTY LTD <BEECHWORTH SUPER FUND A/C>	721,700	0.79
9.	PRESTIGE FURNITURE PTY LTD	464,000	0.51
10.	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS IOOF EMPLOYER SUPER A/C>	458,616	0.50
11.	MRS WENDY JEAN FAULKNER	405,000	0.44
12.	BNP PARIBAS NOMS PTY LTD <DRP>	393,433	0.43
13.	ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	378,366	0.42
14.	UBS NOMINEES PTY LTD	327,246	0.36
15.	MRS JOAN ELIZABETH EVERSHED	312,547	0.34
16.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	307,784	0.34
17.	DONETTA PTY LIMITED	255,000	0.28
18.	GARMARAL PTY LTD	253,011	0.28
19.	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	248,508	0.27
20.	LYMAL PTY LTD	244,140	0.27
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)		**25,195,506**	**27.68**
Total Remaining Holders Balance		**65,845,039**	**72.32**

Corporate Directory

MyState Limited

Registered Office:
MyState Limited
ABN: 26 133 623 962
Level 2, 137 Harrington Street
Hobart TAS 7000
Phone: 138 001
Website: mystatelimited.com.au
Email: info@mystatelimited.com.au

Directors (As at 30 June 2019)
Miles Hampton (Chairman – non-executive)
Melos Sulicich (Managing Director and Chief Executive Officer)
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 & Ferguson
1st Floor, 160 Collins Street
Hobart TAS 7000

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

MyState Bank
ABN: 89 067 729 195
Phone: 138 001
Website: mystate.com.au
Email: info@mystate.com.au

MyStateBank

Tasmanian Perpetual Trustees
ABN: 97 009 475 629
Phone: 1300 138 044
Website: tasmanianperpetual.com.au
Email: info@tptl.com.au

Tasmanian Perpetual Trustees

MyState Limited

mystatelimited.com.au