MyStateLimited

Annual Report 2020

Contents

MyState Limited | ABN 26 133 623 962

Annual General Meeting

Virtual (online) AGM – Wednesday 21 October 2020 at 10.30am (AEDST)

Due to the continuing uncertainty created by the COVID-19 pandemic, the Board has determined to hold an online Annual General Meeting (AGM) this year. This approach will provide a safe environment for shareholders attending the meeting.

In response to COVID-19 the Australian Government has made temporary amendments to the *Corporations Act 2001*. These amendments allow notices of meeting and other information regarding the AGM to be provided to shareholders and also released to the ASX where it can be viewed and downloaded.

This year our Notice of AGM will be published online at mystatelimited.com.au and released to the ASX on Friday 18 September 2020.

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 at mystatelimited.com.au

Our purpose is to help people achieve their dreams.

Our customer charter

We're committed to:

- Earning your trust and keeping it
- Being genuinely interested in what you want
- Making things easier for you
- Telling you things straight up; no jargon
- Helping you make the right choices for you and your money
- Putting things right if they go wrong

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.

Highlights of the Year

+12.9%
Core earnings[(1)]

+7.6%
customer deposits

+1.0%
net profit after tax: $30.1m (continuing operations basis)[(2)]

+5.1%
home loan growth

-1.95%
cost-to-income ratio

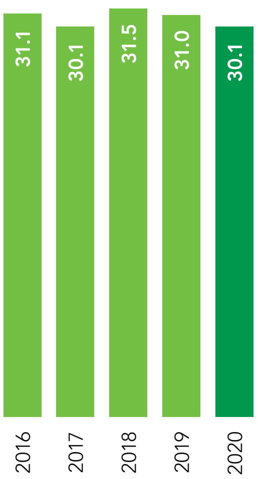
+48
consistent market leading customer NPS

1) Defined as pre-provision operating profit before tax

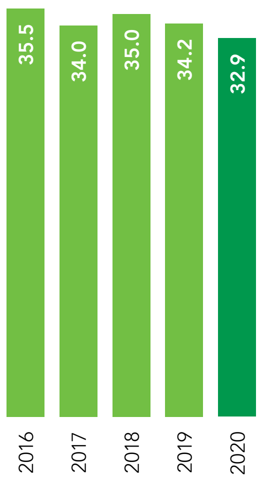
2) Including impairment expense of $4.9m

Group Performance

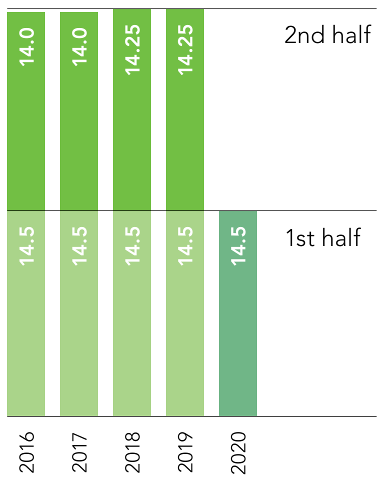
NPAT
($million)



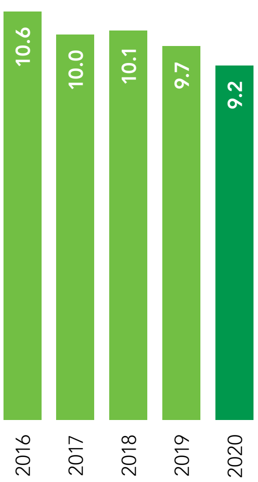
Earnings per share
(cents)



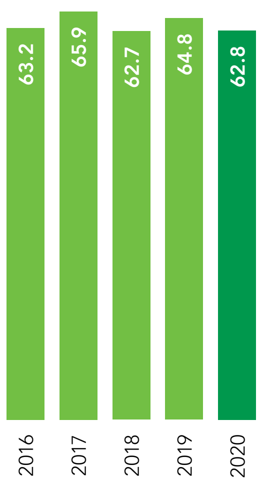
Dividends – fully franked per share (cents)



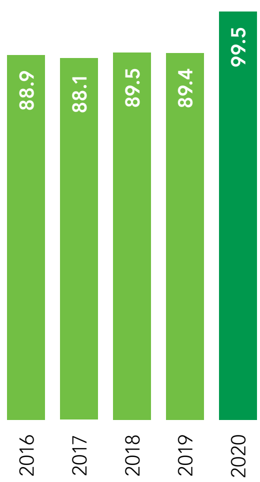
Return on average equity (%)



Cost-to-income ratio (%)



Net interest income
($ million)



Chairman's Report

The operating result for the year to 30 June 2020 was very pleasing under the circumstances, with COVID-19 presenting significant challenges to our customers, the MyState team and the banking sector in general.

Miles Hampton
Chairman

$280m
increase in customer deposits

+12.9%
increase in core earnings

Operating performance

Statutory net profit after tax fell from $31 million to $30 million, after taking into account an increase in impairment charges of $4.9 million, principally related to COVID-19. On a like-for-like basis, however, net profit after tax was up 1.0%, as last year's net profit included a one-off gain of $1.2 million on the sale of our retail financial planning business.

Core earnings, as measured by net operating profit before impairment charges and tax, increased 12.9% to $47.9 million, a very pleasing result, reflecting the significant improvement in business operations and investment in technology that have been undertaken over the past few years.

The Group cost-to-income ratio fell from 64.8% to 62.8%.

The MyState Bank loan book increased $237 million, or 4.7%, to $5.3 billion. Pleasingly the customer deposit book increased by $280 million with the customer deposit ratio sitting at 69.1% at year's end.

At TPT Wealth, Funds Under Management fell $101 million to $1.07 billion, reflecting a combination of the COVID-19-related market correction and a decline in investor sentiment in the last quarter of the year. Funds Under Advice decreased $56 million to $402 million.

Impairment charges

Whilst there was a slight uptick in arrears, the substantially higher impairment charges principally represent provisions for our current estimate of possible losses relating to the impact of COVID-19 on our customers.

In determining the level of provisioning required, we have undertaken scenario modelling with the key assumptions being the effect of the economic downturn on house prices and unemployment. These provisions may have to be adjusted up or down as new information becomes available.

COVID-19

The operational pressures placed on the business as a consequence of COVID-19 have been very significant.

Our management team has responded to the challenge with a focus on the safety of staff and customers whilst seeking to maintain the momentum in our business that we have worked so hard to build over recent years.

We intend to apply the learnings from this enforced new business model in how we do business going forward.

The impact of COVID-19 over the medium term is difficult to predict with certainty.

But what I can say is that our team are committed to delivering on our customer promise of making financial services simple and trustworthy, whilst continuing to deliver ongoing growth and improved shareholder returns.

Dividend and capital

The capital adequacy ratio increased from 12.9% to 13.0%, well above both internal benchmarks and regulatory requirements.

Nonetheless, the Board has determined that no final dividend will be paid in respect of the financial year ended 30 June 2020. This decision was not taken lightly as we fully understand that many shareholders rely on dividends to fund living expenses.

Our focus has been on **transitioning** to a digital **bank** and **wealth management** group

The Board came to a clear view that we had to maintain a very strong capital position given the challenges and uncertainties we are facing.

We could have paid a dividend and undertaken a capital raise at the same time, as some other banks have done. However our judgement was that the interests of our shareholders were best served by not paying a final dividend, noting that the interim dividend paid in March 2020 meant the overall dividend payout for FY20 was 43%.

The Board expects that, barring unforeseen circumstances, we will pay a dividend for the half year ending 31 December 2020.

In light of the present circumstances, the Board has resolved to modify our dividend policy such that for the time being we will be targeting a payout ratio in the range 60-80%.

Previously we had been targeting a payout ratio in the range 70-90% and our average dividend ratio over the past four years has been 85%.

Director fees and Executive incentives

The Board determined that Non-Executive Directors' fees be reduced by 20% for a six-month period commencing in May 2020.

Further, the Executive team have elected to forego any short-term incentives for the FY20 financial year. Additionally, there will be no fixed remuneration increases for management in 2020.

These initiatives of themselves do not have a material effect on profitability and capital strength, but reflect our recognition of the hardships that many of our customers and shareholders will be experiencing.

Strategic focus

Our overall focus has been on transitioning to a digital bank and wealth management business.

It is pleasing to see the investment of prior years delivering improvements in terms of customer growth, customer deposits, customer satisfaction measures and core earnings. Whilst the transformation of TPT Wealth commenced later than MyState Bank, the initial results are encouraging with early investor feedback being positive.

We have set some very ambitious targets for customer growth as we go forward and we are confident that achievement of these targets will deliver further improvement across a range of key performance measures.

Executive leadership

In January 2020, we announced that Managing Director & Chief Executive Officer Melos Sulicich would be stepping down in June 2020 having led the Group since 2014.

In March 2020, we were well advanced in the process to appoint a successor when the impact of COVID-19 on the economy and in particular the banking sector became clearer.

The uncertainties we were facing were significant and the Board came to the view that continuity and proven leadership were needed to guide us through what would undoubtedly be a very difficult period.

The Board were very pleased that Melos Sulicich agreed to defer his resignation. He will continue as Managing Director & Chief Executive Officer until at least September 2021.

Board changes

In November 2019, Non-Executive Director Stephen Lonie passed away after a brief illness.

Stephen joined the MyState Board in 2011 following the acquisition of the Rock Building Society Ltd in Queensland. His contribution to MyState was invaluable and he will be greatly missed. We extend our sympathy to his wife Jenny and family.

Acknowledgement

I acknowledge the efforts of all in the MyState team. Their commitment to delivering outstanding customer service in what have been very challenging circumstances has been particularly pleasing.

I also acknowledge the effort of our Executive who have dealt with a whole range of COVID-19-related impacts whilst continuing to focus on our strategic intent to be a nimble digital bank and a revitalised wealth management business.

Finally I would like to acknowledge the contribution and support of my fellow Board members during what has been an extremely demanding period.

Miles Hampton
Chairman

Managing Director's Report

The year in review has been like no other in our history. It has been a challenging year of slow economic growth, increased competition and regulatory change – not to mention the difficulty posed by a vicious bushfire season and finally a global pandemic, the likes of which none of us have seen in our lives.

Melos Sulicich
Managing Director and Chief Executive Officer

With all of these external issues going on around us, we continued our focus on improving our capability and culture, on simplifying, modernising and digitising the business, and on our balance sheet strength. In doing this, we significantly reduced the cost and risk of operating despite the strong headwinds facing the sector.

We are continuing to simplify, automate, digitise and modernise our operations so we attract customers looking for a contemporary way to bank, assist them to buy a house or car or grow their wealth.

At the core of our strategy is a focus on our customers' evolving interests and needs. The digitisation of our operations has been designed with the customer front-and-centre. Our goal has been to create a banking, lending and wealth management business that our customers find relevant, and our high +48 net promoter score, which measures customer advocacy, shows we are succeeding.

The success of our digital transformation is also reflected in how our customers are interacting with our services. Two-thirds of customers are now transacting online or via our mobile app and more are choosing to receive bank statements electronically rather than in the mail. More customers are coming to us via digital means, with an increase of over 170% in online customer acquisition compared with the previous year.

With the launch of our artificial intelligence (AI) powered everyday banking features that enable customers to understand and manage their financial affairs more efficiently, together with the introduction of robotic technology, our digital investments are paving the way for further growth.

Financial overview

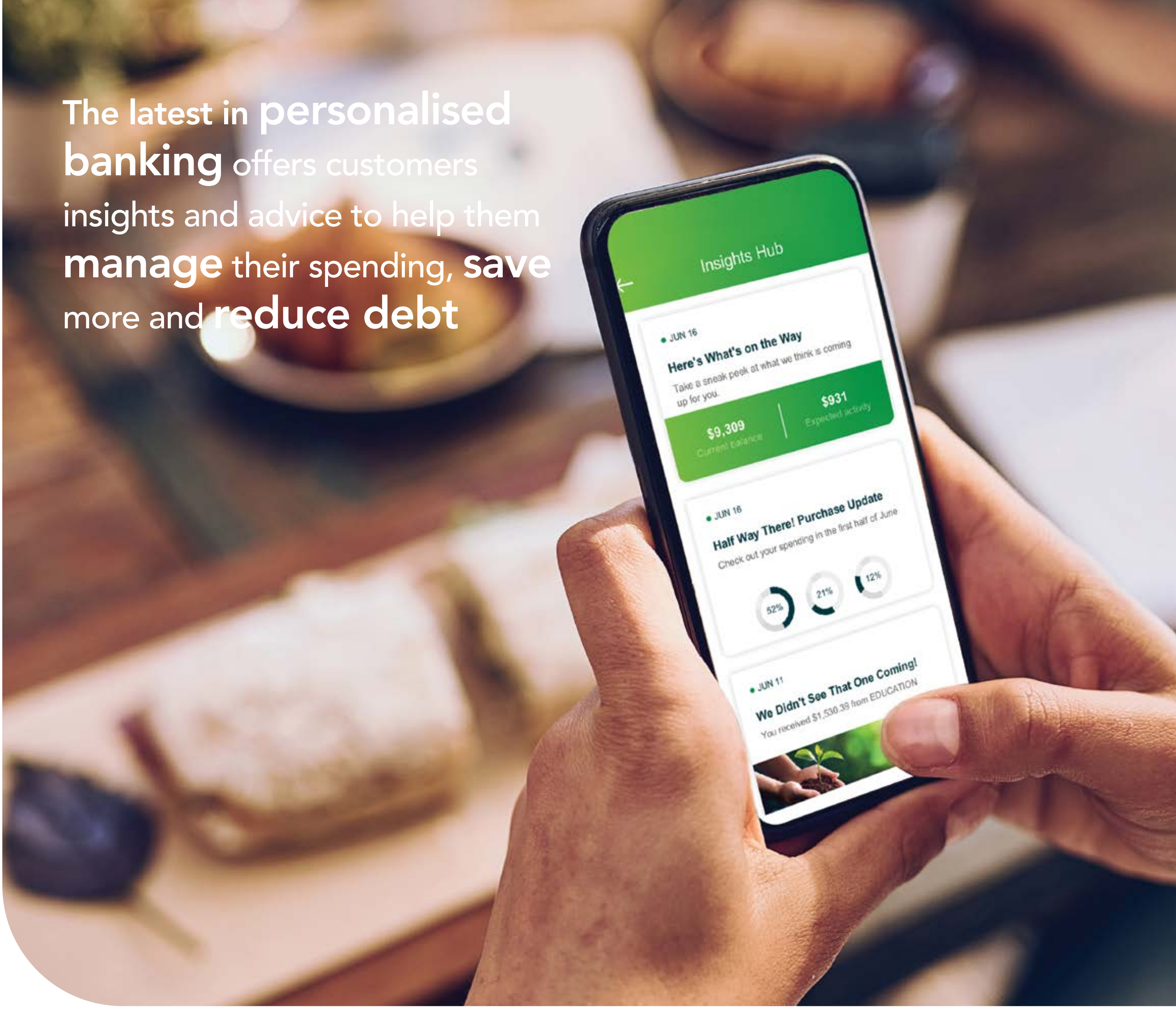
Despite the challenging environment, we are very pleased with the 12.9% increase in MyState's core operating profit before provisions and tax. This reflects the success of our strategy which is helping us to build a strong national business.

The $4.9 million provision for credit losses is reflective of the challenges faced by our customers as a result of the COVID-19 pandemic. There are still considerable uncertainties before us, with a very difficult economic

+170%
online customer acquisition

$3.9b
deposit portfolio, an increase of 7.6% from last year

$5.1b
home loan portfolio, up 5.1% from last year



environment, and unemployment expected to rise as we come to terms with the first recession we have had in decades.

Our strong result was underpinned by growth in customer deposits and our loan book, which enabled us to increase our Net Interest Margin to 1.86%. In part, this has led to a reduction of 195 basis points in our cost-to-income ratio to 62.8%, despite increased spending on marketing and digital transformation.

Total operating income was $128.9 million, up 7% on the previous year, with net interest income up 11.3% to $99.5 million, benefiting from balance sheet growth, disciplined margin management, a significant increase in retail deposits and lower wholesale funding costs.

The return on average equity was 9.2% after provisions. While this was down on the previous year, it remains favourable when compared to regional bank peers.

Lending and deposit growth

With our streamlined banking services, mobile app and internet banking fully operational, we are seeing greater customer engagement. Our banking services are more attractive to an ever-increasing customer base who are looking for a clear and simple banking proposition.

In a very low growth environment, our home loan book increased by 5.1% to $5.1 billion, 1.7 times the national system growth rate, with 79% of the book being owner occupiers. During the year we were granted a position on the Federal Government's First Home Loan Deposit Scheme panel, where the Federal Government guarantees a portion of the loan up to 15%.

We are doing our utmost to support our customers during the COVID-19 crisis. Approximately 11% of our loan portfolio has been placed in a loan repayment pause due to difficulties faced by customers during this period. Every three months, we are reviewing the situation of customers whose loan repayments have been paused with a view to helping them re-start repayments. We'll continue to work with our customers individually to arrive at the best outcome for each of them through this period.

There was a significant decrease in funding costs during the year, helped by falls in interest rates and a 7.6% increase in customer deposits to $3.9 billion which represented 69.1% of the funding mix. Retail customer deposits rose by 15.5%, reflecting increased engagement.

Managing Director's Report (continued)

Wealth management

Following the rebranding of Tasmanian Perpetual Trustees to TPT Wealth and its transition to a digital funds management business focused on mortgage funds, our new wealth management platform is now beginning to attract mainland customers. The outsourcing of fund administration has enabled TPT Wealth to offer investors access to a more streamlined online management portal, where customers can trade and top-up investments.

After showing a steady increase throughout the year, Funds Under Management reduced by $101 million over the year to $1.07 billion, as customers withdrew funds from this type of product to provide themselves with liquidity and certainty in uncertain economic times. This outflow was much smaller than we have seen in similar situations in the past and funds have recently started to move back into these products.

We are continuing our journey of modernisation at TPT Wealth and anticipate that most of the capability and technology changes will be completed this year.

ABA Banking Code implementation

The Australian Banking Association (ABA) released its latest Banking Code of Practice at the beginning of July 2019. The new Code, which we implemented immediately, places stronger emphasis on protecting vulnerable communities and loan guarantors and on increasing inclusivity and accessibility.

We also signed our Customer Charter during the year, which leans heavily on the Code's themes. The Charter will give our customers peace of mind, knowing that we have their interests as our primary motivator. Our promise to customers is that we're committed to earning their trust and keeping it, being genuinely interested in what they want and making things as easy as possible.

Response to COVID-19

The rapid escalation of the COVID-19 pandemic led to a swift response to ensure our customers in financial distress were taken care of and our staff were out of harm's way.

We were quick to institute work-from-home protocols for all office-based staff, while also ensuring that customer services were unaffected. Our Customer Care Centre and all our branches remained open every day throughout the period. We prioritised the issuing of debit cards to customers who were without a card so they could access money, shop online or use contactless pay options while shopping, without coming into a branch.

We also added capacity to our customer and collection services team to help support those who were faced with financial hardship. We have offered the ability to switch mortgages to interest-only or to defer payments for customers who have lost a significant proportion of their income due to COVID-19.

We were quick to join the Federal Government's Small and Medium Enterprises (SME) Guarantee Scheme, which aims to support up to $40 billion of lending to SMEs, including sole traders and not-for-profits. Under the scheme, the Government guarantees 50% of new loans issued by eligible lenders.

The pandemic has forced a number of changes to our day-to-day operations and we are planning to continue with those which have been found to be positive including flexible working arrangements.

Regulatory changes

Following the Royal Commission into Banking and Financial Services last year, there have been significant changes in the regulatory and compliance environment and our risk management team has worked hard to ensure the Group stays ahead of those changes.

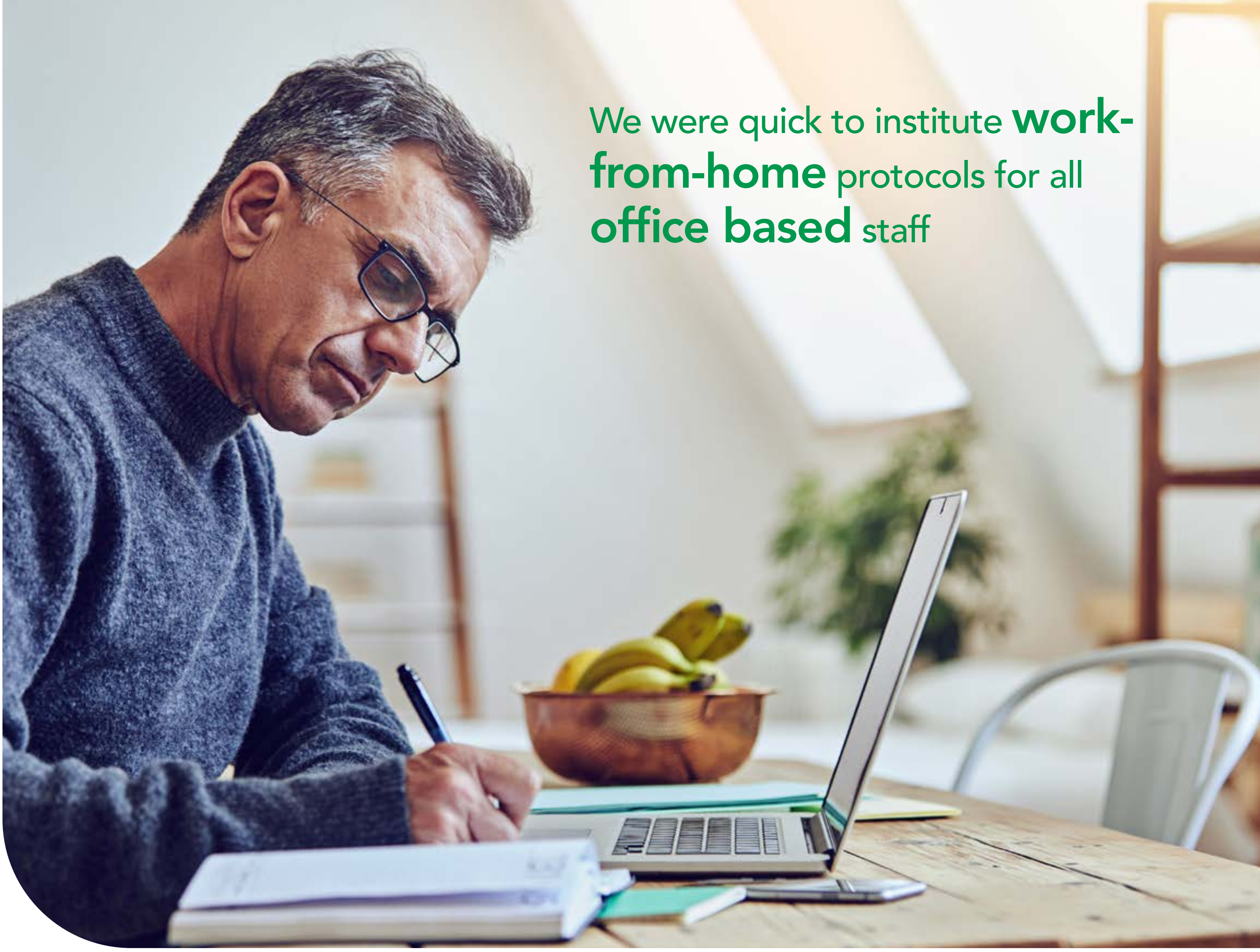
Since the start of the COVID-19 pandemic, regulators have made decisions to slow or defer many changes. They also have been open to dialogue and consultation to ensure that we have the ability to deal with issues created by COVID-19 and still run our business in an effective and efficient manner.

During the year we conducted a self-assessment of our Governance, Culture, Remuneration and Accountability (GCRA) practices, along the lines that APRA had previously required many financial services companies to undertake. The results showed that we have significantly strengthened our position in these critical areas in recent years, particularly in the area of non-financial risk. The self-assessment identified many strengths that MyState had developed and embedded in our operations and culture. Commensurate with the size and complexity of the Group, it also identified some opportunities for strengthening the Group's risk management framework. We do not intend to become complacent here and will continue to refine and improve our risk management practices and frameworks as circumstances change.

Capital position and liquidity

We remain comfortably capitalised above regulatory minimums. In July 2020 MyState Limited issued $25 million of Tier 2 qualifying subordinated notes , which replaces the same amount of similar notes issued by MyState Bank Limited in 2015. The structure of these new notes also improves our regulatory capital efficiency.

In the early stages of the pandemic we decided to hold higher levels of liquidity to create a buffer for the business, and will continue to do so until we are more comfortable with the external environment.



Maintaining performance

Our results last year reflected the actions we've been taking to build a simpler, more modern, better business – including investing in marketing and better customer experience. Importantly, our results also showed the continued strength and momentum in our business. Despite the challenges, we were able to deliver above-system growth in home lending and strong transaction account growth.

Early in the new financial year we have made some decisions to streamline and strengthen the business further. We have undertaken some considerable restructuring in the TPT Wealth business which will position this business for the future, enabling us to focus on growing the business in areas where we see considerable potential. We have also announced the closure of our remaining MyState Bank branches in Central Queensland. These decisions were extremely difficult, but we firmly believe that they are in the long-term interest of the business.

In recent years we have invested heavily in technology to provide customers with the ability to interact with us in the manner they have demanded. Traditional face-to-face branch-based interactions are declining at an increasingly rapid pace and our Queensland branches were the smallest and least attended in our network. We will continue to service our customers impacted by branch closures through online and mobile banking, our Customer Care Centre and our Bank@Post arrangement with Australia Post.

Looking ahead

Our operating results last year were very strong. We are making very good progress on our strategy to be simpler and better, and are very clear on what we need to do to deliver continued performance in the current economic, regulatory and competitive environment. We are seeing the benefits from our transformation which are showing increased penetration into mainland markets. The strength of the business, the commitment of the leadership team, and the continued dedication of our people to our purpose and to our customers, give me great confidence that we can deliver a company of which you, as our owners, can be proud.

Lastly, I would like to thank our hardworking team for their stoic resilience during these unpredictable times. They have shown themselves to be adaptable and committed to our values, delivering better outcomes for our customers particularly those frontline workers who are the physical face of our organisation. I'd also like to thank our Board members for their focus and help in supporting the executive to deliver on an ambitious growth strategy.

Melos Sulicich
Managing Director and
Chief Executive Officer

Our Strategy

Our customers are central to every decision that we make. From risk management practices, to streamlining our back-office operations and modernising our banking and wealth products, our customers' needs and interests are paramount.

We are adapting our business to meet the needs of customers in a world that is changing at an ever increasing pace. We're improving our systems, products and services to help make the customer experience more streamlined and user-friendly. We are also using digital technology to make our products simpler, more relevant and easier to use.

We're **adapting** to meet our **customers' needs** in a rapidly **changing world**

Our strategic priorities

Our Strategy

MyState Bank

- **Grow** our balance sheet
- **Increase** digital capabilities and use of automation in our banking operations
- **Build** our brand
- **Attract** and deepen relationships with customers

TPT Wealth

- **Invest** in contemporary, scalable wealth management and trustee products and systems
- **Growth** through mainland distribution

Supported by investment in marketing and a strong risk culture

Our mission

is making financial services simple and trustworthy

Our purpose

is to help people achieve their dreams

Risk Management

Managing both financial and non-financial risks is integral to everything we do.

In the past year, we have continued to strengthen MyState's risk management practices to align them with regulatory changes and the recommendations from the Royal Commission into Banking and Financial Services.

In late 2019, with the assistance of an independent expert, the Board initiated a self-assessment report into the effectiveness of MyState's Governance, Culture, Remuneration and Accountability frameworks and practices. This self-assessment identified many strengths that MyState had developed and embedded in our operations and culture. Commensurate with the size and complexity of the Group, it also identified some opportunities for strengthening the Group's risk management framework and practices.

We have empowered all MyState employees to have a greater focus on risk management. We have a strong culture of accountability and responsibility across the business and risk management committees have now been created in each division.

Each of the divisional risk committees are chaired by an Executive and attended by members of the senior management team. These committees are integral to embedding a dynamic and strong risk culture within our organisation, 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:

We have **empowered** all MyState employees to have a **greater focus** on **risk management**

- A **prudent approach** and a strong risk culture to help us deliver our strategic intent.
- **Robust controls** to make sure risks are identified, managed and mitigated effectively.
- **Enhanced risk accountability** to enable accountability in the first line of defence supported by a strong oversight and challenge from our risk professionals in the second line of defence.
- **Effective risk reporting** and analytics to 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.
- **Risk frameworks** which are regularly reviewed to support our regulatory obligations and our customer commitments.

Our risk framework helps ensure we support our purpose and mission and deliver the best outcomes for our customers.

Response to COVID-19

In responding to the COVID-19 pandemic we have actively managed the risk in both our external and internal environments; this has included:

- A focus on employee and customer safety.
- The resilience of our operations including enhanced oversight of the services provided by our third-party providers as well as the continued enhancement of our cyber and information security.
- Monitoring the impact on lending activities and the portfolio.
- A focus on providing customers viable alternatives to manage their debt.

MyState Bank

In order to become a leading national digital bank, we are adapting, changing and evolving our systems and products to help make the customer experience more streamlined and user-friendly.

12,000
new customers joined in FY20

60.5%
of our home loan book is outside Tasmania

+48
customer NPS

Digital transformation driving customer growth

At the heart of our technology investments is a focus on improving our customers' experience and looking after their interests. Digitisation has given MyState Bank a national reach with a platform that is able to expand along with customer demand, no longer constrained by the size of our branch network. There are no longer physical limits to our growth.

We have introduced artificial intelligence (AI) driven solutions for our everyday banking products, equipping our customers with cutting-edge tools that put them in greater control of their finances. Our customers now have access to one of the most holistic AI-driven banking solutions in Australia. It's features include Customer Insights that give our customers automated bill reminders and in-depth analysis of their spending habits and an opt-in Auto-Save tool that can help them save faster to achieve their financial goals.

We are also continuing to develop and deploy software robotics to undertake back-office, document-heavy activities such as data entry which provides our team more time to focus on customer service.

The introduction of web chat in our customer care centre enables representatives to handle multiple enquires simultaneously and in a more time-efficient manner. The take-up of web chat among our customers has exceeded expectations.

MyState has launched phase one of Open Banking, well ahead of the October 2020 mandated implementation date. Phase one makes details about the features, rates and fees of transaction, savings and term deposit accounts available through an Application Programming Interface (API). This marks MyState's first step in the Consumer Data Rights (CDR) regime with phase two planned to conclude in 2021.

MyState Bank's digital strategy is attracting new customers across Australia as the bank is transformed into a retail deposit-led business.

The bank welcomed 12,000 new customers during the year. The proportion of new customers acquired through digital channels doubled during the year to 61%, showing the success of transitioning to a digital bank model.

Home loan growth

Investment in our lending business technology has further streamlined processes, making our services easier for brokers to use, faster for our staff to process applications and simpler for customers to access. All this combined is making our bank more attractive for brokers and customers alike.

Mortgage customer numbers continued to grow via broker networks in Queensland, New South Wales and Victoria.

Strong participation in the Government's First Home Loan Deposit Scheme (FHLDS) contributed to above-system loan book growth.

While the economic outlook has deteriorated as a result of COVID-19, MyState's arrears remain well below those of our regional peers and the benchmarks for major banks, with

Our investments in **new technology** ensure our customers get **services** that **fit their lifestyle**

30-day arrears at 0.61% and 90-day arrears at 0.35%.

Investment in marketing

We have increased targeted marketing activity that is building brand awareness and acquiring customers in new markets. A mix of traditional and digital advertising is supplemented by a range of PR and content activities.

Our investments in digital marketing have been key in driving our customer growth from digital channels. Introducing new capability, boosting targeted digital performance media, and ensuring a focus on optimisation, have been core components of our success.

Our Net Promotor Score (NPS), which measures customer loyalty, is among the best of our peers and finished the year at +48, up from +42 in the previous year.

Award winning products

The Bank's Bonus Saver account received a five-star rating from Canstar and an Experts Choice Award from Mozo, confirming the product as one of the top in its class. The Bank's Business Online Saver was also awarded an Experts Choice from Mozo for Small Business No Strings Savings.

TPT Wealth

In wealth management, we are taking our trusted 133-year-old TPT Wealth business and bringing it into the modern day, using digitisation to build a bridge to mainland customers.

TPT Wealth

TPT Wealth is one of Australia's oldest providers of wealth solutions offering contemporary financial products including asset management and trustee services which includes estate planning, administration and charitable trusts.

TPT Wealth is transforming into a national digital business and we want to be acknowledged as an expert, specialist income fund provider, delivering regular and reliable yield to investors.

We are investing in contemporary, scalable wealth management and trustee products and systems to enable growth through mainland distribution.

Transformation of the wealth business

Throughout the last year, the transformation of TPT Wealth has continued, rebranding and moving to an asset management model. There was substantial restructuring during the year, with fund administration and accounting outsourced to a leading third party provider and the creation of a new digital platform to allow investors to manage their investments online.

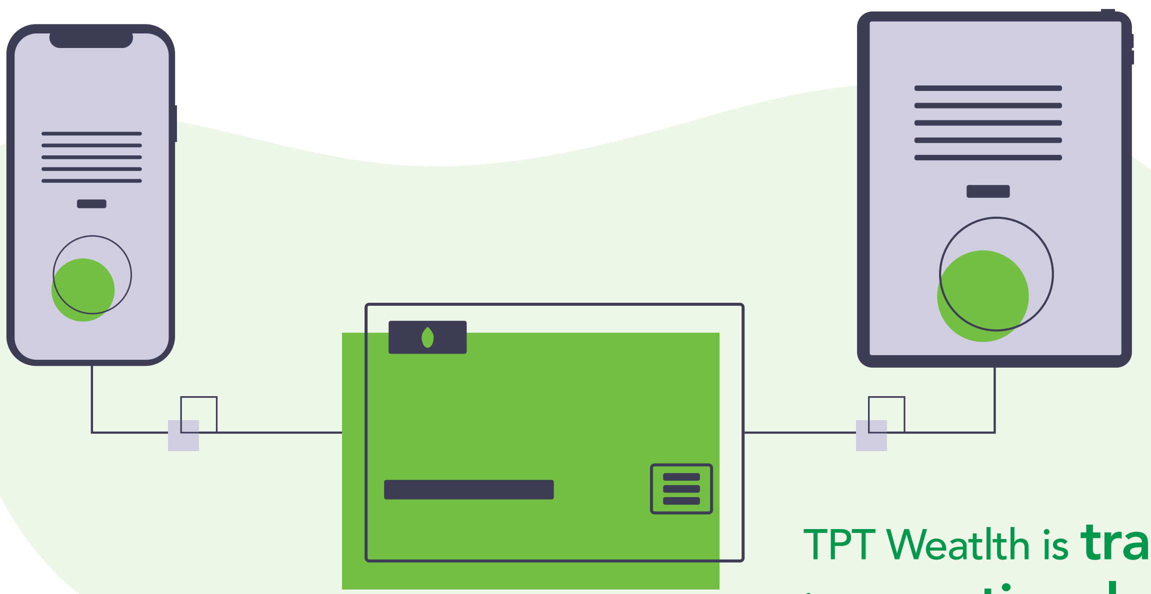
We have just released a new loan origination platform for the TPT Wealth business and by the end of the year we will have upgrated the trustee platform to modern digital-based contemporary system.

We have closed two sub-scale funds and will be making changes to some of our other income funds during the course of the year ahead to align our product suite better with what our customers are seeking.

With this in place, TPT Wealth is now looking to the future as it transforms into a national digital business.

Funds management

While COVID-19 is uncharted territory in terms of credit and liquidity challenges, we are extremely well placed for the future. We are ready to compete for market share, grow our mortgage book and secure a greater number of investors across Australia.



TPT Weatlth is **transforming** into a **national digital business**

Our Culture

As we step into our future, it has become more important to understand the culture we wish to cultivate and what is important to our people, our customers and our communities.

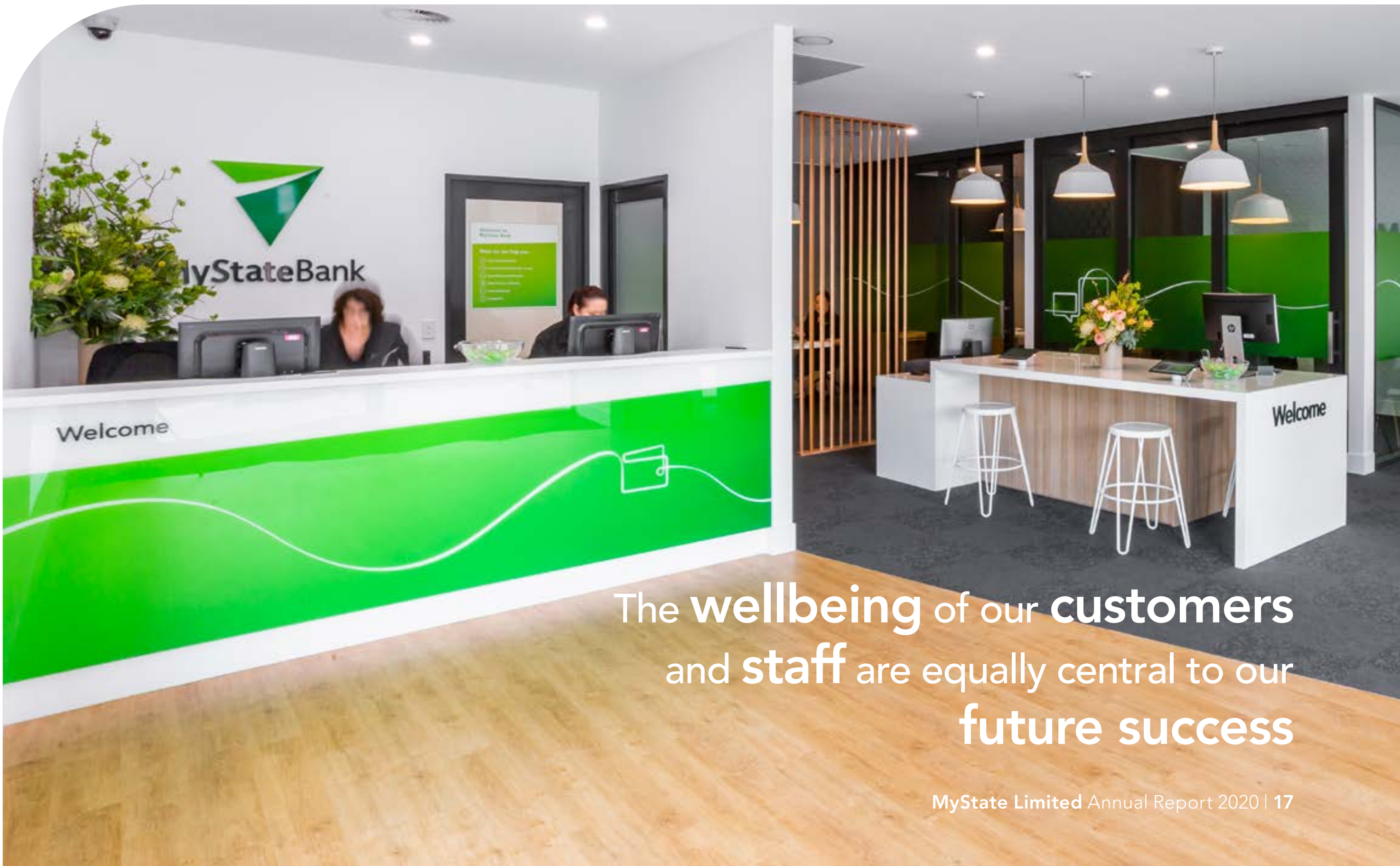
MyState's Customer Charter places customers' interests at the forefront of everything the company does. The wellbeing of our staff is equally central to our future success: an engaged workforce is a productive one that is ready to help our customers, improving their overall experience and helping us continue to grow.

Because of this, last year with the contribution of the entire MyState team, we undertook a workplace culture assessment. This has given us an understanding of our current culture that we have never had before, and has allowed us to identify our ideal culture for optimal business performance. We know where we are headed which has enabled us to put in place targeted programs to evolve a workplace culture to drive our strategic vision. The importance of this is only increasing in a post-pandemic world.

An employee experience survey last year achieved a score in line with other Australian banks. In response to feedback, we have increased our focus on mental health and general wellbeing, implementing a number of initiatives that increase the access to these services for our people. A specific callout is our wellbeing web portal for staff which has proven popular. Staff have also appreciated the continuation of flexible working practices, which were expanded in response to COVID-19 and our cultural evolution has been reflected in their responses to our surveys.

Our people have a very clear understanding of how their role contributes to achieving our growth objectives and how we can help people achieve their dreams. Our internal peer-nominated program rewards employees who excel in their behaviour and attitude, with the Executive team deciding the winners on a quarterly basis.

We continue to place a strong focus on increasing our diversity and inclusivity with the launch of our Belong Network and inaugural internal staff event to celebrate International Women's Day. It is pleasing to note that MyState has 49% of all leadership positions filled by women.



The **wellbeing** of our **customers** and **staff** are equally central to our **future success**

Our Community

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

$2.3m
of grants provided by the MyState Community Foundation since 2001

2,000
young people helped by Bridgewater PCYC

291
films entered in the MyState Student Film Festival

MyState Community Foundation

The MyState Community Foundation is focused on empowering disadvantaged youth to reach their full potential. Since 2001, the MyState Community Foundation has supported over 130 not-for-profit organisations by providing over $2.3 million in grants.

In 2020, the MyState Foundation provided support for 17 organisations, including Bridgewater PCYC, which was a recipient of a grant that will directly benefit the region's most at-risk young people.

The Bridgewater PCYC assists approximately 2,000 young people each year. The grant provides funding for its Back to Life Sports Program which provides equipment and coaching for small groups and aims to re-engage with local young people, giving them personal growth and development opportunities. The grant will enable the refurbishment of the current gym and the purchase of equipment.

Other organisations to benefit from a MyState Community Foundation grant in 2020 include The Smith Family, CatholicCare Tasmania, The Shepherd Centre for Deaf Children, Riding for the Disabled St Helens, Camp Quality, ParaQuad Association, Brave Foundation, St Vincent de Paul, Redkite, Variety, Canteen, Fight Cancer Foundation, Dooloomai Youth Project, Young Life Australia, Kingston Beach SLSC and Cystic Fibrosis.

Football Tasmania

MyState's partnership with Football Tasmania has helped reboot the sport across the state, with thousands of kids lacing up and getting back on the pitch, following the COVID-19

The MyState Student Film Festival is a **premier youth artistic event** which helps young people **develop key life skills.**

Amara Gantz, multi-award winning MyState Student Film Festival participant

lockdown that threatened to see the season shelved.

Football Tasmania restarted the competition with the safety of parents and players paramount. This has allowed junior players to get back to their sport sooner, helping them reap the health and social benefits that were missed during the lockdown.

It is also allowing Tasmania's children to get back to a level of normality and enjoy a healthy and connected life through football, which has been an honour to help facilitate. In addition to our match day good sports awards, we were proud to sponsor a ball for each junior player during the season, allowing them to hone their skills at home and make 2020 their most successful season yet.

MyState Student Film Festival

The MyState Student Film Festival is a premier youth artistic event which helps young people develop key life skills such as creative thinking, communication, planning, teamwork, problem solving and management through the art of film. In 2019, the festival showcased 291 short films, representing the work of more than 1,300 students from 105 schools.

Amara Gantz, winner of Best Animation and Post Year 10 – University categories at the 2019 MyState Student Film Festival, used the experience to secure a six-month training placement in Los Angeles, working on Guillermo del Toro's stop-motion feature Pinocchio.

Amara said the event had honed her animation and filmmaking skills over many years. Her winning 2019 submission, Feel the Music, was a festival favourite with its fusion of big band swing music, colour and movement.

Hardie Fellowship

TPT Wealth is proud to be entrusted to manage the Hardie Fellowship Trust, which provides financial support for a number of teachers each year to pursue advanced study or research at a US university. Fellowship recipients then enrich the local community by passing on their learning to others.

Board of Directors

BEc (Hons), FCPA, FAICD

Miles Hampton – Chairman and Independent Non-Executive Director

MyState Bank Limited (Chair), TPT Wealth Ltd (Chair), MyState Community Foundation Limited

Group Nominations and Corporate Governance Committee (Chair), Group Risk Committee, Group Digital Business Committee, Group Audit Committee, Group People and Remuneration Committee

Miles has been a Non-Executive Director since February 2009 and became Chairman in October 2013, and prior, a Director of Tasmanian Perpetual Trustees Limited (now TPT Wealth Ltd) from July 2006. He is the former Managing Director of ASX-listed Roberts Limited, a position he held from 1987 until 2006. He is the former Chairman of Forestry Tasmania, Hobart Water and TasWater and former Deputy Chairman of the Van Diemen's Land Company. Miles has served on the Boards of Ruralco Holdings Ltd, Australian Pharmaceutical Industries Ltd, Wentworth Holdings Ltd, Money3 Corporation Ltd, HMA Ltd, Gibsons Ltd and Impact Fertilisers Pty Ltd.

BBus, GAICD, SA FIN

Melos Sulicich – Managing Director and Chief Executive Officer

MyState Bank Limited, TPT Wealth Ltd, MyState Community Foundation Limited, Connect Asset Management Pty Ltd

Melos was appointed Managing Director and Chief Executive Officer in July 2014. He 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 held general management positions for companies including Spotless Group, Adsteam Marine, Mayne Group, Colonial Group Limited, Colonial UK Limited and the Shell Company of Australia.

BSc, MIFA, MAICD, FAMI

Robert Gordon – Independent Non-Executive Director

MyState Bank Limited, TPT Wealth Ltd, MyState Community Foundation Limited (Chair)

Group Risk Committee (Chair), Group Nomination and Corporate Governance Committee, Group Digital Business Committee

Robert has been a Non-Executive Director since February 2009 and prior, a Director of MyState Bank Limited, (previously connectfinancial), from July 1998. He is the current President of the Institute of Foresters of Australia (IFA) and Football Federation Tasmania and Chair of the Supported Affordable Accommodation Trust. He is the former Managing Director of Forestry Tasmania and has previously served on the Board of a number of companies in the tourism, research and development, construction and infrastructure industries.

LLB (Hons), LLM, FAICD, MBA

Sibylle Krieger – Independent Non-Executive Director

MyState Bank Limited, TPT Wealth Ltd

Group People and Remuneration Committee (Chair), Group Risk Committee, Group Nominations and Corporate Governance Committee

Sibylle has been a Non-Executive Director since December 2016 and has over 35 years of broad commercial experience as a lawyer, economic regulator, company director and independent consultant with focus on heavily regulated sectors. She was a partner in two large commercial law firms for 22 years and has over 13 years' experience as a Non-Executive Director. Sibylle is currently a Non-Executive director of the Australian Energy Market Operator Ltd (AEMO) and Openpay Group Limited (ASX:OPY), and has previously served as Chair of Xenith IP Group Limited (ASX:XIP) and as a Director of Sydney Ports Corporation, Allconnex Water, TasWater, Vector Limited (NZX:VCT), and a trustee of the Royal Botanic Gardens and Domain Trust and Sydney Grammar School.

BCom, CA

Warren Lee – Independent Non-Executive Director

MyState Bank Limited, TPT Wealth Ltd

Group Digital Business Committee (Chair), Group Audit Committee, Group Risk Committee

Warren was appointed as a Non-Executive Director in October 2017. He has extensive experience in the international financial services industry, including 15 years at AXA in senior management positions within the company's Australian and Asian businesses. Warren was previously the 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 MetLife Limited, and is a member of Chartered Accountants Australia and New Zealand.

BA (Hons), MAICD

Vaughn Richtor – Independent Non-Executive Director

MyState Bank Limited, TPT Wealth Ltd

Group Audit Committee, Group Risk Committee, Group People and Remuneration Committee, Group Digital Business Committee

Vaughn was appointed as a Non-Executive Director in September 2019. He has held CEO roles in Asia and is the former CEO of ING DIRECT Australia and CEO Challenger and Growth Countries – Asia, ING Group after joining ING in London in 1991 as Deputy General Manager UK and Ireland. Vaughn is a Non-Executive Director of Rest Super and also a current adviser to both Rhizome and Spriggy. He is a prior Board member of TMB Bank in Thailand, ING Vysya Bank in India, Kookmin Group in Korea, and a Non-Executive Director, and later Chairman, of Ratesetter Australia. In addition, he writes and speaks extensively on leadership, corporate culture, customer centricity and digital banking.

BCom, FCA, GAICD

Andrea Waters – Independent Non-Executive Director

MyState Bank Limited, TPT Wealth Ltd

Group Audit Committee (Chair), Group Risk Committee

Andrea has been a Non-Executive Director since October 2017. She is an experienced Non-Executive Director, auditor and accountant with over 35 years' experience in financial services. She is a Fellow of Chartered Accountants Australia & New Zealand, and both a member and accredited facilitator of the Australian Institute of Company Directors. She is a former partner with KPMG, specialising in financial services audit. Andrea is a Director of Grant Thornton Australia Ltd, Bennelong Funds Management Group, Citywide Service Solutions Pty Ltd, Colonial Foundation and Genworth Mortgage Insurance Australia Limited (GMA). Prior, she was a Director of The Lord Mayor's Charitable Foundation, Chartered Accountants Australia & New Zealand, Cancer Council Victoria, CareSuper and Cash Converters International Limited (CCV).

Key Management Personnel

BCom,
MBA (Executive), FCA

Gary Dickson – Chief Financial Officer

Appointed October 2019

As Chief Financial Officer, Gary is responsible for managing the finance, treasury, regulatory reporting, strategy and property functions for MyState. Gary is also a Director of Connect Asset Management Pty Ltd.

Gary has over 25 years of experience in a variety of financial roles, with 12 years of CFO experience. His most recent position was at ME Bank as CFO, where he drove strong growth in key financial metrics during his six-year tenure. Prior to this, Gary held the position of CFO for AXA Australia for five years. His prior financial services roles include senior positions with the Colonial First State Group, the Investments & Insurance Services division at Commonwealth Bank and Portfolio Partners Limited.

Post DipBusAdm, Post DipBusFin, BCom

Mandakini (Mandy) Khanna – Chief Risk Officer

Appointed December 2015

Mandy is responsible for the management of the financial and non-financial risks of the MyState Limited Group. Mandy and her team are responsible for strengthening risk culture and risk frameworks, building a culture of accountability and sharpening the focus on customer outcomes at MyState.

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

BA Comms

Heather McGovern – General Manager, Digital and Marketing

Appointed March 2019

Heather is the General Manager, Digital and Marketing 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 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.

BEc

Anthony (Tony) MacRae – General Manager, Banking

Appointed February 2019

As General Manager, Banking, 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 role as 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 to this, Tony held key positions with the RAMS/Westpac Group including Acting CEO of RAMS and General Manager, Third Party Distribution for Westpac, as well as senior roles with PMI and Virgin Money Australia.

Tony is a Board member and Treasurer of the Royal Flying Doctor Service, South Eastern Section.

BEng (Hons)

Paul Moss – General Manager, Technology, Operations and Product

Appointed May 2015

As General Manager, Technology, Operations and Product, Paul is responsible for the strategic direction and delivery of MyState Limited Group's back office processing, technology and products.

Paul was previously a Director of IT Advisory at KPMG, following 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. Prior, Paul occupied technical leadership positions in UK-based investment banks.

MBA, MBSc

Craig Mowll – General Manager, Wealth Management

Appointed July 2018

Craig is responsible for the strategic, financial and ongoing management of the MyState Limited Group's Wealth Management division, TPT Wealth Limited, which specialises in Asset Management and Trustee Services.

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 included Director of Distribution, Product and Marketing at Credit Suisse and General Manager of Asset Management, Margin Lending and Stockbroking at St. George Bank.

BCom, MHRM

Janelle Whittle – General Manager, People and Culture

Appointed January 2018

Janelle has overall responsibility for MyState Limited Group's human resources function, 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 20 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

For the year ended 30 June 2020

Your Directors present their report on MyState Limited for the year ended 30 June 2020.

Directors

- **Miles Hampton** BEc (Hons), FCPA, FAICD
  Chairman and independent Non-Executive Director.
- **Melos Sulicich** BBus, GAICD, SA FIN
  Managing Director and Chief Executive Officer – 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 (deceased 20 November 2019)
  Independent Non-Executive Director.
- **Vaughn Richtor** BA (Hons), MAICD (commenced 1 September 2019)
  Independent Non-Executive Director.
- **Andrea Waters** BCom, FCA, GAICD
  Independent Non-Executive Director.

Company Secretary

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

Principal Activities

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

MyState Limited (MyState) provides banking, trustee and managed fund products and services through its wholly-owned subsidiaries MyState Bank Limited (MyState Bank) and TPT Wealth Limited (TPT Wealth).

TPT Wealth, formerly named "Tasmanian Perpetual Trustees Limited", rebranded on 2 December 2019 as part of MyState's transformation of the wealth business. TPT Wealth now has national distribution capability along with new digital products and services. Its principal activities, as listed in the table above, are unchanged, following the divestment of the retail financial planning business on 28 June 2019.

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

Dividends

Dividends paid in the full year ended 30 June 2020 were as follows:

- In respect of the year ended 30 June 2019, a fully franked final dividend of 14.5 cents per share, amounting to $13.204m, was paid on 1 October 2019.
- In respect of the half year ended 31 December 2019, a fully franked dividend of 14.25 cents per share, amounting to $13.036m, was paid on 2 April 2020.

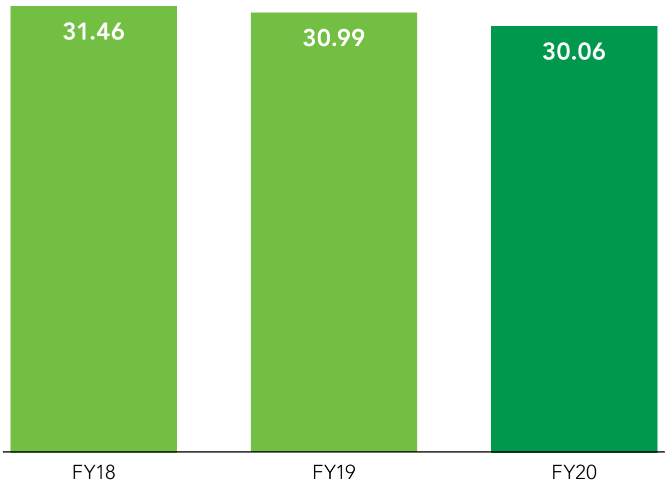
To maintain the Group's strong capital position during the current economic uncertainty, the Board resolved not to pay a final dividend for the year ended 30 June 2020. The dividend of 14.25 cents per share paid in April 2020 represents a payout ratio of 43.4% for the 2020 financial year. Barring unforeseen circumstances, the Directors expect to resume dividends for the first half of the year ending 30 June 2021. In light of the ongoing uncertainty, the Board has resolved to change its dividend policy to a payout ratio of 60-80% of post-tax earnings from the previous range of 70-90%.

Operating and financial review

A strong result by MyState, fuelled by its digital growth strategy and increased penetration of the mainland market

The Group recorded a statutory net profit after income tax (NPAT) for the year ended 30 June 2020 of $30.06m, a fall of 3.0% from $30.99m in the prior corresponding period (pcp) ended 30 June 2019. While NPAT declined on a statutory basis, it rose 0.9% on a continuing operations basis when excluding the profit impact of the sale of the Group's financial planning business on 28 June 2019.

Net Profit after Tax ($m)



Earnings per share decreased by 3.9% to 32.86 cents per share (FY19: 34.17 cents per share) and return on average equity decreased 52bps to 9.16%, but still compares favourably to regional bank peers.

Pre-provision operating profit of $47.9m increased 12.9% on the pcp, driven by improved banking net interest income (NII), up 11.3% to $99.5m. This reflected balance sheet growth, a reduction in retail and wholesale funding costs and disciplined lending and deposit margin management.

The lending environment for owner-occupied home loans remained competitive during the period, exacerbated by slow system credit growth. The total lending book grew $237.4m on the pcp.

Income growth of 7.0% exceeded growth in operating costs (including depreciation and amortisation) of 3.8%. The Group continued to increase its investment in capability, marketing and technology, while the increases in depreciation and amortisation reflects previous IT systems and digital investment. The cost-to-income ratio improved by 195bp to 62.8%.

Statutory net profit after tax included a $4.9m credit impairment expense, the majority of which was an increase in the collective credit loss provision. This increase reflects an uptick in total arrears and the ageing of arrears during the period and a forward looking economic overlay for potential credit losses associated with the economic impact of COVID-19.

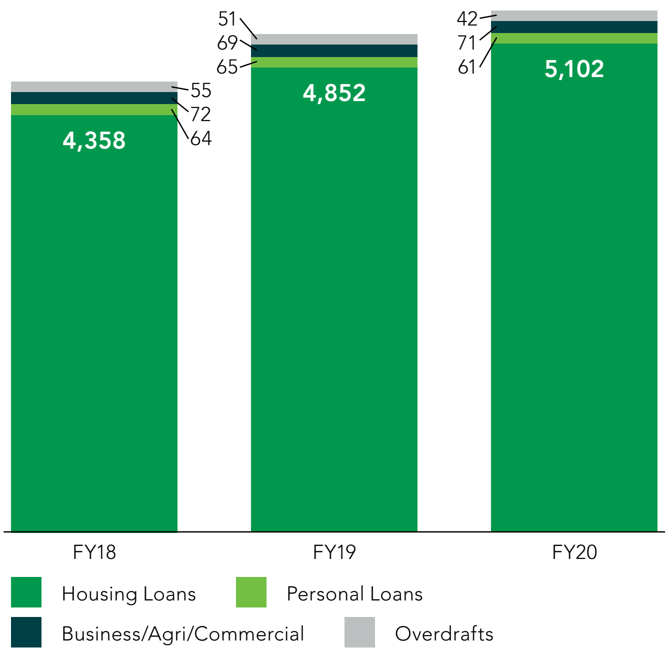
TPT Wealth reported a net profit after income tax for the year ended 30 June 2020 of $3.7m, compared to $3.9m in the pcp (excluding discontinued operations).

During the year, the business continued to invest in its digital transformation, with customers now having access to more streamlined, user-friendly banking products and service. Customers are more supported by digital channels with increasing investment in mobile and internet banking applications, including the recent launch of a new banking service enabling customers to manage their financial affairs more efficiently. The implementation of robotics technology in back-office systems is also increasing efficiency with many previous manual tasks now undertaken daily by robots. This investment has set MyState up as a modern, scalable banking and wealth management company.

The Group is focused on anticipating and meeting the evolving needs of its customers and it is pleasing that this investment in improving customer experience has been recognised in the Group's net promoter score of +48, an increase of +8 on the pcp. The bank welcomed 12,000 new customers during the year which represents an increase of 16% on the pcp.

High credit quality maintained in FY20

Total book composition ($m)



MyState Bank is focused on low risk, owner-occupied lending with a loan-to-valuation ratio of less than 80%.

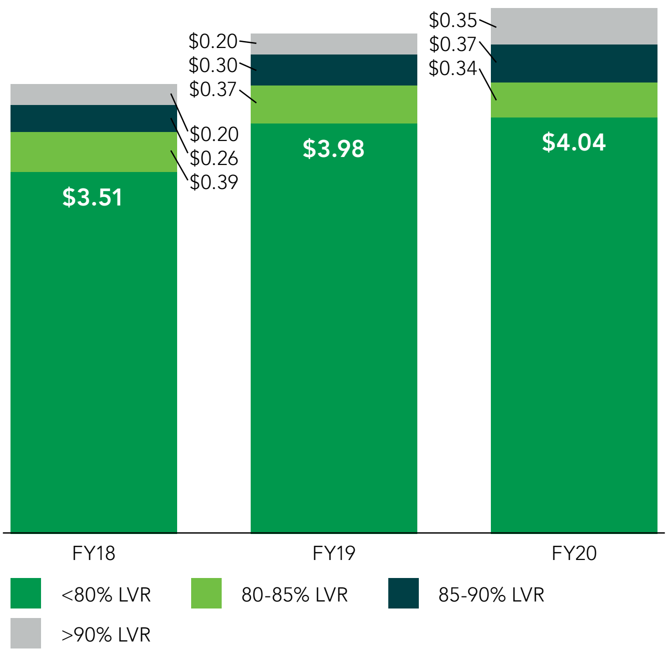
The banking loan portfolio grew 4.7% on pcp, reaching $5,276 million at 30 June 2020.

Although there has been a significant increase in credit loss provisions in the period, a large majority of this is COVID-19 related and the underlying credit quality of the banking portfolio remains strong: 30+ and 90+ days' arrears remain well below industry benchmarks and 79% of the portfolio remains at 80% LVR or less.

Exposure to investor and interest-only lending remains low, with owner-occupied loans representing 79% of the portfolio. Lending momentum in the second half of the financial year was assisted by early and strong uptake of applicants for the Federal Government's First Home Loan Deposit Scheme, and this accounts for the majoirty of the increase in loans with >90% LVR. The scheme supports eligible first home buyers who can purchase a loan with a deposit of 5%, with The National Housing Finance Investment Corporation guaranteeing up to 15% of the value of the property purchased.

During the period, MyState Bank continued to grow its customer base across Australia's east coast with the proportion of home loans outside Tasmania increasing from 58.2% to 60.5% since 30 June 2019. Over recent years, MyState has moved from being a predominantly Tasmanian bank to a national bank, based in Tasmania.

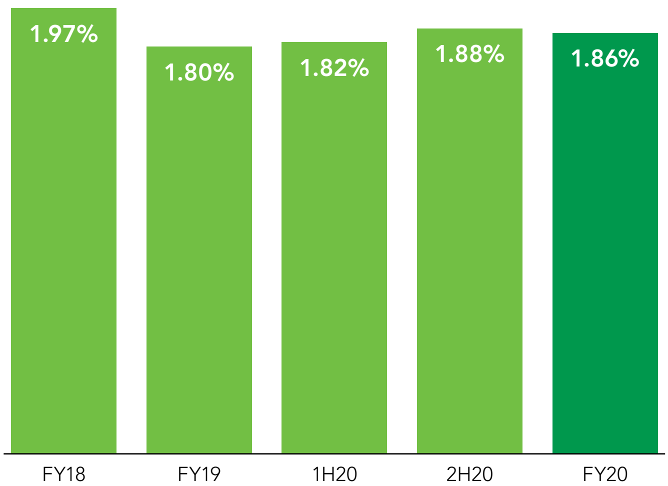
Home loan book – LVR profile ($b)



Focused margin management and favourable funding costs

Net interest margin benefited from significantly lower funding costs, particularly across the second half, with total interest expense falling 21.2% on the pcp, while interest income fell by just 6.8%. Rapidly falling BBSW benchmark rates drove wholesale funding costs lower.

NIM trend



Interest income benefited from a home loan book that was $250m (5.1%) higher than the pcp (with growth in the second half of $198m).

Lending applications of $2.27 billion were 11% higher than the pcp, with settlements of $1.29 billion broadly in line with pcp.

Customer deposits remain important to ensuring a competitive and stable funding base and customer deposits increased $279.9m or 7.6% on the prior period.

The Bank's Bonus Saver account received a five-star rating from Canstar and an Experts Choice Award from Mozo, confirming the product as one of the top in its class. The Bank's Business Online Saver was also awarded an Experts Choice from Mozo for Small Business No Strings Savings.

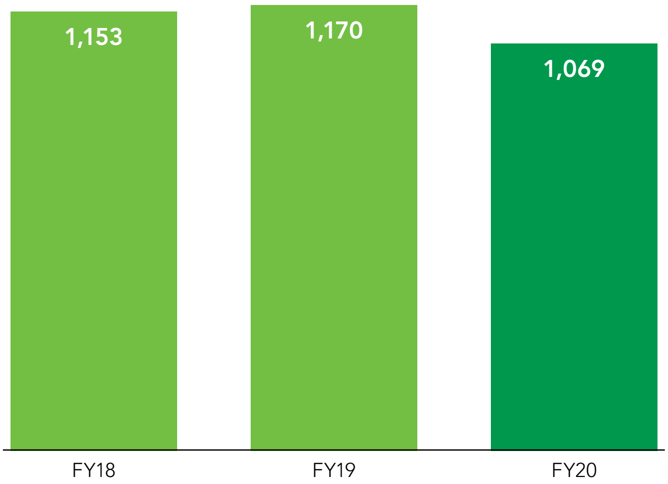
Non-interest income from banking activities

Non-interest income from banking activities was lower than the prior period, reflecting increased uptake of digital products and preferences for lower-cost self-serve functionality.

TPT Wealth's digital transformation

In a significant step, which supports plans for national growth, Tasmanian Perpetual Trustees was re-branded as TPT Wealth and a new investor portal launched which enables investors to manage their investments online.

Funds Under Management ($m)

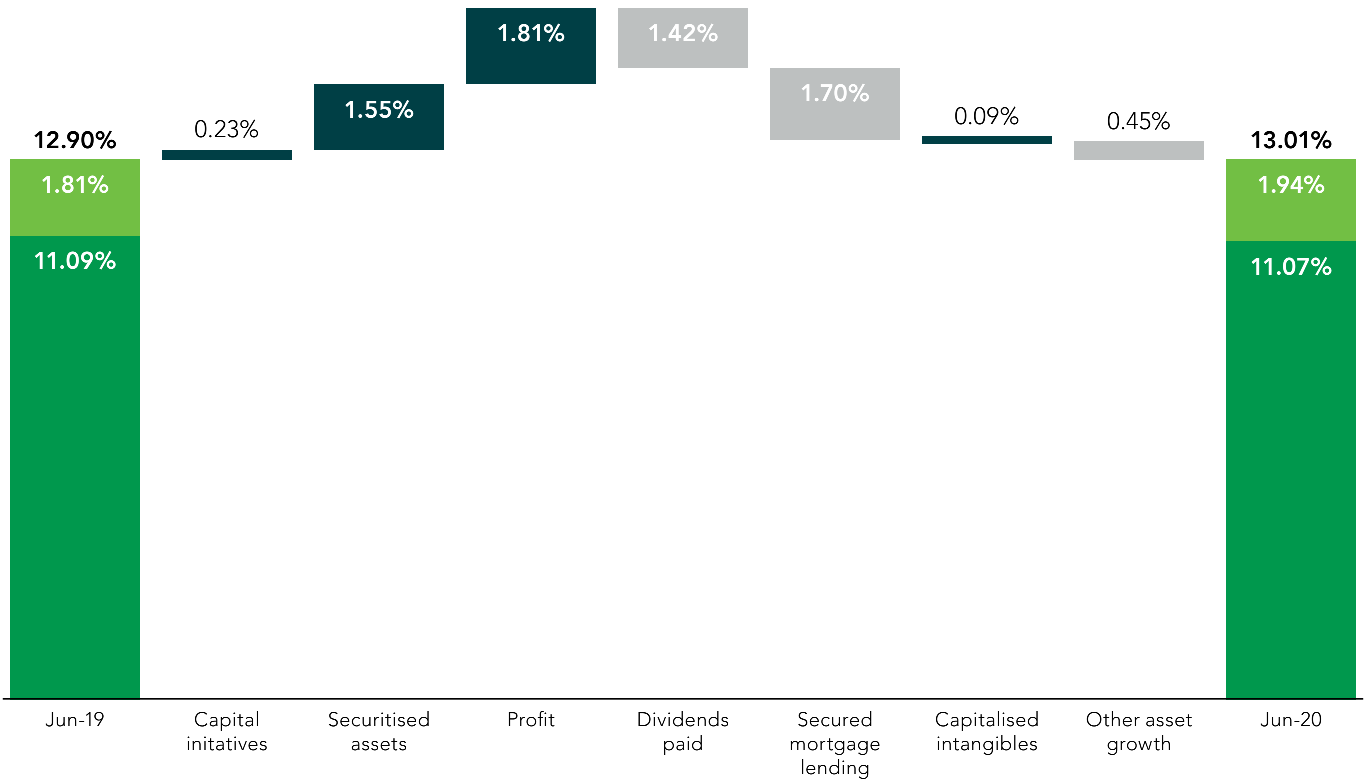


TPT Wealth's revenue from continuing operations increased to $15.6 million, up 2.2% from $15.3 million in the pcp. Funds under management were up 1.5% on pcp until February when a COVID-19 led decline in market sentiment, coupled with a fall in equity markets and subsequent partial recovery, resulted in a closing position of $1.069 billion at 30 June 2020, down 8.6% on pcp.

Strong capital position

The Group has maintained its strong balance sheet with a total capital ratio at 30 June 2020 of 13.01%, 11 basis points higher than at 30 June 2019. The Group's Common Equity Tier 1 capital ratio slightly reduced by 2bps to 11.07%, however remains well positioned to meet the expected changes to APRA's capital standards. Securitisation continues to be used as a key capital management tool to support the Bank's strategy of growing its lending book whilst delivering a stable income return to shareholders.

Capital



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 management culture.

In FY20, the Group activated its Crisis Management Plan and its Pandemic Plan in response to the global COVID-19 pandemic. The Board held a number of additional weekly oversight meetings with a focus on customer and staff safety and well-being, operational resilience, liquidity risk, capital management and credit risk.

In late 2019, with the assistance of an independent expert, the Board initiated a self-assessment report into the effectiveness of MyState Bank's Governance, Culture, Remuneration and Accountability frameworks and practices. The report was initiated in response to APRA's recommendation, following the findings of the Prudential Inquiry into the Commonwealth Bank published in May 2018, that it was good practice for entities which had not been requested to undertake the assessment to undertake one.

The self-assessment identified many strengths possessed by MyState. Commensurate with the size and complexity of the Group, it also provided some opportunities for strengthening the Group's risk management framework and practices, specifically;

- The three lines of defence (LOD) model continues to mature, and enhancements to the Risk Frameworks have been supported by enterprise investment in capability and management systems. There is an opportunity to continue to increase the focus on non-financial risks and also to continue to develop the 1LOD division risk committees;
- MyState continues to develop its risk culture and management of conduct risk, and staff are pro-actively encouraged to identify, report and remediate risk incidents. There is an opportunity to further and more deeply integrate compliance and risk related matters into some decision making processes;
- The remuneration framework has been updated and has adopted the recommendations made by Sedgwick in the Retail Banking Remuneration Review 2017 and to comply with the Banking Executive Accountability Regime (BEAR). There is an opportunity to continue to enhance the processes around the recommendations regarding incentive payments and the communication of the risk adjusted outcomes to remuneration decisions.

Management and the Board are committed to continually enhancing the Risk, Governance and Remuneration frameworks so they remain appropriate for the scale and complexity of the Group. Management consequently has actions in place to address the opportunities for improvement that have been highlighted.

Outlook

MyState continues to build its strategic position with excellent asset quality, modern digital platforms and broader marketing capabilities.

Lending momentum in the second half of FY20 is expected to continue into the first half of FY21. The increase in applications and settlements in the second half was largely influenced by the Government's First Home Loan Deposit Scheme. The roll over into FY21, and top up of scheme enabled funding, will assist growth. Margin management remains 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 focus for FY21 will be to build customer advocacy to further grow the customer base nationally, and to pursue further operating efficiencies.

A multi-year program of work is continuing to transform TPT Wealth. There was substantial restructuring during the year, with fund administration and accounting outsourced and a new digital platform launched. Transitioning into FY21, a new lending system is due to be deployed in August 2020 and a new trustee system, well into the planning stage, is anticipated to be complete by the end of the current calendar year. Replacement of existing legacy systems will create a more efficient and scalable business, providing further revenue diversity and improved returns for investors.

We have a clear organic revenue growth strategy and a significant opportunity to build our business. Superior customer outcomes remain the priority, and following six years of transformation, we are well equipped to grow and prosper in the COVID-19 world.

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

The lead auditor's independence declaration is set out on page 30 and forms part of the Directors' Report for the year ended 30 June 2020.

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.

Events subsequent to balance date

The Group restructured its subordinated notes portfolio, the details of which are disclosed in note 3.1 of the financial statements.

In August 2020 the Group announced the closure of six of its Branch locations, four in Queensland and two in Tasmania. A net financial benefit is anticipated in relation to these closures in FY22.

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 other material item, transactions or event that is likely to significantly affect the operations of the Group.

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

	MYS Board Meetings		Group Audit Committee		Group People and Remuneration Committee		Group Risk Committee		Group Nominations & Corporate Governance Committee		Group Digital Business Committee	
MYS Directors	A	B	A	B	A	B	A	B	A	B	A	B
R Gordon	18	18	n/a	n/a	n/a	n/a	5	5	4	4	4	4
M Hampton	18	18	5	5	5	5	1	1	4	4	2	2
S Kreiger	18	18	n/a	n/a	5	5	5	5	4	4	n/a	n/a
W Lee	17	18	4	5	n/a	n/a	4	5	n/a	n/a	4	4
S Lonie (ceased 17/11/19)	1	4	1	3	0	1	n/a	n/a	n/a	n/a	0	1
V Richtor (appointed 1/9/19)	15	15	3	3	3	4	1	1	n/a	n/a	2	3
M Sulicich	18	18	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A Waters	18	18	5	5	n/a	n/a	5	5	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.

Auditor's Independence Declaration to the Directors of MyState Limited

In relation to our audit of the financial report of MyState Limited for the financial year ended 30 June 2020, 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.

DANNY MCCARTHY

Partner

Wise Lord & Ferguson

Date: 21 August 2020

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Remuneration Report

For the year ended 30 June 2020

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 2020, 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 I Title	Movements in the 2020 Financial Year
Non-Executive Directors	
Miles Hampton I Chairman	
Robert Gordon	
Sibylle Krieger	
Warren Lee	
Stephen Lonie	Deceased 20 November 2019
Vaughn Richtor	Appointed 1 September 2019
Andrea Waters	
Executive Director	
Melos Sulicich I Managing Director and Chief Executive Officer	
Executives	
Gary Dickson I Chief Financial Officer	Appointed 7 October 2019 Commenced role 19 October 2019
David Harradine I Chief Financial Officer	Ceased 25 October 2019
Mandakini Khanna I Chief Risk Officer	
Paul Moss I General Manager Technology, Operations and Product	
Heather McGovern I General Manager Digital and Marketing	
Anthony MacRae I General Manager Banking	
Craig Mowll I General Manager Wealth Management	
Janelle Whittle I 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 good customer outcomes, sustained financial performance, appropriate risk management and maintain the reputation of the Group.

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

- Appropriately balanced measures of employee performance that inform variable performance based pay for Executives and other eligible employees, 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;
- Structuring of the remuneration of risk and financial control personnel, including performance based components, so as not to compromise the independence of these personnel in carrying out their functions;
- Board discretion in the assessment and clawback of Executive incentives as an ultimate means to mitigate unintended consequences of variable pay and to preserve the interests of shareholders and customers; and
- Short term and long term incentive performance criteria being structured within the overall risk management of the Group.

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	2016	2017	2018	2019	2020
Underlying Profit after income tax ($'000)	31,062	30,080	31,461	30,987	30,060
Underlying Earnings per share (cents)	35.52	34.04	34.97	34.17	32.86
Dividends paid ($'000)	24,886	25,042	25,794	26,016	26,241
Share price (dollars)	4.13	4.85	5.01	4.49	3.93
Underlying Return on equity (%)	10.6	10.0	10.1	9.7	9.2
Underlying Cost to income ratio (%)	63.2	65.9	64.0	64.77	62.8

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 performance hurdle thresholds to the delivery of financial and operational objectives and sustained growth in shareholder value.

STI includes both financial and non-financial metrics.

ELTIP performance measures for all offers are weighted equally between relative total shareholder return (TSR) performance and return on equity (ROE). The relative TSR is a measure which incorporates both dividends paid and movements in share prices, whilst the ROE is a measure 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 provides oversight to support the Company in achieving its human resource goals. The Committee reviews and makes recommendations to the Board on:

- Remuneration arrangements for Directors, the Managing Director and other Senior Executives, having regard to comparative remuneration data, 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 Employees.

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

Non-Executive Director Remuneration response to COVID-19

The Board have decided to reduce Non-Executive Director remuneration by 20% for 6 months commencing from 1 May 2020.

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 $110,000 per annum, inclusive of statutory superannuation, and the Chairman receives $236,500 per annum, inclusive of statutory superannuation.

The Chairs of Committees (other than the Board Chair if he or she chairs a Committee) receive an additional $10,000, per annum, inclusive of statutory superannuation.

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 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 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 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 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 2019/2020 financial year and the 2018/2019 financial year are set out in the following tables.

Managing Director and Executive response to COVID-19

Managing Director and Executives have agreed to forfeit any FY20 STI and no salary increases will be awarded to the Managing Director or Executives in the FY20 year-end review process.

Key Management Personnel	% Max (of TFR)	Max. Payable	% Awarded	% Forfeited	$ Amount Paid	% Which is not yet Assessed for Payment
2019/2020						
Melos Sulicich	50%	$312,500	0%	100%	$0	0%
Gary Dickson(1)	30%	$88,110	0%	100%	$0	0%
David Harradine(1)	30%	$37,504	0%	100%	$0	0%
Mandakini Khanna	30%	$117,000	0%	100%	$0	0%
Heather McGovern	30%	$99,000	0%	100%	$0	0%
Anthony MacRae	30%	$117,000	0%	100%	$0	0%
Craig Mowll	30%	$117,000	0%	100%	$0	0%
Paul Moss	30%	$109,500	0%	100%	$0	0%
Janelle Whittle	30%	$87,000	0%	100%	$0	0%
2018/2019						
Melos Sulicich	50%	$312,500	20.85%	79.15%	$65,156	0%
Huw Bough(1)	30%	$60,362	25.27%	74.73%	$15,256	0%
Katherine Dean(1)	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(1)	30%	$28,479	27.20%	72.80%	$7,755	0%
Anthony MacRae(1)	30%	$44,556	25.40%	74.60%	$11,330	0%
Craig Mowll(1)	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%

1) 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 to 30 June in the 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 "2017" offer and post-tax underlying ROE for the "2018" and "2019" offers and statutory ROE which may be adjusted for one off items at the discretion of the Board for the "2020" 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 Executives are required to not hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and may result in forfeiture of the offer and/or dismissal.

Any reward that may be payable to the Managing Director and participating Executives 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.

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 MyState Limited 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 are set out in the following table.

Offer	"2017"	"2018"	"2019"
Performance period	1 July 2017 to 30 June 2020	1 July 2018 to 30 June 2021	1 July 2019 to 30 June 2022
The comparator group		Members of the S&P/ASX300	
Fair value of shares on offer date[1]	Managing Director $2.57 Other Executives $2.44	Managing Director $2.52 Other Executives $2.17	Managing Director $2.49 Other Executives $2.49
Offer date			
– Managing Director	8 November 2017	7 January 2019	28 October 2019
– Other Executives[3]	11 September 2017	7 January 2019	28 October 2019
Value of offer[2]			
– Managing Director	$287,500	$312,500	$312,500
– Other eligible Executives	$800,136	$651,727	$787,664

1) 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.

2) 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.

3) Pro-rata offer made in respect of the "2017" Offer to Janelle Whittle on 13 February 2018. In respect of the "2018" Offer, a pro-rata offer made to Anthony MacRae and Heather McGovern on the 25th of February 2019 and 18th of March 2019 respectively. Pro-rata offer made in respect of the "2019" Offer to Gary Dickson on the 16th of March 2020.

Calculation of the Reward

TSR Component

The ELTIP Offers TSR components will vest on the following basis:

For the 2017, 2018 and 2019 Offers:

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%

For the 2020 Offers:

MYS TSR Relative to the ASX 300	Percentage of the Applicable Reward that will Vest
Below the 25th percentile:	0%
At the 25th percentile	25%
Between the 25th and 75th percentile	Straight line basis between 25% 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 underlying ROE and will be payable on the following basis:

For the 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 and 2019 Offers:

MYS Aggregate Absolute 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 from 50% to 100%
31.50% or above	100%

For the 2020 Offers:

MYS Aggregate Statutory ROE, which may be adjusted for one off items at the discretion of the board, for the Performance Period:	Percentage of the Applicable Reward that will Vest:
Below 27.00%	0%
27.00%	25%
27.00% to 30.00%	Straight line from 25% to 100%
30.00% 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 "2017" offer performance period was completed on 30 June 2020. The "2016" offer performance period was completed on 30 June 2019.

Offer	Name	Component	Maximum Offer	Forfeited/ Lapsed	Vested in the 2019/20 Financial Year	Not yet Assessed for Vesting
			Number of Shares			
"2017" Offer	Melos Sulicich[1]	TSR	29,307	12,485	16,822	–
		ROE	29,307	29,307	–	–
	Huw Bough	TSR	10,092	10,092	–	–
		ROE	10,092	10,092	–	–
	Katherine Dean	TSR	9,786	9,786	–	–
		ROE	9,786	9,786	–	–
	David Harradine	TSR	11,315	11,315	–	–
		ROE	11,315	11,315	–	–
	Mandakini Khanna	TSR	10,551	4,495	6,056	–
		ROE	10,550	10,550	–	–
	Paul Moss	TSR	10,092	4,299	5,793	–
		ROE	10,092	10,092	–	–
	Andrew Polson	TSR	10,092	10,092	–	–
		ROE	10,092	10,092	–	–
	Chris Thornton	TSR	10,245	10,245	–	–
		ROE	10,245	10,245	–	–
	Janelle Whittle[2]	TSR	3,888	1,656	2,232	–
		ROE	3,887	3,887	–	–

Offer	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[2]	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) The awarding of the 2020 offer is subject to shareholder approval subsequent to the publishing of this report.

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

The "2018", "2019" and "2020" offers have not been assessed for vesting. The following table shows the maximum number of shares available under each of these offers:

		"2018" Offer	"2019" Offer	"2020" Offer
Name	Component	Number of Shares		
Melos Sulicich	TSR	32,188	34,036	38,676
	ROE	32,187	34,035	38,675
Katherine Dean[1]	TSR	–	–	–
	ROE	–	–	–
Gary Dickson[2]	TSR	–	9,570	14,852
	ROE	–	9,570	14,851
David Harradine[3]	TSR	11,742	–	–
	ROE	11,742	–	–
Mandakini Khanna	TSR	11,124	12,743	14,480
	ROE	11,124	12,743	14,480
Heather McGovern[4]	TSR	2,934	10,783	12,252
	ROE	2,933	10,782	12,252
Anthony MacRae[4]	TSR	4,590	12,743	14,480
	ROE	4,589	12,743	14,480
Paul Moss	TSR	10,506	11,926	13,552
	ROE	10,506	11,926	13,552
Craig Mowll	TSR	11,556	12,743	14,480
	ROE	11,555	12,743	14,480
Janelle Whittle	TSR	8,961	9,476	10,767
	ROE	8,961	9,475	10,767

1) The "2018" Offer extended to Katherine Dean was forfeited due to less than 12 months of the performance period having been served.

2) Pro-rata offer made for "2019".

3) The "2019" Offer extended to David Harradine was forfeited due to less than 12 months of the performance period having been served.

4) Pro-rata offer made for "2018".

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 may be 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 prescribed 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 be reduced by an amount that is proportionate to the failure or may be cancelled, as determined by the Board.

5. Statutory Tables

$		Salary & Fees	Cash Bonus[1]	Other Short Term Benefits	Non-Monetary Benefits[2]	Post Employment Superannuation	Termination Benefits	Share Based Payment[3]	Total
Non-Executive Directors									
Miles Hampton	2020	201,922	–	–	–	19,183	–	–	221,105
	2019	201,214	–	–	–	19,115	–	–	220,329
Peter Armstrong	2020	–	–	–	–	–	–	–	–
	2019	51,740	–	–	5,000	18,099	–	–	74,839
Robert Gordon	2020	87,449	–	–	–	25,390	–	–	112,839
	2019	87,637	–	–	–	25,407	–	–	113,044
Vaughn Richtor	2020	76,042	–	–	–	7,224	–	–	83,266
	2019	–	–	–	–	–	–	–	–
Sibylle Krieger	2020	101,875	–	–	–	9,678	–	–	111,553
	2019	96,590	–	–	–	9,176	–	–	105,766
Warren Lee	2020	98,933	–	–	–	9,399	–	–	108,332
	2019	94,147	–	–	–	8,944	–	–	103,091
Stephen Lonie	2020	42,731	–	–	–	4,059	–	–	46,790
	2019	100,977	–	–	–	9,593	–	–	110,570
Andrea Waters	2020	100,702	–	–	–	9,567	–	–	110,269
	2019	98,701	–	–	–	9,376	–	–	108,077
Total NED	**2020**	**709,654**	**–**	**–**	**–**	**84,500**	**–**	**–**	**794,154**
	2019	**731,006**	**–**	**–**	**5,000**	**99,710**	**–**	**–**	**835,716**

$		Salary & Fees	Cash Bonus[1]	Other Short Term Benefits	Non-Monetary Benefits[2]	Post Employment Superannuation	Termination Benefits	Share Based Payment[3]	Total
Executives									
Melos Sulicich	2020	600,000	–	–	1,788	25,000	–	80,956	707,744
	2019	599,616	65,156	–	–	25,000	–	64,527	754,299
Huw Bough	2020	–	–	–	–	–	–	3,075	3,075
	2019	219,078	15,256	25,000	–	17,808	–	(4,345)	272,797
Katherine Dean	2020	–	–	–	–	–	–	2,895	2,895
	2019	146,057	–	–	6,916	16,054	–	(4,705)	164,322
David Harradine	2020	149,678	–	–	–	8,365	–	(3,225)	154,818
	2019	354,923	20,950	–	–	25,000	–	21,770	422,643
Mandakini Khanna	2020	355,954	–	–	–	36,409	–	28,010	420,373
	2019	328,662	29,890	–	–	37,964	–	20,505	417,021
Anthony MacRae	2020	365,000	–	–	–	25,000	–	17,469	407,469
	2019	136,173	11,330	–	–	9,327	–	3,701	160,531
Heather McGovern	2020	301,370	–	–	–	28,630	–	14,316	344,316
	2019	84,615	7,755	–	–	8,038	–	2,273	102,681
Paul Moss	2020	339,806	–	–	–	25,001	–	26,399	391,206
	2019	310,432	24,710	–	–	29,491	–	19,452	384,085
Craig Mowll	2020	369,469	–	–	–	20,531	–	21,743	411,743
	2019	333,517	12,874	–	–	20,586	–	11,578	378,555
Janelle Whittle	2020	264,840	–	–	–	25,160	–	18,299	308,299
	2019	248,054	17,160	–	–	24,533	–	11,908	301,655
Gary Dickson	2020	264,219	–	–	–	20,716	–	10,005	294,940
	2019	–	–	–	–	–	–	–	–
Total Executive	**2020**	**3,010,336**	**–**	**–**	**1,788**	**214,812**	**–**	**219,942**	**3,446,878**
	2019	**2,761,127**	**205,081**	**25,000**	**6,916**	**213,801**	**–**	**146,664**	**3,358,589**
Total KMP	**2020**	**3,719,990**	**–**	**–**	**1,788**	**299,312**	**–**	**219,942**	**4,241,032**
	2019	**3,492,133**	**205,081**	**25,000**	**11,916**	**313,511**	**–**	**146,664**	**4,194,305**

1) The cash bonus shown is the actual amount awarded in respect of each financial year's STI offers.

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

3) Share based payment amounts have been calculated in accordance with the relevant accounting policy and Accounting Standard. The fair value of the share grant is calculated at the date of grant and is allocated to each reporting period evenly over the period from grant date to vesting date. This fair value will generally be different to the value of shares at the time they vest. The value disclosed is the portion of the fair value of the share grant allocated to this reporting period. These amounts represent share grants which will only vest to the KMP when certain performance and service criteria are met. In some circumstances all, or a portion, of the shares may never vest to the KMP. As these figures are based on accrual accounting and not a reflection of actual cash paid or shares vested, negative figures can result in the event of accrual reversals being recorded. Amounts stated are in respect of the period that the individual held a role of a KMP.

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 (NED MSR).

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 NED MSR must be achieved within four years of their appointment.

Managing Director Minimum Shareholding Requirement (MD MSR)

In the absence of approval from the Board to the contrary, the MD MSR will apply to the Managing Director. The MD MSR will be 50% of TFR and must be achieved within 4 years of appointment.

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

The Shares in MyState Limited (ASX code: MYS) may be held directly or indirectly, and may include Shares obtained prior to commencement of employment 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.

Related Parties of KMP Shareholdings

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.

Executives (other than Managing Director) Minimum Shareholding Requirements

Minimum shareholding requirements for Executives (other than the Managing Director) were lapsed by the Board on 16 July 2020. The relative size of the remuneration packages at MyState, and the legislative controls via the BEAR are considered sufficient to align the interests of Executives with those of shareholders. Executives continue to be encouraged by the Board to own MyState shares.

Key Management Personnel	Number of Shares at Commencement of Financial Year	Granted as Compensation to be held by the ELTIP trustee[(1)]	Net Change Other	Number of Shares at End of Financial Year	Number of Shares at End of Financial Year held by ELTIP Trustee[(2)]
Non-Executive Directors					
Miles Hampton	721,700	–	28,300	750,000	–
Robert Gordon	25,387	–	1,200	26,587	–
Sibylle Krieger	24,443	–	1,689	26,132	–
Warren Lee	11,972	–	12,032	24,004	–
Vaughn Richtor	–	–	2,500	2,500	–
Andrea Waters	20,665	–	1,428	22,093	–
Sub Total	**804,167**	**–**	**47,149**	**851,316**	**–**
Executives					
Melos Sulicich	96,235	16,822	6,029	119,086	53,910
Anthony MacRae	–	–	–	–	–
Gary Dickson	–	–	–	–	–
Heather McGovern	–	–	–	–	–
Mandakini Khanna	6,287	6,056	221	12,564	12,564
Paul Moss	6,287	5,793	221	12,301	12,301
Janelle Whittle	1,404	2,232	3,310	6,946	2,232
Craig Mowll	–	–	–	–	–
Sub Total	**110,213**	**30,903**	**9,781**	**150,897**	**81,007**

1) These amounts are the shares awarded for the "2017 Offer". The awarding of these shares was approved on 21 August 2020 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.

2) The shares that are held in trust are also shown in the balance at the end of the financial year totals and include those shares yet to be issued to the trustee under the "2017 Offer".

7. Loans to Key Management Personnel

There are no loans guaranteed or secured by the Company to KMP and their related parties in 2020.

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[1]	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.

Directors' Report (continued)

For the year ended 30 June 2020

Incumbent	Commenced in Role	Contract Term	TFR	Short Term Incentive (maximum)	ELTIP (maximum)	Termination Provisions in the Event of Termination by the Company
Gary Dickson	19 October 2019	Ongoing	$400,000	30% of TFR	30% of TFR upon invitation to participate	Notice: Each 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	1 December 2015	Ongoing	$390,000			
Anthony MacRae	12 February 2019	Ongoing	$390,000			
Heather McGovern	18 March 2019	Ongoing	$330,000			
Paul Moss	13 May 2015	Ongoing	$365,000			
Craig Mowll	16 July 2018	Ongoing	$390,000			
Janelle Whittle	22 January 2018	Ongoing	$290,000			

1) Required to hold shares to the value of 50% of TFR.

Signed in accordance with a resolution of the Directors.

Miles Hampton

Chairman

Hobart, dated this 21 August 2020

Melos Sulicich

Managing Director and Chief Executive Officer

Financial Report

For the year ended 30 June 2020

Results for the year

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Financial Report (continued)

For the year ended 30 June 2020

Consolidated Income Statement

	Notes	30 June 2020 $'000	30 June 2019 $'000
Interest income	2.1	**188,330**	202,103
Interest expense (i)	2.1	**(88,808)**	(112,720)
Net interest income		**99,522**	89,383
Non-interest income from banking activities	2.1	**13,699**	15,733
Net banking operating income		**113,221**	105,116
Income from wealth management activities	2.2	**15,636**	15,298
Income from other activities	2.3	**3**	–
Total operating income		**128,860**	120,414
Less: Expenses			
Personnel costs		**37,417**	35,657
Administration costs	2.4	**15,518**	15,131
Technology costs	2.4	**14,751**	13,614
Occupancy costs (i)	2.4	**5,461**	6,060
Marketing costs		**5,250**	4,589
Governance costs		**2,556**	2,944
Total operating expenses		**80,953**	77,995
Profit before impairment and tax expense		**47,907**	42,419
Impairment expense / (recovery) on loans and advances	4.3	**4,921**	(201)
Profit before tax from continuing operations		**42,986**	42,620
Income tax expense	7.1	**12,926**	12,842
Profit for the year from continuing operations		**30,060**	29,778
Discontinued operations			
Profit after tax for the year from discontinued operations	6.1	**–**	1,209
Profit for the year		**30,060**	**30,987**
Profit attributable to the:			
Equity holders of MyState Limited		**30,060**	30,987
Basic earnings per share (cents per share)	2.5	**32.86**	34.17
Diluted earnings per share (cents per share)	2.5	**32.86**	34.17

(i) The current year balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

	Notes	30 June 2020 $'000	30 June 2019 $'000
Profit for the year		**30,060**	30,987
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – Net gains / (losses) taken to equity		**(184)**	(400)
Income tax effect		**55**	120
Items that will not be reclassified subsequently to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income		**(1,000)**	–
Total other comprehensive income / (expense) for the year		**(1,129)**	(280)
Total comprehensive income for the year		**28,931**	30,707
Total comprehensive income for the year is attributable to:			
Equity holders of MyState Limited		**28,931**	30,707

The accompanying notes form part of these financial statements.

Financial Report (continued)

For the year ended 30 June 2020

Consolidated Statement of Financial Position

	Notes	30 June 2020 $'000	30 June 2019 $'000
Assets			
Cash and liquid assets	4.1	**116,502**	79,994
Due from other financial institutions		**34,615**	27,168
Other assets		**6,762**	7,405
Financial instruments	4.2	**542,565**	450,333
Loans and advances	4.3	**5,286,114**	5,053,091
Property, plant and equipment and right-of-use assets (i)	5.1	**19,491**	5,779
Deferred tax assets	7.1	**5,286**	4,133
Intangible assets and goodwill	5.2	**84,471**	84,979
Total assets		**6,095,806**	5,712,882
Liabilities			
Due to other financial institutions		**25,617**	38,180
Deposits and other borrowings including subordinated notes	4.5	**5,704,778**	5,331,516
Employee benefits provisions	5.3	**5,674**	5,384
Other liabilities (i)	4.6	**21,165**	7,092
Tax liabilities	7.1	**4,250**	3,211
Total liabilities		**5,761,484**	5,385,383
Net assets		**334,322**	327,499
Equity			
Share capital	5.4	**152,775**	148,707
Retained earnings		**182,449**	178,629
Reserves		**(902)**	163
Total equity		**334,322**	327,499

(i) The current year balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital $'000	Retained earnings $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Other reserves $'000	Total $'000
At 1 July 2018		145,380	174,996	483	(197)	–	320,662
Impact of adoption of new accounting standards		–	(1,338)	–	–	–	(1,338)
Restated opening total equity		145,380	173,658	483	(197)	–	319,324
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 / from retained earnings		–	–	–	–	–	–
Dividends paid	2.6	–	(26,016)	–	–	–	(26,016)
At 30 June 2019		148,707	178,629	640	(477)	–	327,499
At 1 July 2019		**148,707**	**178,629**	**640**	**(477)**	**–**	**327,499**
Profit for the year		**–**	**30,060**	**–**	**–**	**–**	**30,060**
Other comprehensive income / (expense)		**–**	**–**	**–**	**(129)**	**(1,000)**	**(1,129)**
Total comprehensive income for the year		**–**	**30,060**	**–**	**(129)**	**(1,000)**	**28,931**
Equity issued under employee share scheme	5.4	**88**	**–**	**–**	**–**	**–**	**88**
Equity issued under executive long term incentive plan	5.4	**170**	**–**	**(170)**	**–**	**–**	**–**
Equity issued under dividend reinvestment plan	5.4	**3,810**	**–**	**–**	**–**	**–**	**3,810**
Share based payment expense recognised		**–**	**–**	**234**	**–**	**–**	**234**
Transfer to retained earnings		**–**	**–**	**–**	**–**	**–**	**–**
Dividends paid	2.6	**–**	**(26,240)**	**–**	**–**	**–**	**(26,240)**
At 30 June 2020		**152,775**	**182,449**	**704**	**(606)**	**(1,000)**	**334,322**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

	Notes	30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Interest received		**202,671**	214,453
Interest paid		**(96,054)**	(107,476)
Fees and commissions received		**26,893**	32,026
Other non-interest income received		**3,400**	1,224
Payments to suppliers and employees (i)		**(76,162)**	(76,409)
Income tax paid		**(12,989)**	(14,306)
(Increase)/decrease in operating assets:			
Due from other financial institutions		**(8,581)**	(1,982)
Financial instruments		**(93,615)**	(43,869)
Loans and advances		**(251,207)**	(501,783)
Increase/(decrease) in operating liabilities:			
Due to other financial institutions		**(2,022)**	1,679
Deposits and other borrowings including subordinated notes		**371,464**	533,314
Net cash flows from / (used in) operating activities	4.1	**63,798**	36,871
Cash flows from investing activities			
Purchase of intangible assets		**(4,425)**	(4,934)
Proceeds from sale of property, plant and equipment		**11**	39
Purchase of property, plant and equipment		**(637)**	(610)
Proceeds from sale of discontinued operations		**–**	3,398
Net cash flows from / (used in) investing activities		**(5,051)**	(2,107)
Cash flows from financing activities			
Employee share issue		**88**	81
Subordinated notes		**110**	118
Dividends paid net of dividend reinvestment plan	2.6	**(22,437)**	(22,845)
Net cash flows from / (used in) financing activities		**(22,239)**	(22,646)
Net increase / (decrease) in cash held		**36,508**	12,118
Cash at beginning of financial year		**79,994**	67,876
Closing cash carried forward	4.1	**116,502**	79,994

(i) The current year balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

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 address of its registered office and principal place of business is 137 Harrington Street, Hobart Tasmania 7000. The consolidated financial statements of MyState Limited and its subsidiaries (the Group) were authorised for issue by the Directors on 21 August 2020.

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*, Australian Accounting Standards and Interpretations, and other requirements of the law. The financial report complies with Australian equivalents to International Financial Reporting Standards ("AIFRS").

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, comparative 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 judgement

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

- 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 4.7;
- Impairment assessment of intangibles and goodwill, refer note 5.2;
- Recoverability of deferred tax assets, refer note 7.1; and
- Application of newly adopted standard AASB 16 *Leases*, refer note 9.4 (iii).

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 2020 $'000	30 June 2019 $'000
Interest income		
Loans and advances	**180,914**	190,352
Investment securities	**7,416**	11,751
Total interest income	**188,330**	202,103
Interest expense		
At call deposits	**11,450**	13,957
Fixed term deposits	**76,150**	98,763
Financing cost – leases (i)	**1,208**	–
Total interest expense	**88,808**	112,720
Non-interest income from banking activities		
Transaction fees	**4,513**	5,164
Loan fees	**4,462**	4,839
Banking commissions	**3,018**	4,035
Other banking operations income	**1,706**	1,695
Total non-interest income from banking activities	**13,699**	15,733

(i) The current period balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

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, and therefore effect 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 2020 $'000	30 June 2019 $'000
Funds management income	**10,315**	10,242
Other fees and commissions	**5,321**	5,056
Total income from wealth management activities	**15,636**	15,298

Funds management income and fiduciary activities

TPT Wealth Limited, a controlled entity of the Group, acts as Responsible Entity, Trustee and Funds Manager for nine managed investment schemes. The investment schemes place monies with external wholesale fund managers, direct mortgages and mortgaged backed securities, term deposits and other investments. The clients include 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 is 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 2020 $'M	30 June 2019 $'M
Funds under management	**1,069**	1,170
Funds under advice	**402**	438

Other fees and commissions

TPT Wealth 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 income type 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 income type 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.

2.3 Income from other activities

	30 June 2020 $'000	30 June 2019 $'000
Profit on sale of property, plant and equipment assets	**3**	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 30 June 2020

2.4 Expenses

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

	30 June 2020 $'000	30 June 2019 $'000
Occupancy costs include:		
Operating lease payments (i)	**379**	4,153
Depreciation – right of use lease assets (i)	**3,254**	–
Depreciation – buildings and leasehold improvements	**482**	767
Technology costs include:		
Amortisation – computer software	**4,874**	4,354
Administration costs include:		
Loss on disposal of property, plant and equipment assets	**146**	8
Depreciation – furniture, equipment and computer hardware	**322**	375

(i) The current period balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

Expense accounting policy

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 and right-of-use assets 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
Right-of-use assets	2-15 years

Each year the useful life of assets are evaluated. The remaining useful life of select core banking systems has been revised and extended in the current year as the Group has implemented significant increased functionality and, in turn, longevity of these sytems over their initial capacity. The revised remaining useful life is within the above stated parameters however the total life since original core system implementation is in excess of the above stated lives in some instances.

2.5 Earnings per share

	30 June 2020 cents	30 June 2019 cents
Basic earnings per share from continuing operations	**32.86**	32.84
Basic earnings per share from discontinued operations	**–**	1.33
Total basic earnings per share	**32.86**	34.17
Diluted earnings per share from continuing operations	**32.86**	32.84
Diluted earnings per share from discontinued operations	**–**	1.33
Total diluted earnings per share	**32.86**	34.17

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	**91,491,358**	90,676,336

2.6 Dividends

	Date of payment	30 June 2020 $'000	30 June 2019 $'000
Dividends paid			
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
2019 Final dividend paid – 14.5 cents per share	1 Oct 2019	**13,204**	–
2020 Interim dividend paid – 14.25 cents per share	2 Apr 2020	**13,036**	–
Total dividends paid		**26,240**	26,016

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

	30 June 2020 $'000	30 June 2019 $'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%	**67,568**	65,666
Franking credits that will arise from the payment of income tax payable at the end of the period	**2,314**	682

There have been no dividends declared since the end of the financial year.

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 $1.069 billion (2019: $1.170 billion) in funds under management on behalf of personal, business and wholesale investors as the responsible entity for nine managed investment schemes. The Wealth Management division is conducted by TPT Wealth Limited which 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 division is responsible for the governance of the Group. The corporate division 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 2020				
Interest income	188,105	182	43	188,330
Interest expense	(88,800)	(1)	(7)	(88,808)
Other income				
Transaction fees	4,513	–	–	4,513
Loan fee income	4,462	–	–	4,462
Banking commissions	3,018	–	–	3,018
Other banking operations income	1,914	–	(208)	1,706
Funds management income	–	10,315	–	10,315
Other wealth management fees and commissions	–	5,321	–	5,321
Income from other activities	515	–	(512)	3
Total operating income	113,727	15,817	(684)	128,860
Expenses				
Personnel costs	27,267	6,107	4,043	37,417
Administration costs	19,272	2,951	(6,705)	15,518
Technology costs	14,067	563	121	14,751
Occupancy costs	5,070	359	32	5,461
Marketing costs	4,878	349	23	5,250
Governance costs	604	104	1,848	2,556
Impairment expense / (recovery)	4,888	33	–	4,921
Income tax expense	11,335	1,610	(19)	12,926
Segment profit for the year	26,346	3,741	(27)	30,060
Segment balance sheet information				
Segment assets	6,056,509	25,195	14,102	6,095,806
Segment liabilities	5,795,422	2,183	(36,121)	5,761,484

Notes to the Consolidated Financial Statements
(continued)

For the year ended 30 June 2020

	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

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 Limited and 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) and ConQuest 2010-1R.

Level 2 is comprised of the wider MyState Limited prudential group. This group includes MyState Limited (the non-operating holding company), MyState Bank Limited, Connect Asset Management Limited (the Securitisation programme Manager) and ConQuest 2010-1R.

All entities that are consolidated for accounting purposes are included within the Level 2 regulatory capital calculation except for certain securitisation vehicles and TPT Wealth 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 TPT Wealth Limited. 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. 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 is detailed in the following table:

	30 June 2020 $'000	30 June 2019 $'000
Qualifying capital		
Common equity tier 1 capital		
Paid-up ordinary share capital	**152,775**	148,708
Retained earnings	**197,231**	189,669
Reserves excluding general reserve for credit losses	**(310)**	640
Total common equity tier 1 capital	**349,696**	339,017
Less: Regulatory adjustments		
Deferred expenditure including deferred tax assets	**20,728**	24,804
Goodwill and intangibles	**72,006**	49,760
Other deductions	**42,297**	58,875
Total regulatory adjustments	**135,031**	133,439
Net common equity tier 1 capital	**214,665**	205,578
Tier 2 capital		
Subordinated notes (i)	**30,769**	30,929
General reserve for credit losses	**6,826**	2,749
Total capital	**252,260**	239,256
Risk weighted assets	**1,939,372**	1,854,273
Capital adequacy ratio	**13.01%**	12.90%

(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 had a term of 10 years to 14th August 2025, and paid interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 5% per annum. The issuer redeemed these notes on 14 August 2020 having obtained APRA's prior written approval.

On the 10th July 2020, the Group issued $25 million of floating rate subordinated notes ("notes"). The issuer was MyState Limited. The notes have a term of 10 years, maturing 10 July 2030, and pay interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 4.35% per annum. The issuer has the option to redeem these notes on 10 July 2025 and each quarterly interest payment date thereafter, and for certain regulatory events (in each case subject to APRA's prior written approval). On the same date, and with the same terms, MyState Bank Limited issued $25 million of floating rate subordinated notes to MyState Limited with terms identical to those issued by MyState Limited.

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 28th 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. For the notes issued on 14th August 2015 and 28th September 2016, 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%.

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 in the Statement of Financial Position, 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 2020 $'000	30 June 2019 $'000
Cash and liquid assets	**116,502**	79,994
Due from other financial institutions	**34,615**	27,168
Other assets	**6,762**	7,405
Financial instruments	**542,565**	450,333
	700,444	564,900
Loans and advances	**5,286,114**	5,053,091
Customer commitments (i)	**147,881**	112,999
Maximum exposure to credit risk	**6,134,439**	5,730,990

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

	30 June 2020 $'000	30 June 2019 $'000
Credit quality of financial assets		
Financial assets other than loans and advances at amortised cost		
Equivalent S&P rating A+ and above	**382,699**	310,243
Equivalent S&P rating A- and below	**317,745**	254,657
Loans and advances at amortised cost		
New Facilities – not closely monitored	**1,304,934**	1,370,251
New Facilities – closely monitored	**591**	1,116
Continuing facilities – not closely monitored	**3,954,565**	3,661,887
Continuing facilities – closely monitored	**26,024**	19,837
Total on balance sheet exposure to credit risk	**5,986,558**	5,617,991

Loans and advances at amortised cost past due analysis

Not past due (i)	**5,254,085**	5,030,186
Past due but by:		
31 to 60 days	**8,889**	7,461
61 to 90 days	**4,750**	2,658
More than 90 days	**18,390**	12,786
Total loans and advances at amortised cost	**5,286,114**	5,053,091
Estimate of collateral held against past due assets	**45,027**	34,033

(i) There is $536.358 million within this balance of borrowers that have been meeting their repayment obligations and have applied for payment deferrals as a result of COVID-19. These loans are not considered "past due" by the Group.

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 2020 $'000	30 June 2019 $'000
Tasmania	**2,131,726**	2,160,122
Victoria	**918,936**	856,584
New South Wales	**1,105,970**	1,084,744
Queensland	**962,515**	787,477
Western Australia	**76,999**	79,966
Australian Capital Territory	**50,149**	40,498
South Australia	**41,088**	41,009
Northern Territory	**5,668**	5,055
Gross loans and advances at amortised cost	**5,293,051**	5,055,455

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 are subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rates 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 2020 $'000	30 June 2019 $'000
Value at risk (post-tax) based on historic data		
Average	**1,533**	952
Minimum	**1,076**	795
Maximum	**2,111**	1,249

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 hedge's 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 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.

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.

On the 19th of March 2020 the RBA established a Term Funding Facility (TFF) that offered ADI's three-year funding at a rate of 0.25% per annum to support the Australian economy through COVID-19. MyState Bank, the Group's ADI, has been granted an allowance of $109.032 million which may be drawn down until 30 September 2020. The drawn amount as at the reporting date of $29.989 million is reported within "term deposits". Funding obtained under the TFF has been secured by $35.620 million of eligible asset backed self-securitisation.

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
2020						
At call deposits	**1,986,905**	**–**	**–**	**–**	**–**	**1,986,905**
Due to other financial institutions	**–**	**25,617**	**–**	**–**	**–**	**25,617**
Term deposits	**–**	**1,025,116**	**920,749**	**38,756**	**–**	**1,984,621**
Negotiable certificates of deposit	**–**	**219,096**	**9,965**	**–**	**–**	**229,061**
Subordinated notes	**–**	**427**	**1,281**	**6,830**	**35,710**	**44,248**
Securitisation liabilities	**–**	**92,130**	**276,391**	**1,206,010**	**–**	**1,574,531**
Contractual amounts payable	**1,986,905**	**1,362,386**	**1,208,386**	**1,251,596**	**35,710**	**5,844,983**
Derivative liability	**–**	**122**	**1,410**	**8,753**	**–**	**10,285**
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	–	313,331	52,994	–	–	366,325
Subordinated notes	–	551	1,653	8,816	38,152	49,172
Securitisation liabilities	–	84,831	254,493	1,144,969	–	1,484,293
Contractual amounts payable	**1,592,811**	**1,300,856**	**1,455,885**	**1,178,184**	**38,152**	**5,565,888**
Derivative liability	**–**	**95**	**960**	**7,722**	**–**	**8,777**

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 2020			30 June 2019		
	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	**116,502**	**–**	**116,502**	79,994	–	79,994
Due from other financial institutions	**34,615**	**–**	**34,615**	27,168	–	27,168
Other assets	**6,762**	**–**	**6,762**	7,405	–	7,405
Financial instruments	**313,261**	**229,304**	**542,565**	295,956	154,377	450,334
Loans and advances (i)	**69,741**	**5,216,373**	**5,286,114**	89,100	4,963,991	5,053,091
Total financial assets	**540,881**	**5,445,677**	**5,986,558**	**499,623**	**5,118,368**	**5,617,992**
Financial liabilities						
Due to other financial institutions	**(25,617)**	**–**	**(25,617)**	(38,180)	–	(38,180)
Other liabilities	**(21,165)**	**–**	**(21,165)**	(7,092)	–	(7,092)
Deposits	**(3,895,668)**	**(304,919)**	**(4,200,587)**	(3,969,844)	(24,398)	(3,994,242)
Subordinated notes	**–**	**(34,808)**	**(34,808)**	–	(34,698)	(34,698)
Securitisation liabilities	**(368,521)**	**(1,100,862)**	**(1,469,383)**	(296,987)	(1,005,589)	(1,302,576)
Total financial liabilities	**(4,310,971)**	**(1,440,589)**	**(5,751,560)**	**(4,312,103)**	**(1,064,685)**	**(5,376,788)**
Net contractual amounts receivable / (payable)	**(3,770,090)**	**4,005,088**	**234,998**	**(3,812,480)**	**4,053,683**	**241,204**

(i) Contractual recovery is subject to evolving regulatory and industry support for counterparties requesting such support, as at the reporting date, the primary support provided to borrowers is repayment deferral periods.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 30 June 2020

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 2020			30 June 2019		
	Average balance $'000	Interest $'000	Average rate %	Average balance $'000	Interest $'000	Average rate %
Average assets and interest income						
Interest-earning assets						
Cash and liquid assets	**94,219**	**241**	**0.26%**	67,178	370	0.55%
Financial instruments	**494,983**	**7,175**	**1.45%**	425,122	11,381	2.68%
Loans and advances (i)	**4,873,672**	**180,914**	**3.71%**	4,481,845	190,352	4.25%
Total average interest-earning assets	**5,462,874**	**188,330**	**3.45%**	**4,974,145**	**202,103**	**4.06%**
Non-interest earning assets	**145,239**	**–**	**–**	102,811	–	–
Total average assets	**5,608,113**	**188,330**	**3.36%**	**5,076,956**	**202,103**	**3.98%**
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits and derivatives	**4,033,629**	**54,751**	**1.36%**	3,550,144	72,419	2.04%
Notes and bonds on issue	**1,457,203**	**32,849**	**2.25%**	1,193,405	40,301	3.38%
Total average interest-bearing liabilities	**5,490,832**	**87,600**	**1.60%**	**4,743,549**	**112,720**	**2.38%**
Non-interest bearing liabilities	**53,338**	**–**	**–**	46,903	–	–
Total average liabilities	**5,544,170**	**87,600**	**1.58%**	**4,790,452**	**112,720**	**2.35%**
Reserves	**310,388**	**–**	**–**	302,877	–	–
Total average liabilities and reserves	**5,854,559**	**87,600**	**1.50%**	**5,093,329**	**112,720**	**2.21%**

(i) The offset account average balance included in Loans and advances is $264.109m (Jun 19: $263.897m)

4.1 Cash and liquid assets

	30 June 2020 $'000	30 June 2019 $'000
Notes, coins and cash at bank	**110,831**	66,972
Other short term liquid assets	**5,671**	13,022
Total cash and liquid assets	**116,502**	79,994
Reconciliation of profit for the year to net cash provided by operating activities		
Profit for the year	**30,060**	30,987
Add / (less) items classified as investing / financing activities or non-cash items:		
Depreciation of property, plant and equipment	**804**	1,142
Amortisation of intangible assets	**4,874**	4,354
Gain on disposal of discontinued operations	**–**	(1,544)
Loss / (gain) on sale of equipment	**143**	(8)
Bad and doubtful debts expense net of recoveries	**4,921**	(41)
Share based payment	**234**	157
Tax movement within reserves	**55**	769
Changes in assets and liabilities		
Decrease / (increase) in due from other financial institutions	**(43,070)**	44,097
Decrease / (increase) in loans and advances	**(237,944)**	(500,668)
Decrease / (increase) in financial instruments	**(93,416)**	(43,869)
Decrease / (increase) in other assets	**1,331**	–
Decrease / (increase) in deferred tax assets	**(1,153)**	(185)
Increase / (decrease) in due to other financial institutions	**(13,138)**	3,562
Increase / (decrease) in deposits and other borrowings including subordinated notes	**408,772**	499,881
Increase / (decrease) in employee benefits provisions	**291**	(50)
Increase / (decrease) in tax liabilities	**1,034**	(1,713)
Net cash flows used in operating activities	**63,798**	36,871

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.

Where operational income and expense accruals and prepayments are included in the above line items, the movements will differ between the statement of financial position and the disclosure in this note.

4.2 Financial instruments

	30 June 2020 $'000	30 June 2019 $'000
Financial instruments at amortised cost		
Negotiable certificates of deposits	**298,616**	204,115
Term deposits	**35,700**	35,700
Floating rate notes	**207,178**	208,611
Other deposits	**2,117**	1,699
Total financial instruments at amortised cost	**543,611**	450,125
Financial instruments at fair value		
Derivatives	**(1,046)**	(792)
Other financial instruments at fair value	**–**	1,000
Total financial instruments	**542,565**	450,333

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 4.7 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 Group 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 2020 $'000	30 June 2019 $'000
Classification of loans and advances at amortised cost		
Residential loans secured by mortgage	**5,119,511**	4,870,272
Personal loans and unsecured overdrafts	**67,351**	74,752
Overdrafts secured by mortgage	**35,398**	41,068
Commercial loans	**70,791**	69,363
Total loans and advances at amortised cost	**5,293,051**	5,055,455
Specific provision for impairment	**305**	266
Collective provision for impairment	**6,632**	2,098
Total loans and advances at amortised cost net of provision for impairment	**5,286,114**	5,053,091

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 2020 $'000	30 June 2019 $'000
Specific provision for impairment		
Opening balance	**266**	222
Net specific provision funding	**39**	514
Write-off of previously provisioned facilities	**–**	(470)
Closing balance of specific provision for impairment	**305**	266
Collective provision for impairment		
Opening balance	**2,098**	2,271
Net collective provision funding	**4,595**	(173)
Write-off of previously provisioned facilities	**(61)**	–
Closing balance of collective provision for impairment	**6,632**	2,098
Charge to profit for impairment on loans and advances		
Increase / (decrease) in specific provision for impairment	**39**	44
Increase / (decrease) in collective provision for impairment	**4,595**	(173)
Bad debts recovered	**(831)**	(932)
Bad debts written off directly	**1,118**	1,020
Less charge related to discontinued operation	**–**	(160)
Total impairment (recovery) / expense on loans and advances	**4,921**	(201)

The Group has undertaken a review of the expected credit loss of its lending portfolios against relevant specific economic conditions triggered by COVID-19. The review considered the macroeconomic outlook, customer credit quality, the quality of collateral held, exposure at default and the effect of payment deferral options as at the reporting date. These model inputs including forward-looking information have been revised in recognition that COVID-19 is the key driver of forward looking information. Whilst the inputs have been revised, the underlying methodology for calculating the ECL is consistently applied in the current and comparative period as described in the 'Impairment of financial assets accounting policy' presented below.

In arriving at the reported ECL, the following assumptions have been considered the more probable outcome as at the reporting date:

- Australian unemployment rates of approximately 9% recovering to pre-COVID-19 levels by the 2022 calendar year.
- House prices decline by 7% in the 2021 financial year and recovering to pre-COVID-19 levels by the 2022 calendar year.
- The Reserve Bank of Australia maintaining the current cash rate of 0.25% until 2023.

Future economic conditions that result in outcomes that differ from the current estimate are possible and will be accounted for in future periods.

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 a specific provision and a collective provision.

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

All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment. The 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.

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 nominal 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.

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.

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

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 its 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.

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 carrying 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.

	30 June 2020 $'000	30 June 2019 $'000
Transferred financial assets:		
Loans and advances	**541,940**	468,506
Associated financial liabilities		
Securitisation liabilities to external investors	**528,081**	435,200

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.

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For the year ended 30 June 2020

4.5 Deposits and other borrowings including subordinated notes

	30 June 2020 $'000	30 June 2019 $'000
Deposits		
At call deposits	**1,986,905**	1,592,811
Term deposits	**1,984,621**	2,035,107
Negotiable certificates of deposit	**229,061**	366,324
Total deposits	**4,200,587**	3,994,242
Other borrowings		
Subordinated notes (i)	**34,808**	34,698
Securitisation liabilities	**1,469,383**	1,302,576
Total deposits and other borrowings including subordinated notes	**5,704,778**	5,331,516
Concentration of deposits:		
Customer deposits	**3,941,537**	3,661,618
Wholesale deposits	**259,050**	332,624
Subordinated notes (i)	**34,808**	34,698
Securitisation liabilities	**1,469,383**	1,302,576
Total deposits	**5,704,778**	5,331,516

(i) Refer to note 3.1 (i) 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 Other liabilities

	30 June 2020 $'000	30 June 2019 $'000
Trade payables and related accruals	**6,502**	7,092
Lease liabilities (i)	**14,663**	–
Total other liabilities	**21,165**	7,092

(i) The current period balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

Lease liabilities

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate).

Lease payments are allocated between principal and interest expense. Interest expense is recognised as a financing cost within interest expense (refer note 2.1) in the income statement over the lease period. Any variable lease payments not included in the measurement of the lease liability are also recognised in the income statement in the period in which the event or condition that triggers those payments occurs. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in lease term, an assessment of an option to purchase the underlying asset, an index or rate, or a change in the estimated amount payable under a residual value guarantee. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the Right-of-use (ROU) asset, or, in the income statement, where the carrying value of the ROU asset has been fully written down. The ROU asset is recorded in property, plant and equipment and right-of-use assets (refer to note 5.1).

4.7 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 value of financial assets and financial liabilities which are carried at amortised cost is:

	30 June 2020		30 June 2019	
	Carrying value $'000	Net fair value $'000	Carrying value $'000	Net fair value $'000
Financial assets				
Financial instruments	**543,611**	**543,339**	450,125	451,903
Loans and advances	**5,286,114**	**5,295,507**	5,053,091	5,043,730
Total financial assets	**5,829,725**	**5,838,846**	**5,503,216**	**5,495,633**
Financial liabilities				
Deposits	**4,200,587**	**4,203,504**	3,994,242	3,992,342
Other borrowings including subordinated notes	**1,504,191**	**1,504,191**	1,337,274	1,337,274
Total financial liabilities	**5,704,778**	**5,707,695**	**5,331,516**	**5,329,616**

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
2020				
Financial assets				
Financial instruments	**–**	**543,339**	**–**	**543,339**
Loans and advances	**–**	**–**	**5,295,507**	**5,295,507**
Financial liabilities				
Deposits	**–**	**4,203,504**	**–**	**4,203,504**
Other borrowings including subordinated notes	**–**	**1,504,191**	**–**	**1,504,191**
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

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 and right-of-use assets

	30 June 2020 $'000	30 June 2019 $'000
Land and buildings		
At revalued amount	**12,890**	12,758
Accumulated depreciation	**(8,202)**	(7,734)
	4,688	5,024
Plant and equipment		
At cost	**5,395**	5,044
Accumulated depreciation	**(4,567)**	(4,289)
	828	755
Right-of-use assets – land and buildings (i)		
At cost	**16,429**	–
Accumulated depreciation	**(2,454)**	–
	13,975	–
Total property, plant and equipment	**19,491**	5,779

(i) The current period balance reflects the application of AASB 16 *Leases*, comparatives have not been restated as permitted by the standard. Refer to Note 9.4 (iii).

Property, plant and equipment accounting policy

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.

Plant and equipment and right-of-use (ROU) assets

Plant and equipment and right-of-use assets, including leasehold improvements, are measured at cost less accumulated depreciation and any impairment in value. The cost of ROU assets correspond to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date net of any lease incentives received and initial direct costs.

Impairment of property, plant and equipment and right-of-use assets

The carrying values of property, plant and equipment and right-of-use assets 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 and right of use assets

An item of property, plant and equipment or right-of-use asset 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.

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For the year ended 30 June 2020

5.2 Intangible assets and goodwill

	Goodwill $'000	Software $'000	Total $'000
Year ended 30 June 2020			
At 1 July 2019, net of accumulated amortisation	**65,152**	**19,827**	**84,979**
Additions	**–**	**4,425**	**4,425**
Disposals	**–**	**(59)**	**(59)**
Amortisation	**–**	**(4,874)**	**(4,874)**
At 30 June 2020, net of accumulated amortisation	**65,152**	**19,319**	**84,471**
At 30 June 2020			
Cost (gross carrying amount less impairment)	**65,152**	**36,784**	**101,936**
Accumulated amortisation	**–**	**(17,465)**	**(17,465)**
Net carrying amount	**65,152**	**19,319**	**84,471**
Year ended 30 June 2019			
At 1 July 2018, net of accumulated amortisation	65,978	19,247	85,225
Additions	–	4,934	4,934
Disposal	(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**

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

	30 June 2020 $'000	30 June 2019 $'000
Banking Business	**40,189**	40,189
Wealth Management Business	**24,963**	24,963
Total goodwill	**65,152**	65,152

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

The recoverable amounts for each CGU's value-in-use was determined using cash flow projections from Board approved financial budgets for the year ending 30 June 2021. Growth rates have been applied from year two through to year ten. 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 10 years, based on an implied terminal value earnings multiple of 11.8 and 12.8 for the Banking Business and the Wealth Management Business respectively, and a long-term growth rate not exceeding industry. A post-tax discount rate of 8.5% (12.1% pre-tax) and 7.8% (11.1% pre tax) was used for the Banking Business and the Wealth Management Business respectively. 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 ten 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. Average inflation is projected to be 2.2%. 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 projections reflect 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 divisions. 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 CGU's) that is expected to benefit from the synergies of the combination.

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

Impairment of subsidiaries accounting policy

Investments in subsidiaries are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the 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 2020 $'000	30 June 2019 $'000
Balances		
Provision for annual leave	**2,194**	2,105
Provision for long service leave	**3,480**	3,279
Total employee benefits provisions	**5,674**	5,384
Due to be settled within 12 months	**4,304**	4,187
Due to be settled more than 12 months	**1,370**	1,197
Total employee benefits provisions	**5,674**	5,384

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 2020 $'000	30 June 2019 $'000
Issued and paid up ordinary shares	**152,775**	148,707

Movements in ordinary share capital

	30 June 2020		30 June 2019	
	Number of shares	Amount $'000	Number of shares	Amount $'000
Opening balance	**91,040,545**	**148,707**	90,308,117	145,380
Shares issued pursuant to the				
– Group employee share scheme	**18,885**	**88**	15,983	81
– Executive long term incentive plan	**41,310**	**170**	–	–
– Dividend reinvestment plan	**908,122**	**3,810**	716,445	3,246
Closing balance	**92,008,862**	**152,775**	91,040,545	148,707

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.

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For the year ended 30 June 2020

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, TPT Wealth Limited. The sale was completed on 28 June 2019.

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

	30 June 2020 $'000	30 June 2019 $'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 division. As the retail financial planning business 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 2020 $'000	30 June 2019 $'000
Revenue from contracts with customers	–	2,447
Expenses	–	(2,291)
Gain from selling discontinued operation before tax	–	1,544
Profit / (loss) before impairment	–	1,700
Impairment on write down to fair value of assets	–	(160)
Profit / (loss) before tax from discontinued operations	–	1,540
Tax benefit / (expense):		
Tax on disposal of discontinued operations	–	(332)
Tax related to operations of the discontinued operations	–	(47)
Tax on remeasurement to fair value	–	48
Profit / (loss) for the year from discontinued operations	–	1,209

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

	30 June 2020 $'000	30 June 2019 $'000
Operating	–	(535)
Investing	–	3,398
Total	–	2,863

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 2020 $'000	30 June 2019 $'000
The major components of income tax expense / (benefit) are:		
Income tax expense		
Current income tax charge	**14,343**	12,705
Adjustment in respect of current income tax of previous years	**117**	(139)
Adjustments in respect of deferred income tax of previous years	**(141)**	(458)
Adjustments in respect of equity / goodwill	**50**	693
Relating to origination and reversal of temporary differences	**(1,443)**	372
Total Income tax expense	**12,926**	13,173
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	**42,986**	42,620
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	**12,896**	12,786
– Under / (over) provision in prior year	**(24)**	(24)
Expenditure not allowable for income tax purposes	**31**	80
Other	**23**	–
Income tax expense reported in the consolidated income statement	**12,926**	12,842
Profit before income tax from discontinued operations	–	1,540
Income tax expense related to discontinued operations:		
– Tax on disposal of discontinued operations	–	332
– Tax related to operations of discontinued operations	–	47
– Tax related to fair values less cost to sell	–	(48)
Income tax expense related to discontinued operations	–	331
Total income tax expense	**12,926**	13,173
Weighted average effective tax rates	**30.1%**	29.8%

	30 June 2020 $'000	30 June 2019 $'000
Deferred income tax relates to the following:		
Deferred tax assets		
Employee entitlements	**1,702**	1,615
Provisions	**227**	266
Doubtful debts	**1,990**	629
Other	**1,367**	1,623
Total deferred tax assets	**5,286**	4,133
Deferred tax liabilities		
Financial assets at fair value	**68**	68
Property, plant and equipment	**1,342**	1,715
Other	**534**	584
Total deferred tax liabilities	**1,944**	2,367
Current tax payable	**2,306**	844
Total tax liabilities	**4,250**	3,211

Movements in deferred tax balances

	Deferred tax assets		Deferred tax liabilities	
	30 June 2020 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2019 $'000
Opening balance	**4,133**	3,948	**2,367**	2,358
(Charged) / credited to income statement	**1,092**	(482)	**(564)**	(110)
Credited/(charged) to equity	**61**	68	**–**	–
Adjustments for deferred tax of prior years	**–**	599	**141**	119
Closing balance	**5,286**	4,133	**1,944**	2,367

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 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 2020 $'000	30 June 2019 $'000
Assets		
Cash and liquid assets	**1,040**	193
Other receivables	**690**	297
Related party receivables	**3,465**	2,393
Investments in subsidiaries	**262,613**	256,867
Deferred tax assets	**661**	920
Total assets	**268,469**	260,670
Liabilities		
Other liabilities	**565**	564
Related party payables	**11**	–
Tax liabilities	**2,368**	630
Employee benefits provisions	**394**	353
Total liabilities	**3,338**	1,547
Net assets	**265,131**	259,123
Equity		
Share capital	**258,702**	254,634
Retained earnings	**5,738**	3,849
Reserves	**691**	640
Total equity	**265,131**	259,123
Financial performance		
Profit after income tax for the year	**28,130**	25,965
Other comprehensive income	**–**	–
Total comprehensive income	**28,130**	25,965

The parent entity has not entered into any guarantees and does not have any contingent liabilities as at 30 June 2020 (30 June 2019: 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%
TPT Wealth 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, TPT Wealth 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 2020 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2019 $'000
Management fees received	**10,315**	10,242	**10,315**	10,242
Balance of investment held at year end	**2,297**	10,802	**316**	8,499
Distributions received from managed funds	**190**	289	**161**	217

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 and negotiable certificates of deposit, totalling $2.30M (2019: $17.75M); and
- Invested in the ConQuest Trusts Residential Mortgage Backed Securities Program in the form of Class A and B notes totalling $35.59M (2019: $57.77M).

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 2020 $'000	30 June 2019 $'000
Key management personnel compensation		
The key management personnel compensation comprised:		
Short-term employee benefits	**3,722**	3,734
Post employment benefits	**299**	314
Share-Based payment (i)	**220**	147
Termination benefits	**–**	–

(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

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

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

	30 June 2020 $'000	30 June 2019 $'000
Customer commitments		
Loans approved but not advanced to borrowers	**77,755**	50,529
Undrawn continuing lines of credit	**63,443**	59,092
Performance guarantees	**4,672**	3,378
Total customer commitments	**145,870**	112,999

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.

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 (2019: $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 which are shown exclusive of GST claimed were paid or payable for services provided by the auditor of the Group, Wise Lord & Ferguson:

	30 June 2020 $'000	30 June 2019 $'000
Audit services		
Audit of the financial statements of the consolidated entities	**390**	382
Total remuneration for audit services	**390**	382
Audit related services		
Assurance related services	**46**	46
Audit of loans and other services to the securitisation program	**8**	12
Total remuneration for audit related services	**54**	58
Other non-external audit related services		
Other services	**64**	33
Total remuneration for non-audit related services	**64**	33
Total remuneration for services provided	**508**	473

9.3 Events subsequent to balance date

The Group restructured its subordinated notes portfolio, the details of which are disclosed in note 3.1. In August 2020, the Group announced the closure of six of its branch locations, four in Queensland and two in Tasmania. A net financial benefit is anticipated in relation to these closures in FY22.

There were no other 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:

- AASB 16 *Leases*
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to AASBs 2015-2017 Cycle (Amendments to AASB 3, AASB 11, AASB 112 and AASB123)

With the exception of AASB16 *Leases*, adoption of the above has not resulted in any changes in how the Group currently applies accounting standards.

The adoption of AASB 16 *Leases* has impacted the financial statements this financial year.

AASB 16 Leases

The Group adopted AASB 16 *Leases* from 1 July 2019, but has not restated comparatives as permitted under the modified retrospective transitional provisions in the standard. The reclassification and adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 July 2019.

On adoption of this standard, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating' leases under the principles of AASB 117 *Leases*; the Group did not have any 'finance' leases. These liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate as of 1 July 2019. The lessees incremental borrowing rate applied to the leases range from 5 to 10%.

The costs incurred from operating leases not recognised as right-of-use assets under AASB 16 *Leases* are reported in occupancy costs in the consolidated income statement. Depreciation charges relevant to the right-of-use lease assets are reported in administration costs in the consolidated income statement (refer to note 2.4).

The Group utilised two practical expedients permitted by the standard. The first was to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The second was to place reliance on previous assessments of whether leases are onerous. The value of the right of use asset, before recognising any pre-existing onerous lease provisions, is equal to that of the lease liability.

The following reconciles the balance in the prior year operating lease commitments note to the lease liability recorded on 1 July 2019.

	1 Jul 19 $'000
Operating lease commitments at 30 June 2019 (i)	18,691
Recognition exemption for leases of less than 12 months	–
Increase from reassessment of probable future lease costs	1,574
Recognition exemption for leases of low value assets	(39)
Discounted using the incremental borrowing rate	(4,986)
Lease liability recognised at 1 July 2019	15,240

(i) As disclosed under AASB 117 in the Group's Consolidated Financial Statements

The right-of-use assets are presented within Property plant and equipment & right-of-use assets. Lease liabilities are presented within Other liabilities. Cash outflows under leases accounted for under the lease standard are $3.960M in the current financial year.

Directors' Declaration

For the year ended 30 June 2020

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 48 to 92 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 2020 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 2020.
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

Hobart, dated this 21 August 2020

Melos Sulicich

Managing Director and Chief Executive Officer

Independent Auditor's Report

For the year ended 30 June 2020

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 2020, 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 2020 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

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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 systems 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 management's 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 continues to enhance its IT systems. During the financial year, a number of strategic projects were developed and implemented. New systems were researched, designed, projects commenced and completed. A review of the useful life of IT systems was undertaken. The recognition and measurement of costs capitalised through these projects requires judgement, particularly for internally generated intangible assets as to when the costs incurred on projects transition from research to development. MyState's annual testing of impairment of goodwill requires a high level of judgement with significant forward looking assumptions used in the valuation models.	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; • We ensured intangible assets made redundant through new projects were written off; • We reviewed the useful lives applied to IT systems to ensure reasonable; and • We reviewed the goodwill valuation model and forward looking assumptions applied to each CGU of the Group.

3. Provision for Impairment on Loans and Advances

Refer to Note 4.3 'Loans and advances'

Key audit matters	How our audit addressed the matter
The provision for impairment on loans and advances 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. Provision for impairment of loans and advances 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, and the impact of COVID-19 on these assumptions; • The design of the management overlays applied in response to significant economic events; and • The stress test modelling undertaken to verify provisioning levels.	To address the risk of material misstatement and obtain sufficient audit evidence, we performed the following procedures over the provisions for impairment on loans and advances: • Assessed the governance oversight; • Reviewed and tested the calculation of the expected credit loss model, including the specific provision, collective provision for impairment and management overlays; • Considered the assumptions within the management overlays; • 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 of 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 2020, 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

0ur 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 31-46 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of MyState Limited, for the year ended 30 June 2020 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.

DANNY MCCARTHY
Partner
Wise Lord & Ferguson
Chartered Accountants

Date: 21 August 2020

Information relating to shareholders

For the year ended 30 June 2020

Range of Units (Snapshot) as at 21 August 2020

Range	Total holders	Units	% of Issued Capital
1 – 1,000	56,663	22,970,172	24.97
1,001 – 5,000	3,183	8,403,459	9.13
5,001 – 10,000	1,132	8,396,209	9.13
10,001 – 100,000	913	20,728,954	22.53
100,001 Over	43	31,510,068	34.25
Rounding			**-0.01**
Total	**61,934**	**92,008,862**	**100.00**

Unmarketable Parcels	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $4.70 per unit	136	566	32,779

Top Holders (Snapshot) as at 21 August 2020

Name	Units	% of Units
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,829,334	7.42
CITICORP NOMINEES PTY LIMITED	5,751,558	6.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,509,076	3.81
NATIONAL NOMINEES LIMITED	1,426,344	1.55
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	1,398,499	1.52
SELECT MANAGED FUNDS LTD	1,225,960	1.33
NEALE EDWARDS PTY LTD	1,225,204	1.33
MR BRIAN DAVID FAULKNER	960,000	1.04
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	880,195	0.96
MR KENNETH JOSEPH HALL <HALL PARK A/C>	754,694	0.82
BEECHWORTH HOLDINGS PTY LTD <BEECHWORTH SUPER FUND A/C>	750,000	0.82
PRESTIGE FURNITURE PTY LTD	496,889	0.54
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS IOOF EMPLOYER SUPER A/C>	457,238	0.50
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	441,452	0.48
MRS WENDY JEAN FAULKNER	405,000	0.44
BNP PARIBAS NOMS PTY LTD <DRP>	340,074	0.37
MRS JOAN ELIZABETH EVERSHED	312,547	0.34
DONETTA PTY LIMITED	255,000	0.28
GARMARAL PTY LTD	253,011	0.27
LYMAL PTY LTD	244,140	0.27
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)	**27,916,215**	**30.34**
Total Remaining Holders Balance	**64,092,647**	**69.66**

Corporate Directory

For the year ended 30 June 2020

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 2020)

Miles Hampton (Chairman – Non-Executive Director)
Melos Sulicich (Managing Director and Chief Executive Officer)
Robert Gordon (Non-Executive Director)
Sibylle Krieger (Non-Executive Director)
Warren Lee (Non-Executive Director)
Vaughn Richtor (Non-Executive Director)
Andrea Waters (Non-Executive Director)

Company Secretary

Scott Lukianenko

Share Registry

Computershare Investor Services
GPO Box 2975EE
Melbourne VIC 3000
Phone: 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

TPT Wealth

ABN: 97 009 475 629
Phone: 1300 138 044
Website: tptwealth.com.au
Email: info@tptwealth.com.au

MyStateLimited

mystatelimited.com.au