Together for the better

Annual Report 2023

MyState Limited

At MyState Limited we understand the importance of tailoring financial services to all stages of life. We're always ready to serve the best interests of our customers and shareholders.

About MyState Limited

MyState Limited (MYS) is the non-operating holding company of a diversified financial services group listed on the ASX and is a leading provider of banking, trustee and wealth management services to customers across the country through our retail brands – MyState Bank and TPT Wealth.

MyState Limited

MyState Bank

TPT Wealth

Contents

Annual General Meeting

The 2023 Annual General Meeting of MyState Limited will be held on Thursday, 19 October 2023 at 10:30 a.m. (Hobart time) at the Best Western Hotel, 156 Bathurst Street, Hobart and online.

In accordance with the *Corporations Act 2001*, hard copies of the Notice of AGM (NoM) will not be sent to shareholders unless they have previously requested a hard copy. Instead, the NoM and other related material, including an online meeting guide, can be viewed and downloaded from our AGM website accessible via mystatelimited.com.au

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 its wholly owned subsidiary MyState Bank Limited.

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

Together for the better.

Our purpose

We're a Tasmanian-based financial services company with big ambitions. We make managing your money easy, to help you achieve what matters most. We invest in our people and communities, so together we can thrive.

In late 2022, one of our defining moments was reimagining our purpose.

A purpose is the North Star of any organisation, and when our people told us our original purpose was no longer resonating, we knew something had to change.

Our team created a new purpose from the ground up, working together to capture the care for our customers, and the need for continued investment in our people and the communities that we serve.

Our people were committed to creating a purpose that represented the ways we collaborate with each other, our customers, our shareholders and our community to show how we all work together to deliver the best outcomes.

The final result is a long form purpose statement capturing who we are, why we exist and our continued focus on growth and investment. Our purpose is lived through our rally cry – **Together for the better**.

Since launching our purpose in December 2022, it has already informed a number of our business decisions as we strive to become a purpose-driven organisation.

What does this mean for:

Our shareholders
We deliver sustainable, profitable growth

Our community
We invest into and support our local communities

Our customers and clients
We care about what matters

Our people
We grow and achieve great things

Our values

Create customer 'wow'

- We walk in our customers' shoes and appreciate their perspectives.
- We think and act in the best interests of our customers.
- We are clear, concise and trustworthy in our customer interactions.
- We design and deliver exceptional customer experiences, with a human touch.
- We make things simpler and easier for our customers.

Chase the better

- We are bold in our ambition.
- We seek out and embrace the change that is required to succeed.
- We have the courage to try new things and grow from our failures.
- We simplify (and digitise) to deliver exceptional customer experiences, with a human touch.
- We seek industry-leading productivity and always drive for better outcomes.

Collaborate to win

- We care for each other, our customers, partners and community.
- We give our best, do the right thing, and trust our colleagues to do the same.
- We hold each other to account.
- We openly share information so that everyone can make informed decisions.
- We reach out across teams to rapidly solve problems – and celebrate our successes and learnings.

We're focused on the long-term prosperity of our customers and shareholders and are committed to growing our business ethically and sustainably.

Highlights

Home loan book

+14.1% From FY22

$7.8b Home loan growth 2.9x system in FY23

Customer deposits

+12.3% From FY22

$6.2b Strong deposit growth driving favourable funding mix

Net profit after tax

Record

$38.5m Highest NPAT on record

New customer growth

+33% From FY22

+25,690 New to bank customers

Strong uplift on FY22

Cost to income ratio

-440bps From FY22

64.0% Growth achieved more efficiently

Earnings per share

+16.8% From FY22

35.5cps Uplift on FY22

Net Promoter Score

+35 As at June 2023

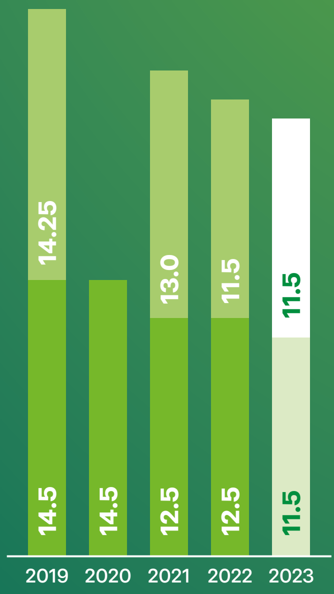
Strong customer advocacy

Group performance

Net profit after tax ($ million)

Earnings per share (cents)

Dividends – fully franked per share (cents)



Return on average equity (%)

Cost-to-income ratio (%)

Net interest income ($ million)


TEAM

Chair's review

Vaughn Richtor
Chair

Core earnings

$57.7m

Earnings per share

+16.8%

Our growth strategy is on track, as is our transformation into a first-choice financial services company with a strong digital focus.

I am pleased and proud to present the FY23 Annual Report as chair of MyState Limited.

In a tumultuous year in financial services our company has maintained momentum as we deliver on our growth strategy.

In FY23 we delivered a record profit and increased earnings per share.

Our key portfolios of mortgages and savings saw strong above-industry growth.

Our strategy of deepening relationships with independent mortgage brokers continues to pay dividends with robust growth in home lending at almost three times the industry average.

We achieved record customer growth, attracting 25,690 new to bank customers from within and outside Tasmania.

I am pleased to say the growth came while maintaining high customer advocacy as measured by the Net Promoter Score – a key measure of our customer focus.

Our growth strategy is on track, as is our transformation into a first-choice financial services company with a strong digital focus.

The digital transformation is improving our cost to income ratio, making growth in customers and balance sheet sustainable.

I congratulate the team at MyState for continuing to serve the Tasmanian community and maintaining customer focus.

Tasmania is our heartland, and we continue to build our strong brand in the state while increasing our national footprint.

Operating performance

Statutory net profit after tax (NPAT) for the fiscal year was a record $38.5 million (m), up 20.2% on FY22.

Earnings per share increased 16.8% to 35.5 cents per share (cps).

Core earnings (operating profit before bad and doubtful debts expense and income tax) increased 30.3% to $57.7m with total operating income up 14.4% and operating expenses up 7.1%.

Significantly operating income is outpacing expense growth.

The cost-to-income ratio improved by 440 basis points (bps) to 64% for the full year.

Return on equity improved 100bps over FY22 to 8.7%.

The total loan book grew by 13.5% to $7.9 billion (b), while home lending grew almost three times system growth.

Customer deposits grew at twice system growth.

Net interest margin (NIM) eased 4bps to 1.63% due to intense competition for both mortgages and retail deposits, with wholesale funding costs also increasing significantly.

TPT Wealth's result was more subdued in FY23 as we refocused our energies on Tasmania and cut costs interstate.

TPT Wealth income eased 3.5% to $14.4m.

Dividend and capital

In the 2023 fiscal year, the Board determined to pay a final dividend of 11.5 cps, fully franked, equivalent to a payout ratio of 64.9% of after-tax earnings.

This decision is in line with the current dividend guidance range and strikes a balance between pursuing our growth strategy and rewarding shareholders.

During the year MyState issued a $400m Term RMBS and established a new committed warehouse funding agreement.

Both transactions support MyState's growth strategy and provide flexibility to MyState's capital management options.

Statutory net profit after tax for the 2023 financial year was a record $38.5m up 20.2%.

Growth strategy

Our growth strategy remains on track with prudent, sustainable and profitable growth at its heart.

The current Australian banking market is highly competitive and credit growth is slowing. MyState's robust growth in mortgages over the past two years is forecast to ease to nearer to two times system growth for FY24.

MyState has a proud Tasmanian heritage that gives us a competitive advantage at home.

We continue to pursue the home state advantage combined with prudent expansion of our national footprint.

Our future

FY23 has been a solid year and put the business on track to deliver on our growth strategy.

Our future is bright with progress on system improvements and cost management.

Our focus remains on sustainable growth while maintaining customer focus.

I would like to thank shareholders for not only supporting the business, but also being loyal customers.

Vaughn Richtor
Chair

Chief Executive Officer's review

Brett Morgan
Managing Director and CEO

Home loan book

$7.8b

New to bank customers increased

33%

We delivered mortgage growth of over 14% to $7.8b, almost three times the industry average, at a time of intense competition.

Delivering for customers

2023 has been a significant year for both customers and MyState and I am proud to say the business has ended the year in very good shape.

The re-emergence of inflation, and the fastest increase in interest rates in more than 30 years, has tested customers and the bank.

Mortgage customers have shown resilience, having built up savings when rates were low. One in three of our mortgage customers are more than six months ahead in repayments.

We proactively contact every customer coming off low fixed interest home loans to offer help as they transition to higher repayments.

Our focus on the customer has seen the rate of late loan repayments track below the industry average.

Over the year, we also helped customers save by substantially increasing our award-winning bonus saver and term deposit rates. Our competitive rates attracted many new customers and increased deposit growth to double the industry level.

We were able to achieve this whilst having a high level of customer advocacy with a Net Promotor Score of +35.

We are refocusing the wealth management side of the business on our home market of Tasmania where we have a long 135 year legacy and competitive brand advantage.

Delivering on our growth strategy

In this turbulent environment, the bank delivered record customer growth, 33% higher than the previous year, and strong above-system growth in both mortgages and savings.

This growth was achieved while maintaining prudent risk settings.

We delivered mortgage growth of over 14% to $7.8b, almost three times the industry average, at a time of intense competition.

Our customer deposits grew by over 12%, double the industry average, to $6.2b.

We welcomed a further 25,690 new to bank customers across Australia.

We achieved this growth more efficiently as we leveraged digital systems and lowered the cost to income ratio by 440bps to 64%.

Consequently, we delivered a record NPAT of $38.5m, up 20.2% on the previous year.

Core earnings increased 30.3% to $57.7m.

TPT Trustee Services distributed cash and transferred assets valued at $83m to more than 3,000 beneficiaries.

TPT Wealth's operating income eased due to lower fee revenue from the investment management business.

Delivering for the community

Our approach to sustainability focuses on driving positive change in the bank and the community.

I am proud to say we started to measure our material Scope 3 financed emissions, those greenhouse gas (GHG) emissions associated with residential mortgage lending. This data will help us set relevant emissions reduction targets.

We continue to encourage customers to adopt e-statements with an additional 18,540 bank customers now on e-statements.

The MyState Foundation continued to support the Tasmanian community by providing grants of more than $175,000 across 20 community programs focused on providing greater opportunities for youth. The Foundation also supported Colony47 as the first corporate partner of its JumpStart program, assisting young people in Tasmania to access affordable housing.

In addition to our Foundation grants, our team raised a further $15,000 for youth-focused charities.

The recipients included JCP Youth, Make a Wish, Riding for the Disabled Association South, Anglicare Tasmania's Taz Kids clubs, Hobart Women's Shelter and Tassie Mums.

This investment in our community also provided opportunities for our team to connect with local initiatives.

Our partnership with the Tasmania JackJumpers exemplified our commitment to fostering a vibrant sports culture and inspiring future generations of athletes in Tasmania. The MyState Arena partnership provided us with a platform to connect with customers and the community through events, concerts and sport. Other sporting sponsorship included support for the women's super league and leadership development program through Football Tasmania.

MyState also continued to sponsor Rise Above the Rim Shoot-a-thon, a 12-hour basketball shooting challenge raising much-needed funds for Ronald McDonald House Charities in Tasmania and Victoria.

Digital banking

Our customers continue to shift towards digital banking with more than 77% of customers registered for internet and mobile banking.

We continue to invest in next-generation digital technology, with the development of an improved banking experience.

We redeveloped online application forms to make it easier for new and existing customers to engage with us.

Our digital products are becoming more helpful and intuitive, with timely reminders about upcoming bills and personal notifications about money moving into and out of accounts.

Staff in branches are increasingly helping customers use digital services and tools.

Providing a great place to work

We know that people want to work at places where they are proud of the organisation's purpose.

The launch of our new purpose in December 2022 sharpened our focus on making it easier to deal with customers, helping our people be their best and investing in our communities.

Our purpose was created by our people and has energised and united our team.

To help our people develop and perform to their potential, we continue to invest in learning and leadership programs, focusing on training and development to support our growth ambitions. We also created a wellbeing program to enhance resilience and provide more opportunities to engage with our Foundation grant recipients.

This focus has resulted in a sharp rise in successful internal promotions.

We improved our staff engagement score year on year to 73%, which places MyState well within the high-performance band (>65%).

Protecting customers

2023 has seen a significant increase in concern about cyber security and scams.

Australians lost more than $3 billion through the year to scammers. Everyone has become a target and the types of scams are constantly evolving.

Protecting our customers from scams is a top priority and we do this by preventing, detecting and responding to scam threats and working with industry, government and other sectors of the economy. It takes a team approach, including the active involvement of our customers to shut down the scammers.

To support scam prevention we educate customers on scam threats through the website, customer updates and social media. Customer education includes information on protecting passwords, double-checking new billers and being wary of unsolicited calls and clicking on links.

Two factor authentication and Pay-ID are effective barriers to scammers when passwords and codes are kept secure and not shared.

To detect scams we invest in cyber security including enhancing artificial intelligence capability to monitor unusual transactions.

To respond to scams we have increased surveillance of unusual transactions and message customers whenever new billers are added.

Looking ahead

Over the first two years of our growth strategy, we have grown our major portfolios of mortgages and deposits by 43% and 40% respectively.

We expect competition in financial services to remain fierce, and while we anticipate growth will ease next year, we expect to maintain above-system growth in our key portfolios of mortgages and savings while continuing to improve efficiency.

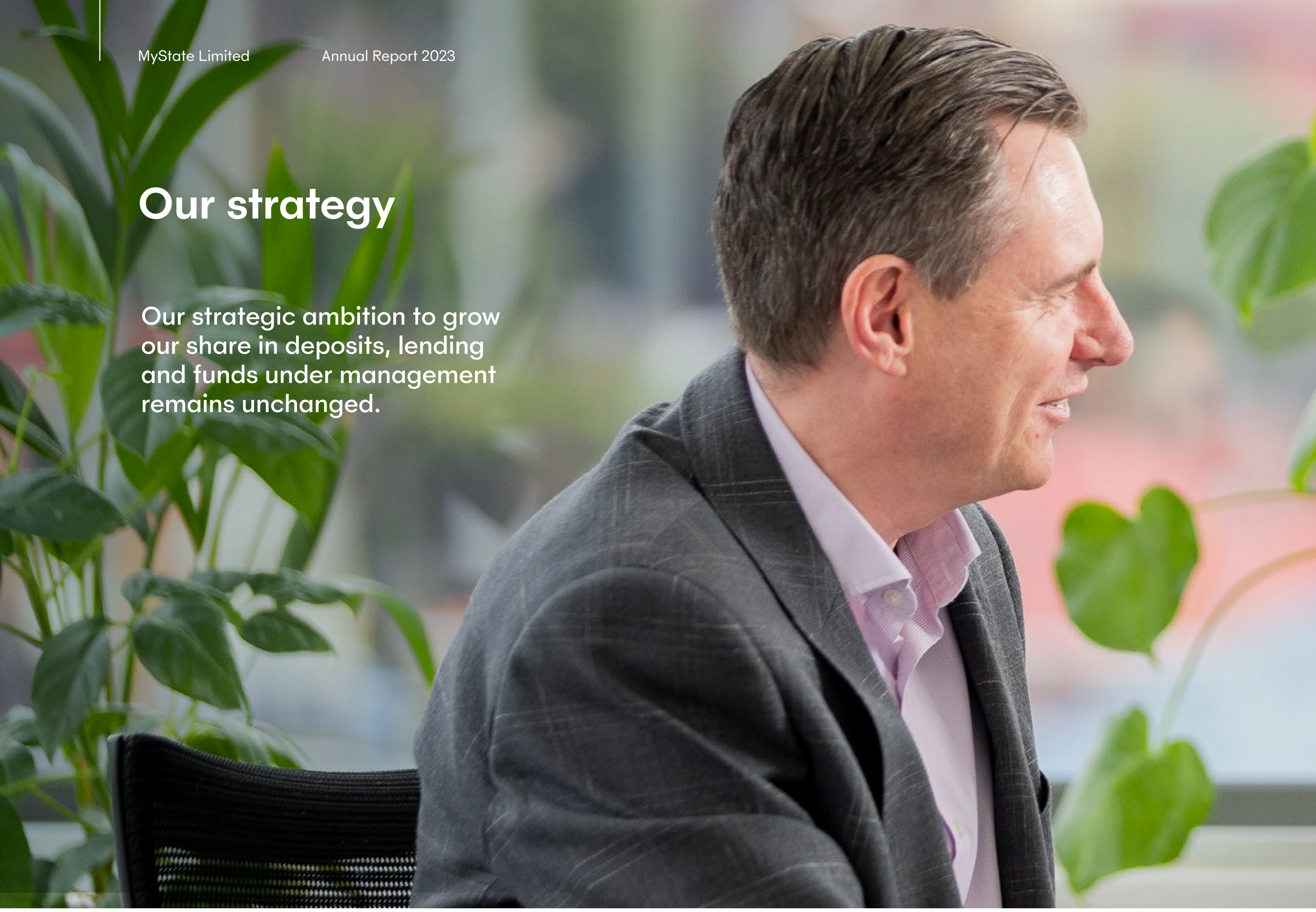
We remain focused on improving customers' digital and human experience across both MyState Bank and TPT Wealth and will continue to simplify our products, processes and systems.

Thank you

On a personal note, I would like to thank customers and clients for choosing MyState and TPT and shareholders for their support.

This report marks my first full year as CEO of MyState, and I would like to thank everyone for the way my family and I have been welcomed into the Tasmanian community.

Brett Morgan
Managing Director and CEO



Our strategy

Our strategic ambition to grow our share in deposits, lending and funds under management remains unchanged.

Two years into our growth strategy, our home lending book has grown by 43% to $7.8 billion, with nearly two-thirds of our home loan customers now originating from mainland Australia. Deposits are up 40% over the same period.

The award-winning products and services offered by MyState Bank and TPT Wealth mean we can help people across all life stages. We do this through our core offerings of everyday banking products, home and investment loans, asset management and commercial lending, right through to estate planning and administering trusts.

These products and services are delivered through our key channels. For MyState Bank this encompasses digital, brokers to grow outside our heartland of Tasmania, mobile lenders in Tasmania, as well as our Tasmanian branches and contact centre.

For TPT Wealth, our key channels include digital, relationship managers and our client services team.

And given the importance of a strong and positive culture – which is critical to the success of our strategy – we have three key values that we live by every day – create customer wow, chase the better and collaborate to win.

Our investment into distribution capability and capacity in particular has supported the acceleration of customer and deposit growth and has made our business stronger for the future.

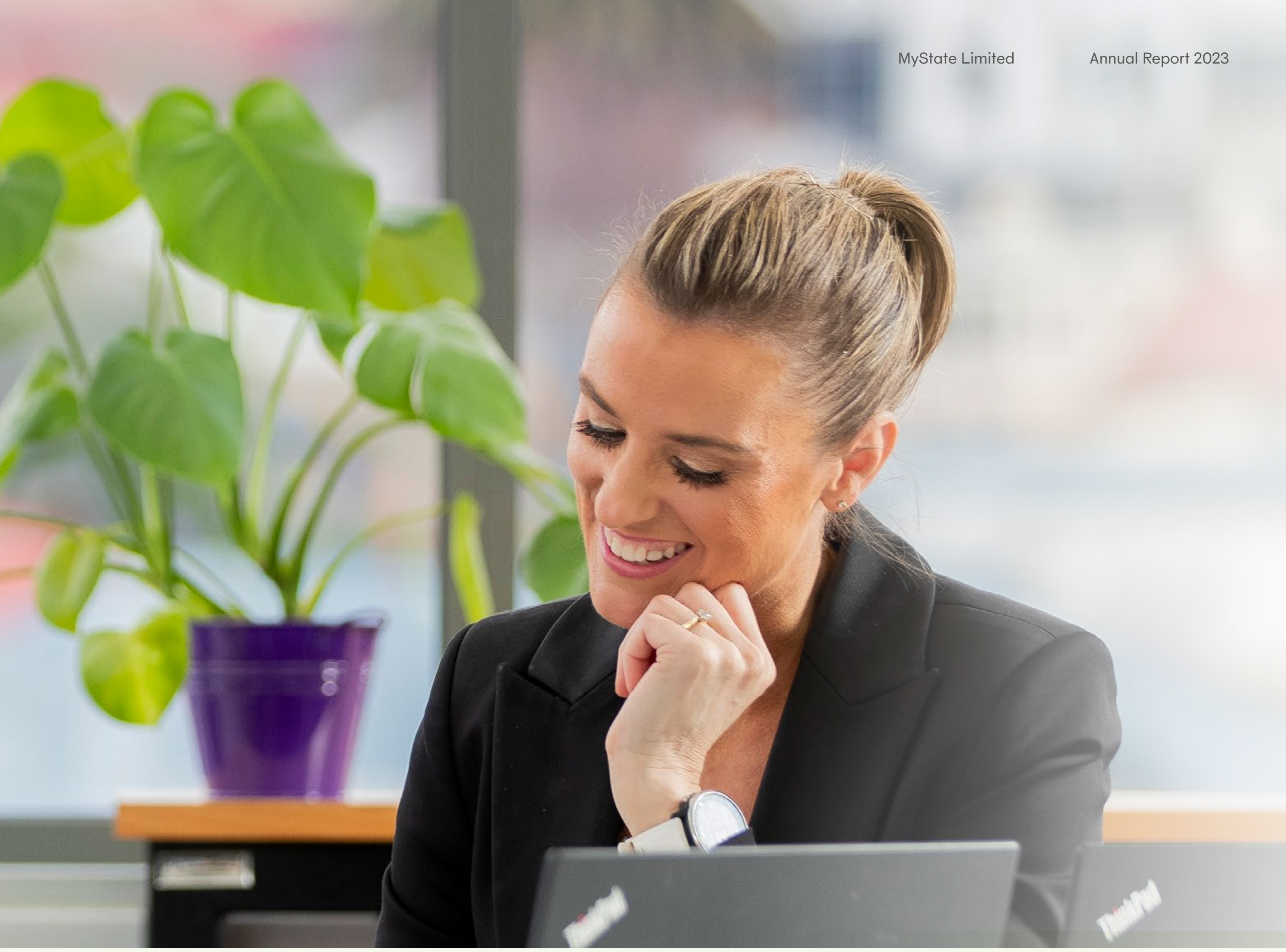
In FY23 we delivered continued growth in loans, deposits and customer numbers, and improved our cost to income ratio while maintaining a strong balance sheet and preserving credit quality.

Our investment into distribution capability and capacity in particular has supported the acceleration of customer and deposit growth and has made our business stronger for the future.

While our strategy remains the same, as we enter a new financial year our aim is to reinforce our focus on returns, execution, sustainable growth and capital generation. This will drive the business forward to better support and enhance the experience for our stakeholders. FY23 was a momentous year that saw the re-emergence of inflation and the fastest rise in interest rates in more than 30 years. The economy is slowing, as is credit growth, while customers adjust to the new normal. Competition is forecast to remain strong.

Within this environment MyState remains well placed to continue to benefit from the willingness of Australians to switch banks, and we expect to continue to attract new customers and grow above system in both mortgages and deposits.

Though the external market remains highly competitive, our goal is to continue to execute on our growth strategy and tell our unique story of making managing money easy, to help our customers and clients achieve what matters most, so together we can thrive.



Our ambition is to grow our share in deposits, lending and funds under management

Together for the better

MyState Bank

Core offering

Everyday banking
- Transaction accounts
- Saving accounts
- Term deposits

Lending
- Home loans
- Investment loans

Key channels
- Digital
- Branches (TAS)
- Contact centre
- Brokers
- Mobile lenders (TAS)
- Digital
- Contact centre

TPT Wealth

Core offering

Asset management
- Mortgage funds
- Commercial lending

Trustee services
- Wills & estate planning
- Estate administration
- Charitable trusts

Key channels
- Relationship managers
- Digital
- Asset consultants
- Direct

Our purpose and values underpin our strategy

Create customer 'wow' | Chase the better | Collaborate to win

Approach to risk

Management of financial and non-financial risks continues to be a key focus of our business, and an integral part of the platform upon which we have built our growth strategy.

Throughout FY23, we continued to focus on a strong culture of risk awareness and accountability across the organisation.

The risk strategy for the past year was built on three pillars:

Promote risk management principles

Awareness and adoption of risk management principles and practices that support a healthy risk culture, making managing money simpler and easier for our customers.

Fit for purpose risk framework

A dynamic, iterative and responsive to change risk framework.

Digitised and simplified process

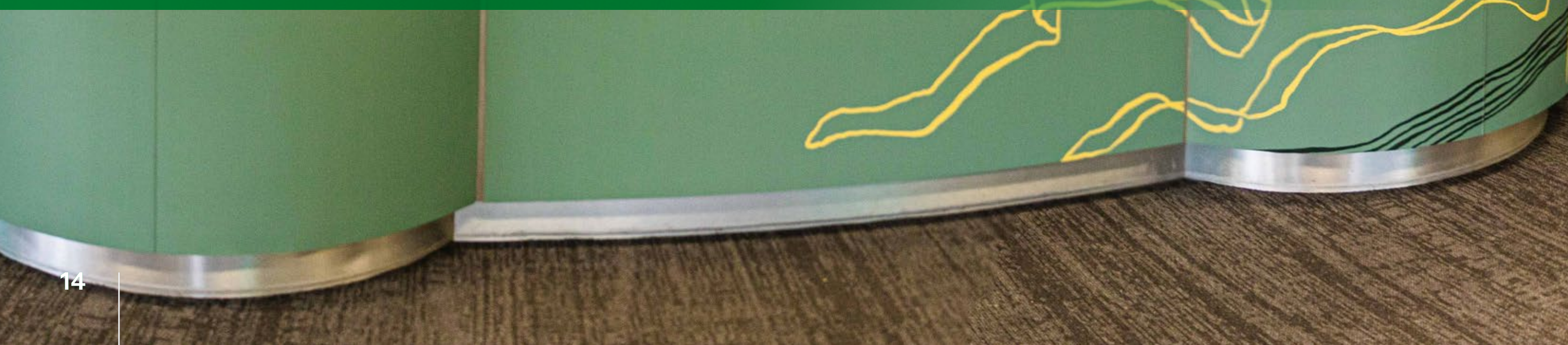
Digitisation and simplification of risk management processes to support business growth and productivity.

Our risk management frameworks are designed to identify, mitigate and/or manage risks on a timely basis. We undertake regular reviews of these frameworks so that we continue to meet our regulatory obligations and deliver the best possible outcomes for our customers and stakeholders.

During the past year, assurance reviews focused on further enhancing our operational risk capabilities, including but not limited to our risk controls for information and cyber security. Controls related to fraud risks were also enhanced to support and protect our customers from scams.

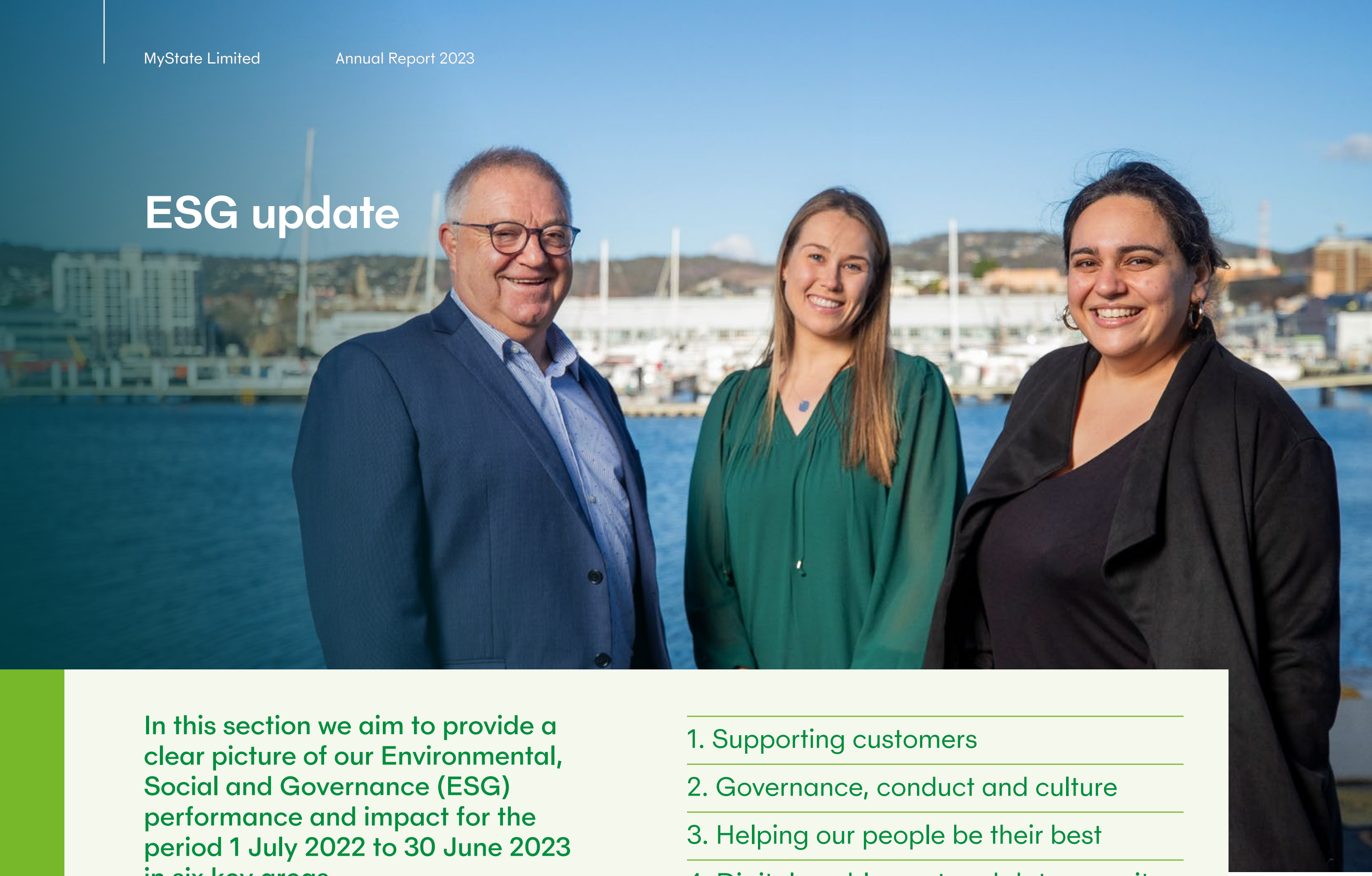
We use our values to continue to build a culture of risk accountability among our employees. This encompasses facilitating training programs, alerting employees to indicators of risk, initiating timely closure of risk incidents, and providing recognition for employees who champion our risk principles.

We remained conscious of our duty of care to customers in need of additional assistance, and continued to offer support to these customers via our customer contact centre, branches, collection teams and customer advocate.



The award-winning products and services offered by MyState Bank and TPT Wealth means we can help people across all life stages.

ESG update



In this section we aim to provide a clear picture of our Environmental, Social and Governance (ESG) performance and impact for the period 1 July 2022 to 30 June 2023 in six key areas.

1. Supporting customers
2. Governance, conduct and culture
3. Helping our people be their best
4. Digital enablement and data security
5. Environmental sustainability
6. Community investment

We understand the importance of ESG to create and sustain long-term value in a rapidly changing world and believe these six topics provide strong foundations that will create value for our stakeholders and protect our business into the future.

The launch of our new purpose in December 2022 has sharpened our focus on supporting our customers, helping our people be their best and investing in our communities so together we can thrive.

To help our people be at their best, we have continued investment into our learning and leadership programs, focusing on developing our people to support our growth ambitions and creating a wellbeing program to enhance resilience. Our diversity and inclusion collective, Belong, has also been fostering a workplace culture where everyone feels included.

We continued to support the Tasmanian community through the MyState Foundation, investing $175,000 across 20 community programs focused on providing greater opportunities for youth. This investment in our community connects our team with our community initiatives as we pursue being a purpose-led organisation.

In relation to digital enablement and data security, our customers continue to shift towards digital banking with more than 78% of customers registered for internet and mobile banking. In response to an increase in concern about cyber security and scams, during the year we stepped up investment in cyber security and importantly in educating customers on how to avoid being scammed.

Continuing our commitment to measure and manage our greenhouse gas (GHG) emissions, we broadened our measurement to also include our most material Scope 3 financed emissions – those GHG emissions associated with residential mortgage lending – which accounts for over 95% of the value of our lending portfolio.

Now that we understand our combined operational and financed emissions, we will begin to explore appropriate emissions reduction targets and initiatives. More information on our emissions data can be found in our Task Force on Climate Related Financial Disclosure (TCFD) update later in this section. TCFD is a globally recognised standard set of recommendations used by more than 3,000 leading organisations that either prepare or use financial disclosures, with the aim of building a more resilient financial system through climate-related disclosure.

How we listen and engage

As in previous years, in 2023 we continued to capture the voices of MyState's stakeholders through formal and informal feedback methods. Our stakeholder groups include customers, shareholders, investors, our people, communities, regulators, government and suppliers.

Our key measure of customer advocacy, Net Promotor Score or 'NPS', finished the year at +35. MyState is proud of this score and that it reflects our ongoing commitment of putting our customers at the centre of everything we do.

We know that progress on ESG is an evolution, and we are proud to be taking steps to positively impact our customers and the wider stakeholder groups with whom we work.

Our approach to ESG

How MyState approaches, governs and manages Environmental, Social and Governance topics that impact business strategies and practices

E — Environmental

Considers environment-related risks and what MyState may do to reduce or mitigate them. It encompasses carbon emissions and climate change.

Examples include MyState's carbon footprint, waste management, any pollution MyState contributes to, and the sustainability efforts that make up MyState's supply chain. It also includes the physical and transitional risk associated with MyState's portfolio on account of climate change.

S — Social

Addresses the relationships MyState maintains as well as the reputation MyState has with its staff, customers, suppliers and institutions in the communities where MyState does business.

Examples include workplace safety, wellbeing and culture, the MyState Foundation, diversity, equity and inclusion, customer satisfaction, digital enablement and data privacy.

G — Governance

Directs the internal system of practices, controls and procedures MyState adopts in order to make effective decisions, comply with the law and meet the needs of stakeholders.

Examples include Board and leader composition, pay and rewards, and ethical operation.

The ESG topics that matter most to MyState

Supporting customers	Governance, conduct & culture	Helping our people be their best	Digital enablement & data security	Environmental sustainability	Community investment
To help customers make good choices and to put things right if they go wrong.	To continue to conduct our business in an ethical, responsible and transparent way – driving the right behaviours that put the needs of stakeholders first.	To drive a culture of customer centricity and execution excellence, MyState relies on its people being at their best.	To continue the evolution of MyState's systems and products to meet its customers' increasing expectations, and to keep their money and data safe.	To help MyState transition to a low-carbon economy.	To enable us to make a difference and support our Tasmanian community.

What we are doing to integrate ESG into organisational processes

Build ESG consciousness across the organisation.

Maintain ESG reporting and market disclosures.

Manage ESG risks and opportunities through Board and management committees.

Facilitated by

MyState Limited Board
Oversees the development and approval of the ESG strategy.

Managing Director & CEO
Demonstrates and communicates commitment to ESG by 'setting the tone from the top'.

Executive
Responsible for recommending ESG strategy to the Board and considering and identifying ESG opportunities and impacts.

ESG Committee
Proposes ESG strategy to Executives and keeps track of ESG initiatives and associated reporting for internal and external stakeholders.

ESG update

continued

1. Supporting customers

To help customers make good choices and put things right if they go wrong.

How we engage	What have we been focusing on	Update at 30 June 2023
• Customer surveys • Assist customers experiencing financial hardship • Customer input to help shape the future of MyState • Participation in the Federal Government's First Home Loan Deposit Scheme (FHLDS) • Assistance to vulnerable customers	• Educating our customers in relation to fraud, being aware of scams and staying safe online • Continuing to enhance our support for customers experiencing vulnerability due to circumstances such as financial hardship, family violence, elder abuse and scams • Promptly resolving customer complaints and interactions with our customer relations specialists and MyState's Customer Advocate • Account-keeping fee simplification and reduction across select MyState Bank products • Customer communications in plain language	• 172,224 bank customers • Customer NPS +35 • 78% of bank customers registered for internet and mobile banking • 4,861 complaints handled in FY23 • 84% of complaints resolved in under five days • 423 applications supported for financial hardship over the year • 1,113 basic transaction accounts opened

2. Governance, conduct and culture

Our principles of governance, conduct and culture provide the foundations of conducting our business in an ethical, responsible and transparent way including driving the right behaviours that put the needs of stakeholders first.

How we engage	What have we been focusing on	Update at 30 June 2023
• MyState subscribes to the ASX Corporate Governance Council's 4th Edition Corporate Governance Principles and Recommendations and publishes an annual Corporate Governance Statement and Appendix 4G in compliance with ASX Listing Rules • Full and half-year reporting and investor presentations • Regular briefings and meetings with investors and analysts • Signatories to the Banking Code of Practice • Modern slavery statements • Human rights statement • Supplier code of conduct • Risk Management Strategy and Framework • ESG Committee • Measuring and evolving our organisational culture and risk • Diversity and inclusion program with Board oversight • Whistle-blower policy (StandUp program) • Banking Executive Accountability Regime (BEAR): BEAR regulates the accountability of Executives and Directors for their behaviour and decision-making	• Membership and active participation with Australian Banking Association • Ongoing prudential reporting and engagement with regulators • TPT Wealth membership of the United Nations supported Principles for Responsible Investment (PRI) • Culture survey to measure and enhance organisational risk culture • Clarity of Executive portfolios and single points of accountability	• Annual Board review and approval of MyState Corporate Governance Statement • Compliance with Banking Code of Practice • Key vendors screened for modern slavery assessment over the year • Diversity ratios: – 50% of all leadership roles filled by women – 33% of Non-executive Directors are women – 25% of the executive team (direct reports to the CEO) are women – 60% of all roles filled by women • 84% of small business suppliers paid within 30 days

3. Helping our people be their best

To drive a culture of customer centricity and execution excellence we rely on our people being at their best.

How we engage	What have we been focusing on	Update at 30 June 2023
• Clear expectations for workplace behaviour (Code of Conduct) • Clear expectations of individual performance • Development of our people leaders • Wellbeing program • Flexible and inclusive work practices are available to all staff • Enhancing the employee experience to provide meaningful and rewarding opportunities to our people	• Living the MyState purpose and values • Connecting our people with our strategic ambitions • Leadership development • Evolving our change maturity • Identifying and assessing human centric capabilities • Measuring and understanding our culture • Reward and recognition • Increased focus on empowering our people to manage their wellbeing	• Employee experience 73% • Mandatory training completion 98% • Employees trained to support customers in need of extra care 99% • Change maturity score of 3.3 (uplift on previous assessment of 2.2)

4. Digital enablement and data security

We continue to evolve our systems and products to meet our customers' increasing expectations, keep their money safe and protect their data.

How we engage	What have we been focusing on	Update at 30 June 2023
• Online deposit product origination • Internet and mobile banking capability • Digital cards and payment methods (e.g. Apple Pay, real-time payments) • Open Banking according to the Consumer Data Right • Cyber security framework • Information security policy • Privacy policy	• Keeping customers and their data and accounts safe through strengthening our systems and educating our customers in relation to data security and being aware of scams • Development of our next-generation digital banking experience • Redevelopment of our online application forms to improve and simplify user experience for our customers • Making our digital products helpful (e.g. reminding customers when bills are due), intuitive and easy to use	• 62% of bank customers on e-statements • 78% of bank customers are registered for internet and mobile banking • 96% of bank transactions completed digitally

ESG update
continued

5. Environmental sustainability
Helping us transition to a low-carbon economy.

How we engage	What have we been focusing on	Update at 30 June 2023
• e-statements • Emphasis on digital communication with customers	• Encouraging customers to adopt e-statements • Our year 2 TCFD report. See following section	• MyState's FY23 GHG emissions footprint was assessed to be 4,519 tonnes of carbon dioxide equivalent or CO_2-e (Scope 1,2 and limited Scope 3 emissions) • Scope 3 financed emissions 51,315 tonnes of carbon dioxide equivalent or CO_2-e • 99% of the energy used in our Tasmanian HQ was renewable

6. Community investment
Enabling us to make a difference and support our communities.

How we engage	What have we been focusing on	Update at 30 June 2023
• Through the MyState Foundation, we help young Tasmanians reach their full potential • Through our sponsorship of MyState Bank Arena we are bringing quality sports and entertainment experiences to Tasmania	• Distributing our grants and refining the grants process to make sure the support is going where it will have the most impact • Working with the team at MyState Bank Arena to make the venue the heart of sport and entertainment for all Tasmanians	• $175,000 in community grants provided through the MyState Foundation in 2022/23 and over $2.6m since inception • 20 community programs supported through the MyState Foundation • Colony47 partnership

Task Force on Climate-related Financial Disclosures (TCFD) report

Introduction
MyState Limited ('MyState') acknowledges that climate change is a global issue which has significant implications for the environment, society and the economy.

MyState supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and we use this framework to work towards a climate-resilient business. MyState's FY23 achievements include two key activities. Firstly, undertaking a detailed physical and transition climate scenario analysis across our national home loan portfolio. Secondly, updating our emissions footprint by including our financed emissions from this portfolio.

Governance
MyState's Board is responsible for overseeing MyState's Environmental, Social and Governance (ESG) risks and opportunities, including climate change. The Board is supported by the ESG Committee to ensure that MyState has appropriate risk management strategies and internal controls in place. MyState's ESG framework is reviewed and approved by the Board annually.

In FY23, MyState announced a new purpose with the rally cry, 'Together for the better', which extends to how we consider decisions in relation to sustainability and climate resilience. Across our business, we continued to assess our environmental impact, in particular measuring the carbon footprint of our operational Scope 1, 2 and 3 emissions for FY22 and FY23.

Additionally, we measured our Scope 3 financed emissions for the first time, focusing on the most significant parts of our lending portfolio. In FY24 and beyond we will begin exploring available operational emissions reduction initiatives and the potential contribution these could make to lowering our carbon footprint.

MyState supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and we use this framework to work towards a climate-resilient business.

Strategy

A changing climate poses both transition and physical risks and opportunities. MyState assessed the exposure of the portfolio, customers, suppliers and employees to physical hazards and transition drivers, now and in the future. In FY23, MyState identified and prioritised our risks and opportunities in the short (0 to 5 years), medium (10 to 15 years) and long term (20+ years). The risks included physical climate extremes impacting the lending portfolio, disruption of carbon-intensive value chains, and more ambitious climate policies.

Our climate-related opportunities were focused on transitioning to a low carbon economy and enhancing our business processes to better capture customer climate data.

We engaged climate experts to undertake the climate scenario analysis (Table 1) using two widely adopted reference climate scenarios for physical and transition climate assessments. We assessed the Shared Socio-economic Pathways (SSPs)/Representative Concentration Pathways (RCPs) and the Australian Energy Market Operator (AEMO) for the transition assessment as the energy system transition is a key aspect that we can support our customers with. The physical and transition scenario analysis has provided insights into how our risks and opportunities evolve in the coming decades.

ESG update

continued

Table 1: Climate scenario analysis approach

	Transition	Physical
Risk/ opportunity	Support customers to transition to the low-carbon economy and build climate resilience through innovative services and product offerings.	The impact on our lending portfolio from extreme weather events including extreme rain, cyclones, storms and bushfires.
Climate scenarios	**1. Low emissions** (AEMO 'Step Change') **2. Moderate emissions** (AEMO 'Slow Change')	**1. Low emissions** (SSP1-2.6 / RCP2.6) **2. Moderate emissions** (SSP2-4.5 / RCP4.5) **3. High emissions** (SSP5-8.5 / RCP8.5)
Time horizons	All scenarios assessed were for 2030 and 2050 future time horizons compared to the recent past climate (approximately over the past two decades).	
Climate metrics chosen as proxies for hazards and drivers	• Energy efficiency and electrification • Evolving customer expectations of financial service providers and green banking trends	• Extreme rain intensity (1-in-20yr rainfall) • Extreme rain frequency of events • Very high fire weather days per year • Extreme heat days above 35°C per year • Cyclone intensity and frequency • Storm surge events and sea level rise
Where we assessed	Transition metrics and themes were assessed on state to national levels using climate model outputs and supporting literature.	Physical metrics and themes were assessed on a postcode scale using 5km climate model projections where possible and supporting literature.

Physical scenario analysis

Not dissimilar to other lenders, climate projections indicate that by 2030 our portfolio faces heightened exposure to extreme rain events in Tasmania, south-east Australia, and Queensland. Moreover, our portfolio in Western Australia and northern Queensland is most exposed to tropical cyclones, which may shift further south in a warmer climate. Rising sea levels pose significant risks to mortgage securities, with more frequent storm surges projected for northern and central Queensland, south-east Australia and Tasmania. Inland areas of Queensland, Victoria and New South Wales face a substantial increase in extreme heat exposure and heightened bushfire risks, particularly affecting our lending in central and northern Queensland. These severe weather events can lead to property damage, reducing collateral value or even complete asset loss. Additionally, changes in insurance availability/affordability in the future may impact customer repayments and increase hardship claims.

Transition scenario analysis

The global shift towards a low-carbon world necessitates a transition to clean energy sources such as renewables. The transition climate scenario analysis focused on the potential for customer lending to support the significant growth in the installation of rooftop solar photovoltaic (PV) through to 2050. In the near term, energy efficiency and electrification present an opportunity to support customers to reduce their exposure to volatile energy markets. Medium-term (2030s-2040s) indicators suggest there will be strong growth in residential battery storage, with the potential for increased lending opportunities by 2050. The scenario analysis also highlighted the increasing adoption of electric appliances and improved energy efficiency in Australian households.

Risk management

MyState identifies and manages risks and associated impacts within its Risk Management Framework. The Risk Management Framework aims at identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating all internal and external sources of risk. Physical risks impacting our assets and lending could be managed by, for example, reminders that mortgage holders have appropriate insurance and reviewing our guidance for loans in high risk-hazard regions.

Metrics and targets

MyState's base year (FY21) operational emissions (Scope 1, 2 and limited Scope 3 emissions) was assessed to be 4,690 tonnes of carbon dioxide equivalent (tCO_2-e). This year MyState completed the inaugural calculation of its Scope 3 financed emissions for FY22 and FY23 covering the most material financed emissions – those associated with residential mortgage lending – which accounts for over 95% of the value of our lending portfolio. A summary of MyState's operational and financed greenhouse gas emissions for FY22 and FY23 (and base year, FY21) are presented in Table 2. Pleasingly, MyState's emissions intensity fell in FY23 to 0.57 tCO_2-e/$m. This figure represents the amount of carbon dioxide equivalent generated in running MyState's operations (our Scope 1, 2 and limited Scope 3 emissions) divided by the size of our home lending book.

The climate scenario analysis findings have indicated parts of our business and lending regions where we can consider associated metrics and targets in FY24 and beyond. We are looking to develop targets related to physical and transitional issues, and reducing Scope 1, 2 and 3 emissions.

Table 2: MyState operational and financed greenhouse gas emissions (tCO_2-e) and the percent change in FY23 from FY22

Greenhouse gas emissions (tCO2-e)	FY21[1]	FY22	FY23	Change from FY22
Scope 1 – direct emissions	54	40	**41**	**+3.3%**
Scope 2 – electricity-related emissions	271	207	**137**	**-33.8%**
Scope 3 – indirect emissions[2]	4,365	4,622	**4,341**	**-6.1%**
Scope 3 – financed emissions[3]	Not estimated	44,295	**51,315**	**+15.8%**
Total emissions	**4,690**	**49,164**	**55,834**	**+13.6%**
Emissions intensity (excluding financed emissions) (tCO_2-e/$m)	0.86	0.71	**0.57**	**-20%**

1. FY21 has been used as the base year for emissions calculations due to data availability and it being a year which truly and fairly represents MyState's activity data.
2. Included within the total Scope 3 emissions boundary was purchased goods and services, capital goods, fuel, and energy-related activities (not included in Scope 1 and 2), upstream transportation and distribution, waste generated in operations, business travel, employee computing, upstream leased assets, and working from home.
3. Scope 3 financed emissions are those linked to MyState's investment portfolio and lending activities. The lending portfolio grew 13.5% in FY23.

Looking forward

We are a Tasmanian born and based company and we are proud of the economic credentials of our home state, which is one of the first places in the world to be carbon negative and has the most ambitious legislated emissions reduction target in Australia. It is an example that is inspiring us to do more to create and sustain long-term value in a rapidly changing world.

Board of Directors

Vaughn Richtor

Independent Non-Executive Chairman

BA (Hons) MAICD

- Group Audit Committee
- Group Risk Committee
- Group People Remuneration and Nominations Committee

Vaughn joined the Board as a Non-Executive Director in September 2019 and was appointed Chairman on 1 April 2022. 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 Rhizome, Spriggy, Wyvern Health and the Strategy Implementation Institute in Singapore. 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.

Robert Gordon

Independent Non-Executive Deputy Chairman

BSc, MIFA, MAICD, FAMI

- Group Risk Committee (Chair)
- Group People Remuneration and Nominations Committee

Bob has been a Non-Executive Director since February 2009 and prior, a Director of MyState Bank Limited, (previously connectfinancial), from July 1998. He is President of Football Federation Tasmania and Chair of the Supported Affordable Accommodation Trust.

He is the former Managing Director of Forestry Tasmania, President and a Director of the Institute of Foresters of Australia and has previously served on the Board of a number of companies in the tourism, research and development, construction and infrastructure industries.

Sibylle Krieger

Independent Non-Executive Director

LLB (Hons), LLM, FAICD, MBA

- Group People Remuneration and Nominations Committee (Chair)
- Group Risk Committee

Sibylle has been a Non-Executive Director since December 2016 and has over 40 years of broad commercial experience as a lawyer, economic regulator, company director and independent consultant. She was a partner in two large commercial law firms for 22 years and has over 17 years' experience as a Non-Executive Director and Chair across listed and unlisted companies in multiple sectors. Her current portfolio includes financial services, fintech, essential infrastructure services and energy.

Sibylle is currently a Non-Executive director of Ventia Services Group Limited (ASX:VNT), AEMO Services Limited and Openpay Group Limited (ASX:OPY). She is also a member of the advisory board of Law Squared, a challenger to the traditional law firm model. She has previously served as Chair of Xenith IP Group Limited (ASX:XIP) and as a Director of Sydney Ports Corporation, Allconnex Water (South-East Queensland), TasWater, Vector Limited (NZX:VCT), the Australian Energy Market Operator Ltd (AEMO), and as a trustee of the Royal Botanic Gardens and Domain Trust and of Sydney Grammar School. In addition, for six years Sibylle served as a Tribunal member of the principal NSW economic regulatory tribunal.

She holds undergraduate and post-graduate degrees in law and an MBA from Melbourne Business School. She is a Fellow of the Australian Institute of Company Directors.

Warren Lee

Independent Non-Executive Director

BCom, CA

- Group Audit Committee
- Group Risk Committee

Warren was appointed as a Non-Executive Director in October 2017 and appointed Chairman of TPT Wealth in August 2023. 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 has previously served as a Director of Avenue Bank Limited and Tower Limited.

Warren is currently a Non-Executive Director of MetLife Limited, Warakirri Asset Management Limited and Flinders Investment.

Stephen Davy

Independent Non-Executive Director

BSc (Hons)

- Group Risk Committee
- Group Audit Committee
- Group People Remuneration and Nominations Committee

Stephen was appointed as a Non-Executive Director in July 2021. He was formerly Chief Executive Officer and Director of Hydro Tasmania, a position he held from 2013 to 2020. Prior to that role he held senior executive roles at Hydro Tasmania, Eraring Energy, Societe General and Bankers Trust and started his banking career at Macquarie Bank. Stephen is also a Director at Sonic Civil Investments and at Volunteering Tasmania.

Andrea Waters

Independent Non-Executive Director

BCom, FCA, GAICD

- Group Audit Committee (Chair)
- Group Risk Committee

Andrea was appointed as a Non-Executive Director in 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 the Chairman of the Colonial Foundation and a Director of Bennelong Funds Management Group, Citywide Service Solutions Pty Ltd, Helia Group Limited (ASX:HLI) and Grant Thornton Australia Ltd. Prior, she was a Director of The Lord Mayor's Charitable Foundation, Chartered Accountants.

Brett Morgan

Managing Director and Chief Executive Officer

BEc, MAppFin

Brett commenced with the MyState Group on 17 January 2022. He was previously Chief Executive Officer, Banking and Wholesale at ASX listed BNK Banking Corporation Limited (ASX:BBC) and has extensive digital banking experience having held a number of key executive roles over 15 years at ING DIRECT.

Key Management Personnel

Brett Morgan

Managing Director and CEO
Appointed January 2022

BEc, MAppFin

Brett commenced with the MyState Group on 17 January 2022. He was previously Chief Executive Officer, Banking and Wholesale at ASX listed BNK Banking Corporation Limited (ASX:BBC) and has extensive digital banking experience having held a number of key executive roles over 15 years at ING DIRECT.

Paul Moss

Chief Operations Officer
Appointed May 2015

BEng (Hons)

As Chief Operating Officer, Paul is responsible for the strategic direction and delivery of MyState Limited Group's Technology, Data, Cyber and Banking Operations.

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.

Gary Dickson

Chief Financial Officer
Appointed October 2019

BCom, MBA (Executive), FCA

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 30 years of experience in a variety of financial roles, with 15 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.

Mandakini Khanna

Chief Risk Officer
Appointed December 2015

BCom, GAICD, FGIA

Mandy is responsible for both financial and non-financial risks at MyState. She chairs the group Enterprise Risk Committee and the ESG Committee.

Mandy has over 25 years' experience in banking and financial services across sales, product management, operations and risk management. Prior to joining MyState in December 2015 Mandy was the Chief Credit Officer for GE Capital, before which she held various senior risk positions in GE Capital across Asia Pacific.

Tim Newman

General Manager, Lending

Appointed June 2023

As General Manager, Lending, Tim is responsible for all elements of MyState's retail lending business – including product development, distribution, operations and service delivery.

Tim joined MyState in 2022 as Head of Business Transformation. Prior to this Tim spent 15 years at ING Australia in a variety of senior leadership positions across the retail bank – including Head of Product, Head of Strategy, Head of Customer Experience and Service, and Executive Director for Operations.

Janelle Whittle

General Manager, People Community and Public Relations

Appointed January 2018

BCom, MHRM

Janelle has overall responsibility for MyState Limited Group's human resources function, community portfolio including the MyState Bank Community Foundation, and Public Relations.

People and culture has a key role in developing and fostering an organisational culture 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.

Claudio Mazzarella

General Manager, Everyday Banking & Marketing

Appointed May 2023

GradDip Management

As General Manager, Everyday Banking & Marketing, Claudio has strategic, commercial and operational responsibility for MyState's Everyday Banking & Marketing business that includes product (deposits), digital, marketing, payments, retail branches and contact centre that is designed to drive customer and deposit growth.

Claudio has over 18 years' experience across financial services and digital banking in senior business and functional leadership roles spanning product, payments, digital, marketing, channel management, operational support and transformation. He was previously General Manager, Group Payments at BOQ, before which he was General Manager for Products and Payments at ME Bank. He has also held key functional roles at NAB and Coles Myer Ltd (now Coles Group).

Directors' report

Your Directors present their report for MyState Limited and its controlled entities (the Group) for the year ended 30 June 2023.

Directors

- **Vaughn Richtor** BA (Hons), MAICD
  Chairman and Independent Non-Executive Director.
- **Robert Gordon** BSc, MIFA, MAICD, FAMI
  Deputy Chairman and Independent Non-Executive Director.
- **Brett Morgan** BEc, MAppFin
  Managing Director and Chief Executive Officer – Executive Director.
- **Stephen Davy** BSc (Hons)
  Independent Non-Executive Director.
- **Sibylle Krieger** LLB (Hons), LLM, FAICD, MBA
  Independent Non-Executive Director.
- **Warren Lee** BCom, CA
  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

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).

MyState Bank delivers home lending, savings and transactional banking solutions through digital and branch channels, an Australian-based contact centre, mobile lenders and mortgage brokers.

TPT Wealth delivers asset management and trustee services through relationship managers, digital channels and an Australian-based estate planning, trust administration and support team.

There have been no 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 2023 were as follows:

- For the year ended 30 June 2022, a fully franked dividend of 11.50 cents per share, amounting to $12.18m was paid on 7 September 2022.
- For the half-year ended 31 December 2023, a fully franked dividend of 11.50 cents per share, amounting to $12.54m was paid on 21 March 2023.

The Directors have declared a fully franked final dividend of 11.5 cents per share. The dividend will be payable on 19 September 2023 to shareholders on the register at the record date of 24 August 2023, taking the dividend for the full year to 23.0 cents per share.

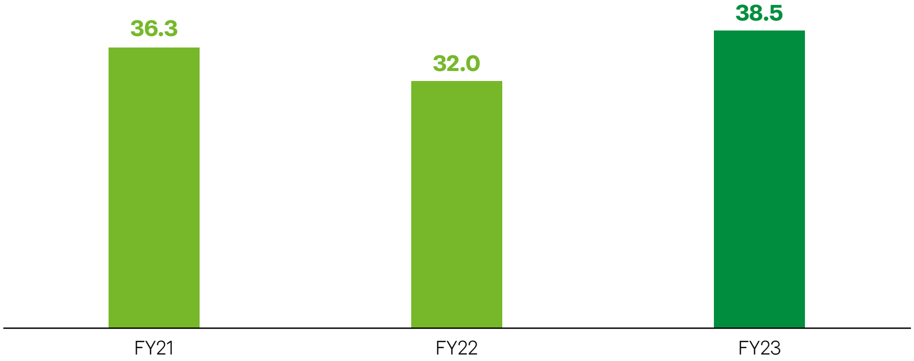
Operating and financial review

Financial performance

The Group delivered a record net profit after income tax for the year ended 30 June 2023 of $38.5m, an increase of 20.2% on the prior corresponding period (pcp) to 30 June 2022 of $32.0m.

Earnings per share (EPS) was 35.5 cents per share (FY22: 30.3 cents per share), return on equity (ROE) was 8.7% (FY22: 7.7%) and the cost to income ratio (CTI) was 64.0% (FY22: 68.4%). These key metrics speak to the business momentum generated this financial year through the execution of the Group's growth strategy and the resulting operating leverage, led by strong income growth and disciplined cost management.

Group net profit after tax ($m)



The total loan book (excluding capitalised acquisition costs) grew $937m or 13.5% on June 2022. The home loan book grew $962m (14.1% or 2.9 times system growth) during the period. MyState maintains a disciplined approach to credit risk and a sustained focus on asset quality.

Pre-provision operating profit of $57.7m increased 30.3% on pcp, largely driven by an increase in operating income of $20.2m or 14.4%, partly offset by expense growth of 7.1%. MyState's strategy is to accelerate growth and create scale by growing market share in deposits, lending and funds under management (FUM), as evidenced by loan book and customer deposit growth, and a 33% uplift in new customers joining MyState in the past 12 months.

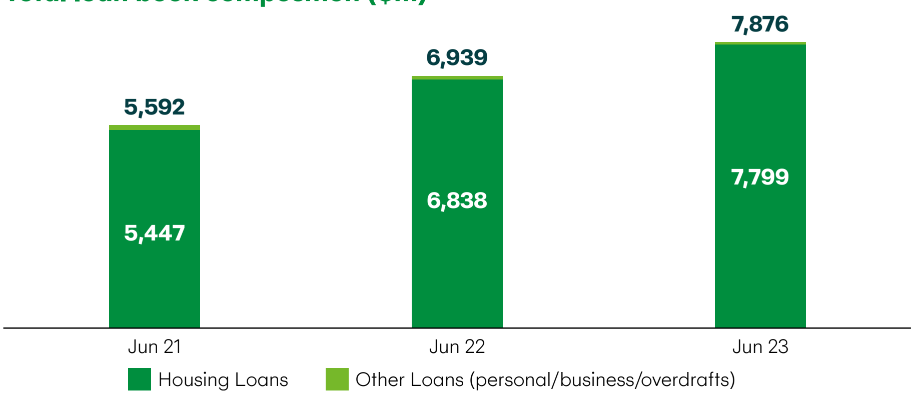
In 2023, MyState's award-winning Bonus Saver account featured in the Finder Banking Awards 2023, celebrating Australia's best transaction, savings and term deposit accounts. Using 12 months' worth of data, Finder's experts have analysed the rates, fees and offer details for hundreds of everyday deposits accounts and recommended the Bonus Saver account in the 'Best Savings account' category.

Despite a period of significant change and the challenges presented by the rising cost of living in recent times, MyState's internally measured customer net promoter score was +35 at 30 June 2023, and reflects a high level of ongoing customer advocacy.

MyState Bank

Exceptional lending growth and credit quality was maintained in FY23. MyState Bank's loan portfolio grew 13.5% from 30 June 2022, reaching $7,876m at 30 June 2023.

Total loan book composition ($m)



Impairment expense was $3.3m higher than pcp, reflecting an increase in total collective provisions, consistent with an increase in arrears in a rising interest rate environment.

MyState's 30 and 90-day arrears remain below industry benchmarks at 0.81% and 0.34% respectively (30 June 2022: 0.41% and 0.20%).

Arrears are higher than 12 months ago reflecting increases of 400bps in the official cash rate since May 2022 and the rising cost of living due to elevated levels of inflation.

Central banks globally still have a fine balancing act ahead, to manage inflation down without stalling economic activity and pushing economies into recession.

Directors' report

continued

The Bank remains focused on low-risk, owner-occupied lending with a loan to valuation ratio (LVR) of less than 80%.

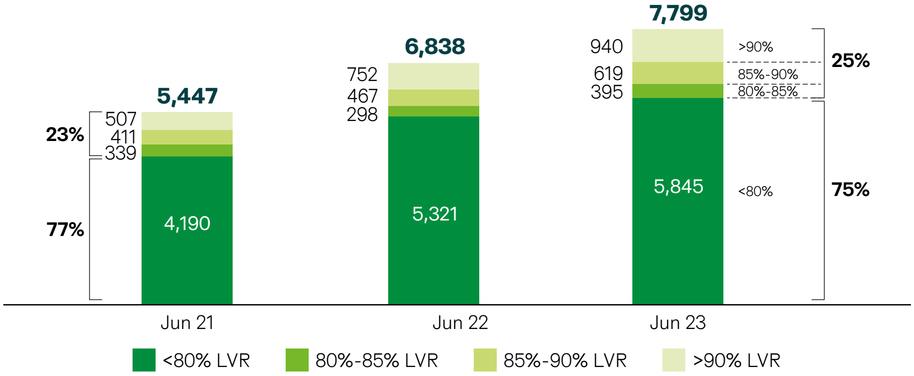
Exposure to investor and interest-only lending remains relatively low compared to sector averages.

The increase in loans with an LVR greater than 90% since June 2021 reflects the success of the Bank's participation in the Federal Government's First Home Loan Deposit Scheme (FHLDS), which is all owner-occupied lending. The FHLDS is an Australian Government initiative to support eligible customers purchase their first home sooner with as little as a 5% deposit.

The National Housing Finance and Investment Corporation (NHFIC) provides a guarantee of up to a maximum amount of 15% of the value of a property (as assessed by MyState) purchased under the scheme.

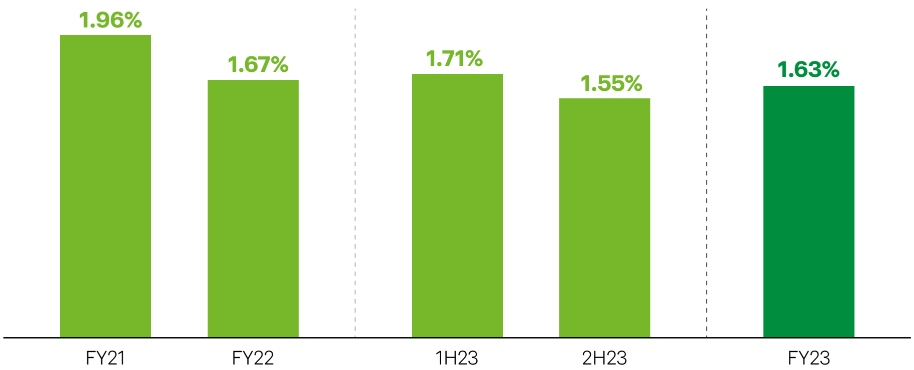
All non-FHLDS loans with an LVR >80% are mortgage insured.

Home loan book – LVR profile ($m)

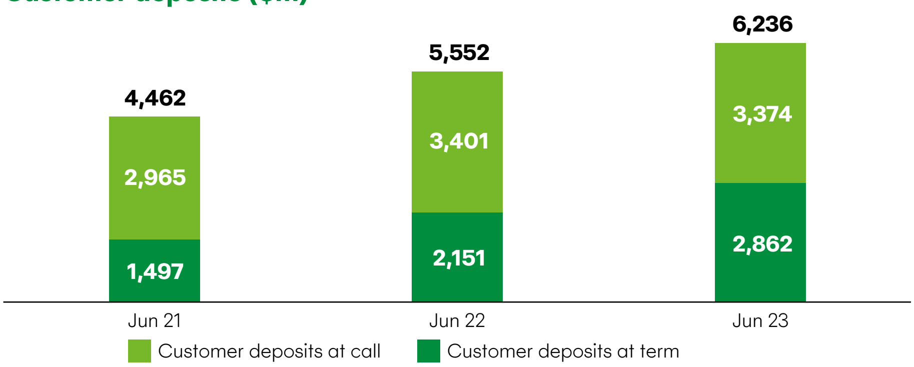


Net interest margin (NIM) trend

Net interest income was up $22.3m or 20.3% on pcp as a result of a larger average balance sheet, partly offset by a fall in NIM. The fall in average NIM of 4bps to 1.63% during the year reflects intense competition in the market for new home loans, higher funding costs and above-system loan book growth.



Customer deposits ($m)



Customer deposits increased by 12.3% in the period driven by growth in term deposits with customers acquired evenly across the branch network, digital, online and third party channels.

The Bank's online originated deposit portfolio grew an additional $229m to $1,130m (25.5%) from 30 June 2022.

MyState welcomed a further 25,690 new to bank customers this financial year.

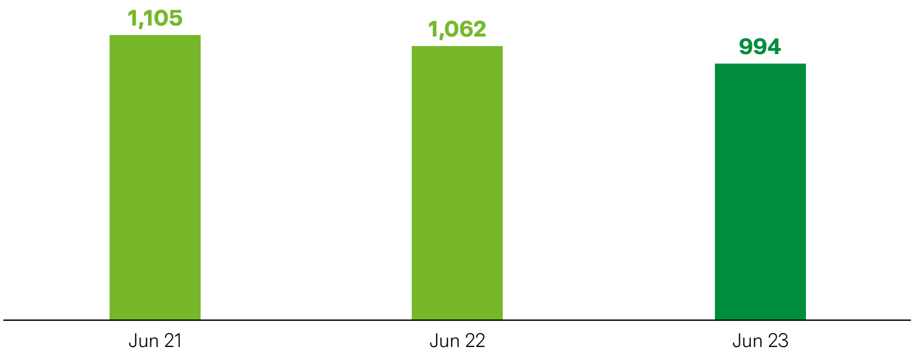
Securitisation funding increased during the period and remains an important source of funding in conjunction with an increase in customer deposits.

Non-interest income from banking activities decreased by $1.6m or 10.7% on pcp, as a result of lower transaction and loan fees.

TPT Wealth

Funds under management ($m)

TPT Wealth provided $14.3m in fee revenue and income diversification for the Group.



Income from wealth management activities decreased by $0.5m or 3.5% on pcp, with TPT Trustee Services income slightly lower over the year and Investment Services income lower due to a fall in average funds under management (FUM).

FUM decreased $68m from 30 June 2022 with the Income Funds declining by $80m, partly offset by increases in the At Call Fund of $7m and the Growth Funds by $5m.

Capital position

The Group's total capital ratio increased to 15.43% at 30 June 2023 and the Group's Common Equity Tier 1 ratio increased to 11.22%.

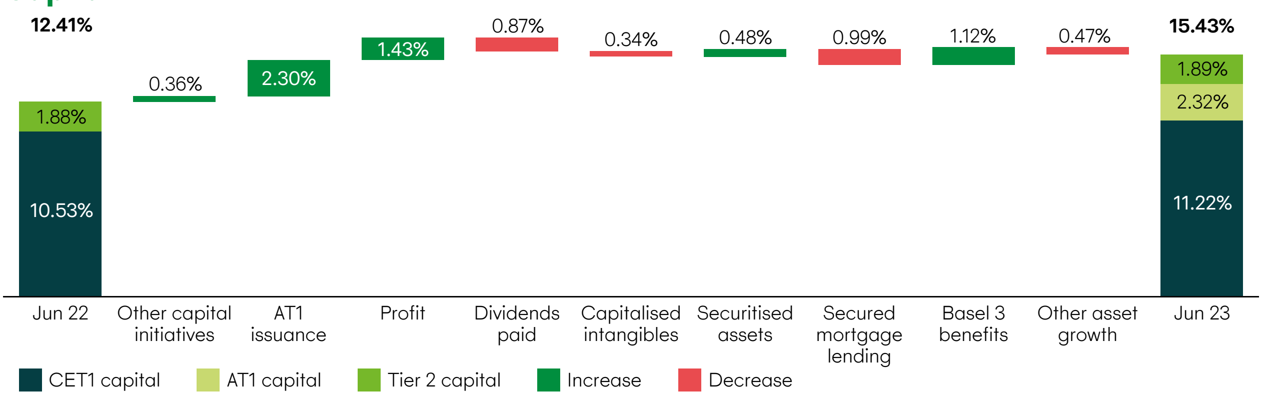
Further capital flexibility was provided during the period by the inaugural issue of Additional Tier 1 capital and further securitisation.

During the year MyState issued a $400m Term RMBS and established a new committed warehouse funding agreement.

Both transactions support MyState's growth strategy and provide flexibility to MyState's capital management strategy.

On 1 January 2023, the Group transitioned to the Australian Prudential Regulation Authority's (APRA) new bank capital framework and has met the new requirements at all times.

Capital



Directors' report
continued

Community

MyState seeks to make a genuine difference to customers and the communities within which they operate.

Since 2001, the MyState Foundation has awarded more than $2.6m in grants to help not-for-profit organisations in Tasmania with a focus on helping young Tasmanians reach their full potential. In FY23, the MyState Foundation continued to support the Tasmanian community by providing grants of more than $175,000 to 20 recipients focused on providing greater opportunities for youth.

Outlook

The Board-endorsed plan to accelerate growth in lending has gained momentum. In the medium term, the business is seeing the realisation of the benefits from its investment in digital capabilities, distribution and marketing to grow the customer base, while maintaining a strong risk culture to manage the risks associated with an uncertain economic environment.

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

The lead auditor's independence declaration is set out on page 34 and forms part of the Directors' Report for the year ended 30 June 2023.

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

In the opinion of the Directors, there has not arisen in the period between the year ended 30 June 2023 and the date of this report, any material item, transaction or event that is likely to significantly affect the operations of the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation. A Task Force on Climate-related Financial Disclosures (TCFD) report outlining MyState's baseline Scope 1, 2 and 3 greenhouse gas (GHG) emissions associated with the activities and facilities that support the businesses' everyday operations has been included in this Annual Report.

Directors' meetings

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

	MYS Board Meetings		Group Audit Committee		Group Risk Committee		Group People, Remuneration and Nominations Committee*		Group Digital and Marketing Committee	
MYS Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
S Davy	15	15	7	7	5	5	4	4	n/a	n/a
R Gordon	15	15	n/a	n/a	5	5	4	4	4	4
S Krieger	15	15	n/a	n/a	5	5	4	4	n/a	n/a
W Lee	14	15	7	7	5	5	n/a	n/a	3	4
B Morgan	15	15	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
V Richtor	14	15	6	7	5	5	4	4	4	4
A Waters	15	15	7	7	5	5	n/a	n/a	4	4

A = Number of meetings attended. B = Number of meetings eligible to attend.

* The Group People and Remuneration Committee merged with the Group Nominations and Corporate Governance Committee on 1 June 2022 to become the Group People, Remuneration and Nominations Committee.

Indemnification and insurance of Directors and Officers

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

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

Non-audit services

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

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

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

Auditor's independence declaration to the Directors

wlf
ACCOUNTING & ADVISORY

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 2023, 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.

Wise Lord & Ferguson

WISE LORD & FERGUSON

NICK CARTER

Partner

Wise Lord & Ferguson

Date: 18 August 2023

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

Remuneration report

Letter from the Chair of the Group People, Remuneration and Nominations Committee

Dear Shareholder,

The 2023 financial year (FY23) marked a significant year of change for MyState Limited, the first full year with our new Managing Director and Chief Executive Officer Brett Morgan, a refresh of the executive team, and the second year of our growth strategy.

On behalf of the Board, I present to you the Company's Remuneration report (Report) for FY23.

In broad terms, the purpose of MyState's Executive remuneration framework has always been to facilitate long-term sustainable value creation for MyState's shareholders. This includes ensuring levels of remuneration are market competitive to attract, motivate and retain suitably qualified individuals focused on MyState's strategic priorities. The performance conditions and measurement timeframes are consistent with the objective of long-term sustainable growth, and our performance targets are designed to be challenging. The payment vehicles and ownership requirements are designed to align executive and shareholder interests, with the deferral and vesting periods designed for appropriate long-range risk management, and to be consistent with the regulatory frameworks in which MyState conducts business.

The Report describes the Group's Director and Executive remuneration frameworks and how they contribute to the execution of our business strategy and support our values and desired culture. Our financial performance for FY23 was very strong in our banking business, while in comparison weaker performance in the wealth business resulted in gateway requirements for the payment of short-term incentives not being met. The Board has, however, exercised the discretion which it always holds and awarded cash bonuses to select Executives for their significant contribution to our record Group performance.

FY23 Executive remuneration framework

It may be helpful to recap the design principles that underlie the MyState executive remuneration framework, further details of which are set out in the Report:

Executive remuneration arrangements should be fit-for-purpose for MyState's overall business strategy and appropriate for the size and complexity of the business. Remuneration should be competitive in the market to ensure that MyState is able to attract, motivate and retain talented executive leaders. Remuneration, particularly MyState's incentive arrangements, should be aligned to the interests of MyState's shareholders. Executive remuneration should drive appropriate behaviours and support the desired culture. Remuneration frameworks should be simple, transparent and readily linked to MyState's strategic objectives.

Short-term incentive: STI performance is measured over a single financial year. STI payments are subject to financial and non-financial gateways and are also subject to overriding Board discretion. The performance measures for STI vary from Executive to Executive to take into account their spheres of control and influence, but also to encourage teamwork and collaboration. STI performance measures are a mixture of financial and non-financial measures including risk management. The Group People, Remuneration and Nominations Committee meets jointly with the Group Risk Committee each year to see that risk management is properly reflected in variable remuneration outcomes.

Long-term incentive: MyState has a long-term incentive (LTI) arrangement that has been designed to align Executives with long-term value creation for shareholders. The LTI design aims to provide Executives with a simple, transparent and meaningful incentive. LTI performance is measured over three years with an additional holding lock of a further two years. LTI awards are subject to return on equity and relative total shareholder returns performance hurdles, and are also subject to overriding Board discretion.

Minimum shareholding requirements: Consistent with ASX practice, MyState has minimum shareholding requirements for its Non-Executive Directors and Managing Director, such that each individual is required to build and maintain a minimum level of shareholding in MyState to align their interests with shareholders. The minimum shareholding requirement is determined by reference to base fees or fixed reward.

External advice: From time to time we seek independent advice in respect of the structure and levels of our Executive remuneration and Non-Executive Director fees to ensure that they remain competitive compared with the markets from which we recruit. In the course of FY23 we sought advice from Mercer, which will be taken into account in setting Executive and Non-Executive remuneration for FY24.

We hope that you find this brief overview helpful in understanding the context in which we think about Executive and Non-Executive remuneration and in which the Report was prepared. We welcome your feedback. Please email any comments to secretariat@mystatelimited.com.au.

Sibylle Krieger
Chair – Group People, Remuneration and Nominations Committee

Remuneration report
continued

Our people and our Company

Key Management Personnel and Directors who served our Company in the year ended 30 June 2023 were:

Name	Role	Commenced	Group, People, Remuneration and Nominations Committee
Vaughn Richtor	Chairman	1 September 2019	✓
Stephen Davy	Non-Executive Director	1 July 2021	✓
Robert Gordon	Non-Executive Director	12 February 2009	✓
Sibylle Krieger	Non-Executive Director	1 December 2016	Chair
Warren Lee	Non-Executive Director	19 October 2017	
Andrea Waters	Non-Executive Director	19 October 2017	
Brett Morgan	Managing Director, Chief Executive Officer	17 January 2022	
Gary Dickson	Chief Financial Officer	19 October 2019	
Mandakini Khanna	Chief Risk Officer	12 December 2015	
Paul Moss	Chief Operating Officer	13 May 2015	
Tim Newman	General Manager Lending	12 June 2023	
Janelle Whittle	General Manager People, Community and Public Affairs	22 January 2018	
Claudio Mazzarella	General Manager Everyday Banking and Marketing	29 May 2023	

Name	Role	Ceased
Heather McGovern	General Manager Digital and Marketing	13 July 2022
Alan Logan	General Manager Wealth Management	9 June 2023
Huw Bough	General Manager Banking	2 October 2023

Our remuneration framework

Philosophy and principles

MyState Limited's remuneration policy is founded on a company-wide commitment to transparency, ethical practices and the creation of long-term value. The framework is designed to encourage and reward actions by executives that deliver positive results for both customers and shareholders through good discipline and strong financial performance, prudent risk management, and the maintenance and enhancement of our company's earned and valued reputation for trustworthiness in the market for financial services. The remuneration policy is designed to support these objectives through:

- Appropriately structured performance-based pay for executives and other eligible employees, including short-term and long-term incentive plans.
- Recognition and reward for strong performance linked to both favourable customer experiences and positive sustainable returns to shareholders.
- A thoughtful balancing of the company's capacity to pay and our need to attract and retain excellent staff at all levels.
- Careful structuring of remuneration for our risk and financial control managers, including performance-based payments, to preserve their independence in carrying out their important roles.
- Board discretion over variable remuneration generally, including discretion to apply malus (reduction or forfeiture) to Executive incentives, when appropriate, to preserve the interests of shareholders and customers and avoid unexpected or unjust outcomes.
- Enhancement of risk management and governance by maintaining separate structures for Non-Executive Director remuneration and Executive remuneration.

Directors' remuneration

MyState's Non-Executive Directors (NEDs) are paid annual fixed fees, including statutory superannuation, for their services. They are also entitled to reimbursement of reasonable expenses.

Unlike executives, Non-Executive Directors do not receive short-term or long-term incentive payments. The Board determines the level of fees paid to Non-Executive Directors according to two main criteria:

- the level of skill and experience required to conduct their roles; and
- the level of fees needed to attract and retain talented Non-Executive Directors.

The Board has obtained independent advice from Mercer executive remuneration consultants to guide its deliberations on Director fees. The aggregate remuneration paid to all NEDs, including statutory superannuation, may not exceed the amount fixed by shareholders, which is currently $950,000 per year. This total amount has now remained unchanged for 11 years.

Each NED currently receives a base fee of $110,000 per annum, and the Chairman receives $236,500 per annum. Chairs of Board Committees (other than the Board Chair) receive an additional $10,000 per annum, the TPT Wealth Limited Board Chair receives an additional $30,000 per annum and the Deputy Chair receives an additional $10,000 per annum.

Managing Director and executive remuneration

Executive remuneration mix

MyState Limited's remuneration packages for the Managing Director and executives who report directly to the Managing Director are structured to support the company's ability to attract and retain talented and experienced leaders, and to provide incentives and rewards for high performance and achievement of the company's goals and objectives over the short, medium and long term. Executive remuneration packages comprise three elements: total fixed reward (TFR), cash-based short-term incentives (STI) and executive long-term incentive plan (ELTIP).

1. Total fixed reward TFR	2. Cash-based short-term incentives STI	3. Executive long-term incentive plan ELTIP
Total fixed reward (TFR) for executives, including the Managing Director, comprises a fixed base salary, superannuation contributions and optional salary sacrifice. The level of payment is set with reference to: • the relative strategic value and importance of the role; • the complexity and breadth of the role; • experience and skills required; and • external market considerations for comparable positions. Base salary rates are set with a view to attracting and retaining talented and culturally aligned executives, while delivering value to shareholders. Executive salaries are periodically reviewed to take into account external market conditions, the business-critical nature of the role, and individual performance.	Cash-based short-term incentives (STI) provide appropriate rewards to executives for meeting or exceeding performance targets and achieving our core company goals – both financial and non-financial. To this end, STI performance measures and associated targets are set with reference to the drivers of annual company performance and the roles of individual executives in achieving positive business outcomes. The level of STI assigned to executives is calculated annually using an STI 'scorecard', which comprises multiple performance elements. These include financial, growth, cultural, risk and compliance, reputational, customer and stakeholder measures. Financial and non-financial gateways serve to balance reward with MyState's profitability and to avoid rewarding conduct that is inconsistent with our values and risk framework. The STI is calculated as a percentage of TFR for each role, and the maximum percentage of TFR payable as an STI is determined by the Board.	Long-term incentive payments to executives, in the form of company shares or performance rights, under the ELTIP exist to encourage and culturally embed long-term thinking and risk management among our company leaders. Long-term planning plays an indispensable role in preparing the company to meet future challenges in an evolving financial services marketplace, and to take advantage of new opportunities as they arise. MyState's ongoing transition to a national, digital business model exemplifies this approach – one designed to meet the ever-changing needs of customers and to sustain long-term value for shareholders.

Remuneration report
continued

FY24 Executive remuneration breakdown

Managing Director & CEO – total target reward			
Total fixed remuneration 40%	Maximum STI 28%	Maximum ELTIP 32%	
	Paid as cash. Performance assessed against business performance for the financial year	Paid as shares or performance rights	
		Total shareholder return (TSR) 75%	Return on equity (ROE) 25%
	70% of total fixed reward	80% of total fixed reward	
Executives – total target reward			
Total fixed remuneration 59%	Maximum STI 18%	Maximum ELTIP 23%	
	Paid as cash. Performance assessed against business and individual performance for the financial year	Paid as shares or performance rights	
		Total shareholder return (TSR) 75%	Return on equity (ROE) 25%
	30% of total fixed reward	40% of total fixed reward	
CRO –total target reward			
Total fixed remuneration 62%	Maximum STI 19%	Maximum ELTIP 19%	
	Paid as cash. Performance assessed against business and individual performance for the financial year	Paid as shares or performance rights	
		Total shareholder return (TSR) 75%	Return on equity (ROE) 25%
	30% of total fixed reward	30% of total fixed reward	

Remuneration governance

A Group People, Remuneration and Nominations Committee – appointed by the MyState Board and comprising four Non-Executive Directors – assists the Board in discharging its remuneration governance responsibilities. Among a range of functions, the Committee reviews and makes recommendations to the Board on:

- remuneration arrangements for Directors, the Managing Director and other Executives;
- Executive incentives, including setting gateways, performance measures and targets at the commencement of the performance period, and assessing performance outcomes against these measures and targets at the conclusion of the performance period, and making recommendations for payment or otherwise; and
- the appropriate exercise of Board discretion on variable remuneration matters.

The Committee assists the Board to meet remuneration obligations required by APRA Prudential Standards and the Banking Executive Accountability Regime (BEAR). The Committee also aims to eliminate conflicts of interest from decisions concerning executive remuneration. To this end, no executive is directly involved in deciding their own remuneration.

Company performance

MyState's financial performance in recent years has helped to inform the level of incentive-based remuneration – both short term and long term.

In May 2021, the company announced a substantial capital raise and its intention to accelerate growth. The growth strategy has the following objectives:

- accelerated home loan and retail deposit growth over the medium term, while maintaining asset quality;
- improved operating leverage (as measured by the cost to income ratio) in line with business growth;
- ROE accretion as capital is deployed; and
- sustainable growth in EPS over the medium term.

As shown below, in FY23 the company has delivered a record full-year profit and strong momentum across key metrics.

Indicator	2019	2020	2021	2022	2023
Statutory profit after income tax ($'000)	30,987	30,060	36,341	32,026	**38,502**
Statutory earnings per share (EPS) (cents)	34.17	32.86	39.18	30.34	**35.45**
Dividends paid ($'000)	26,016	26,241	11,508	26,874	**24,720**
Share price (dollar)	4.49	3.93	4.68	4.08	**3.17**
Statutory average return on equity (%)	9.7	9.2	10.3	7.7	**8.7**
Statutory cost-to-income ratio (%)	64.8	62.8	63.1	68.4	**64.0**

Key highlights for FY23 include:

- Record customer growth and strong portfolio growth across home lending and deposits.
- Improved operating leverage with the cost-to-income ratio falling 440 basis points.
- ROE and EPS accretion as the growth capital has been deployed.

The company has performed strongly across various financial indicators in FY23.

- Home loans book – $7.8b – up 14.1% on the pcp
- Geographical spread with 68% of the home loan book on mainland Australia
- Customer deposits $6.2b – up 12.3% on pcp
- 19,346 new to bank customers – up 33% on pcp
- Strong customer advocacy (NPS +35)
- Transformation to a national digital business model with 96% of transactions completed digitally

pcp – previous corresponding period **NPS** – Net Promoter Score

Remuneration report

continued

Short-term incentive (STI) payments

How STI payments are calculated

Each year, the Group People, Remuneration and Nominations Committee (the Committee) recommends to the Board key performance indicators (KPIs) for the Managing Director with reference to short-term incentive payments. The Managing Director, in turn, recommends KPIs for executives to the Committee, which then makes a recommendation to the Board. KPIs for STI payments include both financial and non-financial metrics that are considered consistent with the business plans of the Group and also supportive of the desired culture of the Group.

At the end of each financial year, the Managing Director assesses the performance of the executives against their KPIs and makes a recommendation for each executive to the Committee. Simultaneously, the Committee assesses the performance of the Managing Director against the relevant KPIs. After consultation with the Chair of the Group Risk Committee, the Committee recommends STI payment amounts for approval by the Board.

The Board retains complete discretion over STI payments, including the right to reduce or forfeit payments as it sees fit. The annual STI component may be reduced or forfeited if the company, or an individual executive, does not meet the 'gateway' criteria approved by the Board at the start of the financial year.

Threshold performance levels for risk and compliance, executive behaviour standards and profit must be met or exceeded for payments to be made under the STI program.

Executives are assessed as a group with reference to performance on net profit, and on risk and compliance – including corporate reputational matters. Individual executive behaviours are assessed against the MyState values, and individual executives' risk and compliance accountabilities are measured via a scorecard comprising several indicators. The Board has the discretion to reduce the STI (including to zero) if any of these gateways are not met.

The STI scorecard includes a mix of financial and non-financial metrics, with the relative weightings varying between different executive roles.

The scorecard comprises a diverse list of both quantitative and qualitative performance measures (or criteria), which have been chosen with a view to driving positive outcomes not just for MyState shareholders, but also for customers, employees and other key stakeholders of the organisation.

Quantitative performance measures include earnings per share, cost to income ratio, funds under management, loan book growth, net customer growth and employee engagement. Executives are also individually assessed with reference to their performance as leaders in their specific roles, and to their individual contributions to the future development of the organisation. The Board has the discretion to vary STI outcomes to reflect differing levels of performance.

The 3 Cs – MyState Values

Create customer 'wow'	Chase the better	Collaborate to win
• We walk in our customers' shoes and appreciate their perspectives. • We think and act in the best interest of our customers. • We are clear, concise and trustworthy in our customer interactions. • We design and deliver exceptional customer experiences, with a human touch. • We make things simpler and easier for our customers.	• We are bold in our ambition. • We seek out and embrace the change that is required to succeed. • We have the courage to try new things and grow from our failures. • We simplify (and digitise) to deliver. • We seek industry-leading productivity and always drive for better outcomes.	• We care for each other, our customers, partners and community. • We give our best, do the right thing, and trust our colleagues to do the same. • We hold each other to account. • We openly share information so that everyone can make informed decisions. • We reach out across teams to rapidly solve problems – and celebrate our successes and learnings!

2022-2023 'gateway' criteria for short-term incentive payments

If threshold performance is not met, the STI may be reduced or forfeited at the discretion of the Board. The Board retains a residual discretion not to award or pay STIs even if the measures have been met, if in its reasonable view, the needs of the Group require this.

Gateway	Assessment measures
1. Group risk	MyState Group meets compliance and risk management obligations; reputation is not materially damaged; capital adequacy and liquidity are managed within Board limits.
2. Individual risk	Individual risk scorecard meets the standard required.
3. Individual accountability	An Accountable Person meets their personal accountability obligations as per the BEAR.
4. Group profit	NPAT exceeds FY23 Budget.
5. Values and behaviours	Individual meets behaviour expectations, assessed against the MyState values.

STI outcomes for 2022-2023

The following key performance measures for the STI component and the level of achievement were assessed by the Board for the 2022-2023 financial year:

Area	Drivers	Measures	Performance
Financial	Earnings	Increasing earnings per share	◐
	Net interest margin	Managed in accordance with Board expectations	◐
	Funds under management	Growing funds under management in our wealth business	⊘
	Balance sheet	Growing the size of our loan book	◐
People	Employee experience	Positive employee experience score	●
	Leadership	Lifting the bar on leadership	◐
		Individual contribution to delivery of strategically significant projects	◐
	Culture	Evolving our customer-centric culture	●
Customer	Growth	New to bank customer growth	◐

● Met or exceeded target ⊘ Below target ◐ Target partially met

While the overall result for the Group was strong, the Board sets the executive ambitious targets. Key financial targets were partially met and were impacted by the intensity of industry competition and slowing demand for credit, in large part due to the challenging macroeconomic environment.

It is pleasing to note our growth in home lending and new to bank customers is evidence of the company's capability to execute on the accelerated growth plan. Our employee experience score (which uses the results of our annual employee engagement survey) was also higher than the previous year.

The proof points of strong growth in customer numbers and significant above-system growth in our home loan portfolio demonstrate our growth strategy is working. We have not yet achieved all that we set out to at the time of the capital raise in June 2021, and our decision not to pay STIs is a reflection of our commitment to align company performance with remuneration. The Board has, however, exercised the discretion which it always holds and awarded cash bonuses to select Executives for their significant contribution to our record Group performance. The total awarded is a small percentage of what the maximum STI opportunity could have been had the gateways been open, as disclosed in the statutory tables.

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.

Remuneration report
continued

Payment offers
Details of STI payment offers for the 2022-2023 financial year and the 2021-2022 financial year are set out below.

The following key performance measures for the STI component and the level of achievement were assessed by the Board for FY23:

Key Management Personnel	% max. (of TFR)	Max. payable	% awarded	% forfeited	$ amount paid	% which is not yet assessed for payment
2022-2023						
Brett Morgan	60%	$375,000	0%	100%	$0	0%
Gary Dickson	30%	$120,000	0%	100%	$0	0%
Mandakini Khanna	30%	$117,000	0%	100%	$0	0%
Tim Newman	30%	$112,500	0%	100%	$0	0%
Huw Bough[1]	30%	$117,000	0%	100%	$0	0%
Alan Logan[1]	30%	$111,000	0%	100%	$0	0%
Paul Moss	30%	$109,500	0%	100%	$0	0%
Janelle Whittle	30%	$94,500	0%	100%	$0	0%
Claudio Mazzarella[2]	–	–	–	–	–	–
2021-2022						
Brett Morgan[1]	60%	$169,521	0%	100%	$0	0%
Gary Dickson	30%	$120,000	0%	100%	$0	0%
Mandakini Khanna	30%	$117,000	0%	100%	$0	0%
Heather McGovern	30%	$99,000	0%	100%	$0	0%
Huw Bough	30%	$117,000	0%	100%	$0	0%
Alan Logan[1]	30%	$92,130	0%	100%	$0	0%
Paul Moss	30%	$109,500	0%	100%	$0	0%
Janelle Whittle	30%	$94,500	0%	100%	$0	0%
Melos Sulicich[1]	60%	$187,500	0%	100%	$0	0%

1. Pro-rata max payable based on commencement and cessation dates as applicable.
2. No STI on offer in FY23 due to commencement date.

Executive Long-Term Incentive Plan (ELTIP)

How the ELTIP works
The Executive Long-Term Incentive Plan (ELTIP) was established by the Board to encourage and motivate the Managing Director and other eligible executives by rewarding them with company shares for helping to create long-term value for the company's shareholders. Until 30 June 2021, participating executives were allocated fully paid ordinary shares in the company, without payment, if performance criteria specified by the Board were satisfied in a set period. Since 1 July 2021, the allocations have been in the form of 'performance rights', which, on vesting, deliver one share for each vested performance right.

Each year, the Board has the discretion to offer executives shares/performance rights worth up to a specified percentage of their total fixed reward (salary). The 2020-2022 offers have been equal to 70% of total fixed reward for the Managing Director, and 30% of total fixed reward for eligible executives. The 2023 offer is equal to 80% of total fixed reward for the Managing Director, and a range of 30%-40% for eligible executives as determined by the Board. The number of shares or performance rights allocated is based on the volume weighted average price (VWAP) of shares calculated over the 20 trading days to 30 June immediately prior to the commencement of the performance period for the relevant offer.

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For the shares or performance rights to vest, certain performance criteria must be satisfied within the specified performance period.

Both the performance criteria and the performance period are set by the Board alone. ELTIP performance measures for the 2020-2022 offers are weighted equally between relative total shareholder return (TSR) and return on equity (ROE). The relative TSR incorporates both dividends paid and movements in share prices, while the ROE is a measure of corporate profitability. For the 2023 offer the TSR performance measure will have a weighting of 75% and the ROE performance measure will have a weighting of 25%.

Currently the Board has set three financial years, commencing with the year in which an offer is made, as the performance period. Relative TSR and statutory ROE have been set as the performance criteria for the 2020, 2021, 2022 and 2023 offers. The Board may adjust the statutory ROE performance criteria for one-off items for the 2020 and subsequent offers.

The performance criteria are assessed following the completion of each performance period. Under the ELTIP rules, an assessment is made against the performance criteria to determine the number of shares or performance rights awarded to the Managing Director and each participating executive.

Shares or rights cannot be allocated for a further two years. This means a total period of five years will elapse from the commencement of the performance period to the time when shares are vested. Any ELTIP reward is subject to reassessment and possible reduction or forfeiture. This enables the Board to adjust share allocations (potentially to zero) to protect the financial soundness of the company or respond to significant unforeseen or unexpected consequences. In addition, if the Managing Director or a participating executive is an accountable person under the BEAR, allocating the shares will be subject to the Board being satisfied that the accountable person has met their accountability obligations. The number of shares allocated (and/or value of any associated payment) may be reduced or cancelled to the extent that the Board determines that the accountability obligations have not been met.

Allocation of shares to the Managing Director and eligible executives is ultimately at the complete discretion of the Board. The ELTIP rules provide that an independent trustee, acting at the direction of the company, may acquire and hold allocated shares on behalf of executives. The participating executive cannot transfer or dispose of shares before they have been allocated to them. Any shares or performance rights to be allocated to the Managing Director under this plan require shareholder approval in accordance with ASX listing rules. Participating executives are required to not hedge their economic exposure to any allocated non-vested entitlement.

Failure to comply with this directive will constitute breach of duty and may result in forfeiture of the offer and/or dismissal.

Commencement of employment during a financial year

Subject to Board approval, a pro-rata ELTIP offer can be made to an executive who commences employment during the financial year, but before 1 April. The terms of the offer must be consistent with all other offers for that year, irrespective of the date of employment commencement.

Cessation of employment

Executives who cease employment with the company will be eligible to receive shares only if the cessation is due to a Qualifying Reason, as defined by the ELTIP Plan Rules. Qualifying Reasons include death, total and permanent disability, retirement at normal retirement age, redundancy or other such reason as the Board may determine. Where an ELTIP participant ceases employment, their ELTIP 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. If the separated employee is an accountable person under BEAR, any awarded shares will not be allocated until all BEAR requirements are satisfied, including the variable remuneration deferral period.

Entitlement to dividend income

When shares allocated to an executive are held by a trustee, the executive is entitled to receive dividend payments on the allocated shares and to have the trustee exercise the voting rights on those shares in accordance with the executive's instructions. However, executives have no entitlements to dividends or voting rights for shares or performance rights during the deferral period.

Remuneration report

continued

ELTIP outcomes 2022-2023

Payment offers

Details of offers made under the Executive Long-Term Incentive Plan (ELTIP) are detailed in the following table:

Offer	2020	2021	2022
Performance period	1 July 2020 to 30 June 2023	1 July 2021 to 30 June 2024	1 July 2022 to 30 June 2025
The comparator group		Members of the S&P/ASX300	
Fair value of shares on offer date[1]			
• Managing Director	Managing Director $3.36	Managing Director $3.10	Managing Director $3.66
• Other Executives	Other Executives $3.36	Other Executives $3.10	Other Executives $3.87
Offer date			
• Managing Director[3]	16 November 2020	17 January 2022	19 October 2022
• Other executives[3]	16 November 2020	23 September 2021	19 August 2022
Value of offer[2]			
• Managing Director	$312,500	$197,774	$333,922
• Other executives	$649,500	$750,699	$645,462

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 to recognise an expense over the performance period for the TSR component of offers. The fair value attached to the offer to the Managing Director was subject to valuation review following shareholder approval of the "2022" Offer at the 2022 Annual General Meeting.
2. The value of the offer is the maximum value calculated as at the date of offer at that time. As such, it may include the value of offers made to individuals who are no longer executives of the company.
3. Pro-rata offer made in respect of the "2021" offer to Alan Logan and Brett Morgan.

Calculation of the reward TSR component

The ELTIP offers TSR components will vest on the following basis.

TSR component

For the 2020 offer:

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%

For the 2021 and 2022 offers:

MYS TSR relative to the ASX 300:	Percentage of the applicable reward that will vest:
Below the 50th percentile	0%
At the 50th percentile	50%
Between the 50th percentile and the 75th percentile	Straight line basis between 50% and 100%
At or above the 75th percentile	100%

For the 2023 offer:

MYS TSR relative to the ASX 300:	Percentage of the applicable reward that will vest:
Below the 50th percentile	0%
At the 50th percentile	50%
Between the 50th percentile and the 75th percentile	Straight line basis between 50% and 100%
At or above the 75th percentile	100%

Calculation of the reward ROE component

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

ROE component

For the 2020 offer:

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%

For the 2021 and 2022 offers:

Statutory ROE with Board discretion to adjust for one-off items:	Percentage of the applicable reward that will vest:
Below 30.00%	0%
30.00%	50%
30% to 31.50%	Straight line basis from 50% to 100%
31.50% or above	100%

For the 2023 offer:

Statutory ROE with Board discretion to adjust for one-off items:	Percentage of the applicable reward that will vest:
Below 30.00%	0%
30.00%	50%
30% to 31.50%	Straight line basis from 50% to 100%
31.50% or above	100%

Remuneration report

continued

Actual and potential ELTIP share allocations

The following table details, for current and former KMP, the status of offers made under the ELTIP. The '2019' offer performance period was completed on 30 June 2022. The '2020' offer performance period was completed on 30 June 2023.

2020 offer	Component	Maximum offer	Forfeited lapsed	Awarded in the 2022-23 financial year	Not yet assessed for vesting
Key Management Personnel			**Number of shares**		
Melos Sulicich[1]	TSR	38,676	31,521	**7,155**	–
	ROE	38,675	38,675	**–**	–
Gary Dickson	TSR	14,852	9,357	**5,495**	–
	ROE	14,851	14,851	**–**	–
Mandakini Khanna	TSR	14,480	9,122	**5,358**	–
	ROE	14,480	14,480	**–**	–
Heather McGovern	TSR	12,253	12,253	**–**	–
	ROE	12,252	12,252	**–**	–
Anthony MacRae	TSR	14,480	14,480	**–**	–
	ROE	14,480	14,480	**–**	–
Paul Moss	TSR	13,552	8,538	**5,014**	–
	ROE	13,552	13,552	**–**	–
Craig Mowll	TSR	14,480	14,480	**–**	–
	ROE	14,480	14,480	**–**	–
Janelle Whittle	TSR	10,767	6,783	**3,984**	–
	ROE	10,767	10,767	**–**	–

2019 offer	Component	Maximum offer	Forfeited lapsed	Awarded in the 2021-22 financial year	Not yet assessed for vesting
Key Management Personnel			**Number of shares**		
Melos Sulicich[1]	TSR	34,036	17,199	16,837	–
	ROE	34,035	34,035	–	–
Gary Dickson[2]	TSR	9,570	3,866	5,704	–
	ROE	9,570	9,570	–	–
Mandakini Khanna	TSR	12,743	5,148	7,595	–
	ROE	12,743	12,743	–	–
Heather McGovern	TSR	10,783	10,783	–	–
	ROE	10,782	10,782	–	–
Anthony MacRae	TSR	12,743	12,743	–	–
	ROE	12,743	12,743	–	–
Paul Moss	TSR	11,926	4,818	7,108	–
	ROE	11,926	11,926	–	–
Craig Mowll	TSR	12,743	12,743	–	–
	ROE	12,743	12,743	–	–
Janelle Whittle	TSR	9,476	3,828	5,648	–
	ROE	9,475	9,475	–	–

1. The awarding of the 2020 offer is subject to shareholder approval subsequent to the publishing of this report.
2. Pro-rata offer made for '2019'.

The 2021, 2022 and 2023 offers have not been assessed for vesting. The following table shows the maximum number of shares available under each of these offer.

	Component	2021 offer	2022 offer	2023 offer[2]
Key Management Personnel			**Number of shares**	
Brett Morgan[1]	TSR	20,602	52,458	**121,905**
	ROE	20,601	52,458	**40,635**
Gary Dickson	TSR	12,500	14,389	**39,048**
	ROE	12,500	14,388	**13,016**
Mandakini Khanna	TSR	12,188	14,029	**29,286**
	ROE	12,187	14,029	**9,762**
Heather McGovern	TSR	10,313	–	**–**
	ROE	10,312	–	**–**
Paul Moss	TSR	11,407	13,130	**35,714**
	ROE	11,406	13,129	**11,905**
Janelle Whittle	TSR	9,844	11,331	**30,952**
	ROE	9,844	11,331	**10,317**
Huw Bough	TSR	12,188	14,029	**–**
	ROE	12,187	14,029	**–**
Alan Logan[1]	TSR	9,630	13,310	**–**
	ROE	9,630	13,309	**–**
Tim Newman	TSR	–	–	**35,714**
	ROE	–	–	**11,905**
Claudio Mazzarella	TSR	–	–	**35,714**
	ROE	–	–	**11,905**

1. Pro-rata offer made for '2021'.
2. The Board has made the decision, subject to shareholder approval for the Managing Director and CEO, and acceptance of the offers by relevant participants, to award up to 437,778 performance rights under the 2023 ELTIP and that such offer will be notified to the market if and when shareholder approval/acceptances are received.

Review of executive remuneration

During FY23, the Committee commissioned independent advice to benchmark in the case of Non-Executive Directors, the size of the remuneration pool and the remuneration treatment of Board Committee responsibilities, and in the case of executives, benchmark executive remuneration. With the benefit of that advice, the Board decided to make a number of changes. These changes have been implemented and include adjustments to the maximum opportunity available for incentives and to fixed remuneration. Increases to fixed remuneration take effect from October 2023, The details of individual executive terms and conditions are provided in the section titled Executive employment agreements. Our Executive remuneration framework will be subject to further review following the introduction of the Financial Accountability Regime (FAR).

Remuneration report

continued

Statutory tables

	Financial year	Salary & fees	Cash bonus[1]	Other short-term benefits	Non-monetary benefits[2]	Post-employment	Termination benefits	Share-based payment[3]	Total
Non-Executive Directors									
Vaughn Richtor	**2023**	**214,027**	**–**	**–**	**–**	**22,473**	**–**	**–**	**236,500**
	2022	130,519	–		–	13,052	–	–	143,571
Miles Hampton	**2023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	157,942	–	–	1,191	15,794	–	–	174,927
Robert Gordon	**2023**	**103,997**	**–**	**–**	**–**	**26,003**	**–**	**–**	**130,000**
	2022	95,903	–		–	26,750	–	–	122,653
Sibylle Krieger	**2023**	**108,597**	**–**	**–**	**–**	**11,403**	**–**	**–**	**120,000**
	2022	109,091	–		–	10,909	–	–	120,000
Warren Lee	**2023**	**108,597**	**–**	**–**	**–**	**11,403**	**–**	**–**	**120,000**
	2022	109,091	–		–	10,909	–	–	120,000
Stephen Davy	**2023**	**99,548**	**–**	**–**	**–**	**10,452**	**–**	**–**	**110,000**
	2022	101,923				10,183	–	–	112,106
Andrea Waters	**2023**	**116,930**	**–**	**–**	**–**	**3,070**	**–**	**–**	**120,000**
	2022	120,000	–		–	–	–	–	120,000
Total NED	**2023**	**751,696**	**–**	**–**	**–**	**84,804**	**–**	**–**	**836,500**
	2022	824,469	–	–	1,191	87,597	–	–	913,257

	Financial year	Salary & fees	Cash bonus[1]	Other short-term benefits	Non-monetary benefits[2]	Post-employment	Termination benefits	Share-based payment[3]	Total
Executives									
Brett Morgan	**2023**	**597,500**	**35,000**	**–**	**3,411**	**34,276**	**–**	**65,451**	**735,638**
	2022	282,663	–	–	1,302	13,010	–	32,869	329,844
Melos Sulicich	**2023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	358,105	–	–	–	25,538	–	(27,811)	355,832
Gary Dickson	**2023**	**362,558**	**–**	**–**	**–**	**26,990**	**–**	**46,805**	**436,353**
	2022	374,622	–	–	–	24,975	–	42,623	442,220
Mandakini Khanna	**2023**	**362,500**	**40,000**	**–**	**3,411**	**27,500**	**–**	**45,633**	**479,044**
	2022	362,500	40,000	–	1,302	37,594	–	42,695	484,091
Heather McGovern	**2023**	**11,635**	**–**	**–**	**–**	**13,433**	**153,354**	**–**	**178,422**
	2022	302,500	–	–	–	27,500	–	36,129	366,129
Paul Moss	**2023**	**335,876**	**40,000**	**–**	**3,411**	**27,368**	**–**	**42,709**	**449,364**
	2022	337,500	–	–	1,302	27,500	–	39,959	406,261
Janelle Whittle	**2023**	**289,636**	**30,000**	**–**	**3,411**	**26,752**	**–**	**35,564**	**385,363**
	2022	279,396	30,000	–	1,302	27,500	–	33,251	371,449
Tim Newman	**2023**	**326,685**	**30,000**	**–**	**–**	**30,477**	**–**	**8,811**	**395,973**
	2022	–	–	–	–	–	–	–	–
Claudio Mazzarella	**2023**	**36,858**	**–**	**–**	**–**	**3,524**	**–**	**–**	**40,382**
	2022	–	–	–	–	–	–	–	–
Huw Bough	**2023**	**380,625**	**–**	**–**	**–**	**27,500**	**–**	**12,221**	**420,346**
	2022	362,500	20,000	–	–	27,500	–	23,416	433,416
Alan Logan	**2023**	**318,789**	**–**	**–**	**–**	**27,500**	**114,576**	**3,816**	**464,681**
	2022	293,760	–	–	–	23,586	–	17,692	335,038
Anthony MacRae	**2023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	13,500	–	–	–	96	–	(24,263)	(10,667)
Craig Mowll	**2023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	–	–	–	–	–	–	(8,446)	(8,446)
Total Executive	**2023**	**3,022,662**	**175,000**	**–**	**13,644**	**245,320**	**267,930**	**261,010**	**3,985,566**
	2022	2,967,046	90,000	–	5,208	234,799	–	208,114	3,505,167
Total KMP	**2023**	**3,774,358**	**175,000**	**–**	**13,644**	**330,124**	**267,930**	**261,010**	**4,822,066**
	2022	3,791,515	90,000	–	6,399	322,396	–	208,114	4,418,424

1. The cash bonus shown in '2022' and '2023' represents the gratuity amount award in respect to performance for select KMP.
2. Non-monetary benefits consist of car parking expense, travel and accommodation and entertainment.
3. Share-based payment amounts have been calculated in accordance with the relevant accounting policy and accounting standards. 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 that 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 are 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.

Remuneration report

continued

Shareholdings of Key Management Personnel (KMP)

Non-Executive Director minimum shareholding

In the absence of approval from the Board to the contrary, Non-Executive Directors 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 or base Chair fee as the case may be. The minimum requirement must be achieved within four years of their appointment as NED or as Chair. The value of the shares held for the purpose of calculating the MSR will be determined by the price of the shares at time purchase.

Managing Director minimum shareholding requirement

In the absence of approval from the Board to the contrary, the Managing Director will be required to acquire and maintain shares in MyState Limited equivalent to 50% of their total fixed reward (TFR) within four years of appointment. Any shares subject to deferral (including shares that may be allocated in respect of awarded performance rights) will be recognised for the purposes of the requirement. The shares in MyState Limited may include shares obtained prior to commencement of employment and/or shares acquired through ELTIP or any other scheme. The value of the shares held for the purpose of calculating the MSR will be determined by the price of the shares at the time of purchase, or the "issue price" in the case of any shares acquired under the ELTIP.

Related parties of KMP shareholdings

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

Key Management Personnel	Number of shares at commencement of financial year[1] 1	Number of shares awarded but not yet vested[3] 2	Net change other[2] 3	No. of shares at end of financial year 1 + 2 + 3	*Of which:* No. of shares at end of financial year held by ELTIP Trustee[4]
Non-Executive Directors					
Vaughn Richtor	17,518	–	12,694	30,212	–
Robert Gordon	36,725	–	2,000	38,725	–
Sibylle Krieger	28,257	–	1,737	29,994	–
Warren Lee	37,641	–	–	37,641	–
Andrea Waters	33,736	–	2,073	35,809	–
Stephen Davy	–	–	–	–	–
Subtotal	**153,877**	**–**	**18,504**	**172,381**	**–**
Executives					
Brett Morgan	4,250	–	10,000	14,250	–
Melos Sulicich[5]	32,963	7,155	–	40,118	–
Gary Dickson	5,704	5,495	–	11,199	–
Paul Moss	25,673	5,014	818	31,505	14,119
Janelle Whittle	17,798	3,984	–	21,782	2,232
Tim Newman	–	–	–	–	–
Mandy Khanna	27,954	5,358	835	34,147	14,421
Claudio Mazzarella	–	–	–	–	–
Heather McGovern	1,470	–	–	1,470	–
Huw Bough	–	–	–	–	–
Alan Logan	–	–	–	–	–
Subtotal	**115,812**	**27,006**	**11,653**	**154,471**	**30,772**

1. Number of shares at commencement of financial year agrees to the closing position per FY22 remuneration report and includes shares issued and awarded under the '2019' offer and shares that have vested under the '2018' offer. From the '2018' offer onwards, under BEAR requirements, any shares awarded are 'held' in suspension pending the additional Board assessment (two years post) that there has been no subsequent forfeiture event.
2. KMP personal share purchase or participation in Dividend Reinvestment Plan (DRP).
3. These amounts are the shares awarded but not yet vested under the '2020' ELTIP offer.
4. These amounts are the shares awarded under the '2016 and 2017 ELTIP offer' and may also include shares subsequently received through participation in the DRP. These shares have been issued and are held by the trustee on behalf of the executives.
5. Melos Sulicich retired on 31 December 2021. The opening balance in column 1 includes shares that have been awarded and vested under the '2018' ELTIP offer and shares awarded but not yet vested under the '2019' ELTIP offer.

Loans to Key Management Personnel

Loan transactions

Loans to KMP and their related parties (including close family members and entities over which the KMP and/or their close family members have control, joint control or significant influence) are provided in the ordinary course of business. Normal commercial terms and conditions are applied to all loans. Any discounts provided to KMP are the same as those available to all employees of the Group. There have been no write-downs or amounts recorded as provisions during FY23.

Details of loans held by KMP and their related parties during FY23, where the individual's aggregate loan balance exceeded $100,000 at any time in this period, are as follows:

Key Management Personnel	Balance as at 1 July 2022	Interest charged during the year	Balance as at 30 June 2023	Highest balance during the year
Brett Morgan	$967,147	$2,727	**Nil**	$967,147

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Executive employment agreements

The Managing Director and executives are employed under individual open-ended employment contracts that set out the terms of their employment, as detailed below.

Incumbent	Commenced in role	Contract term	TFR	Short-term incentive (maximum)	ELTIP (maximum)	Termination provisions in the event of termination by the Company
Brett Morgan[1]	17 January 2022	Ongoing	$640,000	70% of TFR	80% of TFR	**Notice:** The contract may be terminated by the Company with six months' 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, in accordance with the ELTIP rules.
Tim Newman[2]	9 August 2022	Ongoing	$375,000	30% TFR	40% of TFR upon invitation to participate	**Notice:** Each contract can be terminated by the Company upon provision of three months' 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, in accordance with the ELTIP rules.
Alan Logan	30 August 2021	Ongoing	$370,000			
Claudio Mazzarella	29 May 2023	Ongoing	$375,000			
Huw Bough	1 June 2021	Ongoing	$390,000			
Gary Dickson	19 October 2019	Ongoing	$410,000	30% TFR	40% of TFR upon invitation to participate	**Notice:** Each contract can be terminated by the Company upon provision of three months' notice. **Entitlement:** • Payment of the equivalent of six months' TFR (inclusive of the provision of three 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, in accordance with the ELTIP rules.
Paul Moss	13 May 2015	Ongoing	$375,000			
Janelle Whittle	22 January 2018	Ongoing	$325,000			
Mandakini Khanna	1 December 2015	Ongoing	$410,000		30% of TFR upon invitation to participate	

1. Required to hold shares to the value of 50% of TFR.
2. Initial commencement in an executive role. Appointed GM Lending 12 June 2023.

Signed in accordance with a resolution of the Directors.

Vaughn Richtor
Chairman

Brett Morgan
Managing Director and Chief Executive Officer

Hobart, dated this 18 August 2023

Financial report

Consolidated Income Statement

for the year ended 30 June 2023

	Notes	30 June 2023 $'000	30 June 2022 $'000
Interest income	2.1	**352,971**	159,749
Interest expense	2.1	**(220,378)**	(49,504)
Net interest income		**132,593**	110,245
Non-interest income from banking activities	2.1	**13,477**	15,103
Net banking operating income		**146,070**	125,348
Income from wealth management activities	2.2	**14,308**	14,820
Total operating income		**160,378**	140,168
Less: Expenses			
Personnel costs		**44,326**	42,841
Administration costs	2.4	**21,428**	17,759
Technology costs	2.4	**19,084**	17,706
Occupancy costs	2.4	**4,392**	4,294
Marketing costs		**10,233**	10,297
Governance costs		**3,188**	2,985
Total operating expenses		**102,651**	95,882
Profit before impairment and tax expense		**57,727**	44,286
Impairment recovery/(expense) on loans and advances	4.3	**(2,542)**	762
Income from other activities	2.3	**–**	854
Profit before tax		**55,185**	45,902
Income tax expense	6.1	**16,683**	13,876
Profit for the year		**38,502**	32,026
Profit attributable to the:			
Equity holders of MyState Limited		**38,502**	32,026
Basic earnings per share (cents per share)	2.5	**35.45**	30.34
Diluted earnings per share (cents per share)	2.5	**30.85**	30.15

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2023

	30 June 2023 $'000	30 June 2022 $'000
Profit for the year	**38,502**	32,026
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges – Net gains/(losses) taken to equity	**(806)**	9,966
Income tax effect	**242**	(2,990)
Total other comprehensive income/(expense) for the year	**(564)**	6,976
Total comprehensive income for the year	**37,938**	39,002
Total comprehensive income for the year is attributable to:		
Equity holders of MyState Limited	**37,938**	39,002

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2023

	Notes	30 June 2023 $'000	30 June 2022 $'000
Assets			
Cash and liquid assets	4.1	**127,778**	119,215
Due from other financial institutions		**48,003**	40,924
Other assets		**12,085**	9,831
Financial instruments	4.2	**936,880**	842,926
Loans and advances	4.3	**7,908,080**	6,971,375
Property, plant and equipment and right-of-use assets	5.1	**7,977**	10,453
Tax assets	6.1	**5,558**	6,278
Intangible assets and goodwill	5.2	**77,922**	78,845
Total assets		**9,124,283**	8,079,847
Liabilities			
Due to other financial institutions		**66,295**	22,982
Deposits and other borrowings including subordinated notes	4.5	**8,568,185**	7,598,184
Employee benefits provisions	5.3	**5,345**	5,585
Other liabilities	4.6	**18,111**	17,213
Tax liabilities	6.1	**8,784**	5,970
Total liabilities		**8,666,720**	7,649,934
Net assets		**457,563**	429,913
Equity			
Share capital	5.4	**225,274**	211,167
Retained earnings		**223,497**	209,788
Reserves		**8,792**	8,958
Total equity		**457,563**	429,913

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2023

	Notes	Share capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Other reserves $'000	Total $'000
At 1 July 2021		208,196	201,044	6,238	1,038	(302)	(1,000)	415,214
Profit for the year		–	32,026	–	–	–	–	32,026
Other comprehensive income/(expense)		–	–	–	–	6,976	–	6,976
Total comprehensive income for the year		–	32,026	–	–	6,976	–	39,002
Equity issued under employee share scheme	5.4	62	–	–	–	–	–	62
Transfer of unvested shares under executive long term incentive plan		–	238	–	(238)	–	–	–
Equity issued under dividend reinvestment plan	5.4	3,000	–	–	–	–	–	3,000
General reserve for credit losses write-back	5.4	–	3,981	(3,981)	–	–	–	–
Derecognition of capitalised costs under SAAS arrangements		–	(627)	–	–	–	–	(627)
Share-based payment expense recognised		–	–	–	227	–	–	227
Entitlement offer share issuance costs, net of tax	5.4	(91)	–	–	–	–	–	(91)
Dividends paid	2.6	–	(26,874)	–	–	–	–	(26,874)
At 30 June 2022		211,167	209,788	2,257	1,027	6,674	(1,000)	429,913
At 1 July 2022		**211,167**	**209,788**	**2,257**	**1,027**	**6,674**	**(1,000)**	**429,913**
Profit for the year		**–**	**38,502**	**–**	**–**	**–**	**–**	**38,502**
Other comprehensive income/(expense)		**–**	**–**	**–**	**–**	**(564)**	**–**	**(564)**
Total comprehensive income for the year		**–**	**38,502**	**–**	**–**	**(564)**	**–**	**37,938**
Equity issued under employee share scheme	5.4	**50**	**–**	**–**	**–**	**–**	**–**	**50**
Equity issued under dividend reinvestment plan underwrite	5.4	**10,058**	**–**	**–**	**–**	**–**	**–**	**10,058**
Equity issued under dividend reinvestment plan	5.4	**4,146**	**–**	**–**	**–**	**–**	**–**	**4,146**
Share-based payment expense recognised		**–**	**–**	**–**	**287**	**–**	**–**	**287**
Tax related movement – Executive long term incentive plan (ELTIP)		**–**	**38**	**–**	**–**	**–**	**–**	**38**
General reserve for credit losses write-back		**–**	**(111)**	**111**	**–**	**–**	**–**	**–**
Dividend reinvestment plan issuance costs net of tax	5.4	**(147)**	**–**	**–**	**–**	**–**	**–**	**(147)**
Dividends paid	2.6	**–**	**(24,720)**	**–**	**–**	**–**	**–**	**(24,720)**
At 30 June 2023		**225,274**	**223,497**	**2,368**	**1,314**	**6,110**	**(1,000)**	**457,563**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2023

	Notes	30 June 2023 $ '000	30 June 2022 $ '000
Cash flows from operating activities			
Interest received		**374,687**	177,087
Interest paid		**(175,287)**	(44,119)
Fees and commissions received		**28,006**	27,351
Other non-interest income received		**454**	1,688
Payments to suppliers and employees		**(98,173)**	(90,104)
Income tax paid		**(13,278)**	(7,220)
(Increase)/decrease in operating assets:			
Due from other financial institutions		**(5,740)**	(1,864)
Financial instruments		**(91,918)**	(135,256)
Loans and advances		**(963,355)**	(1,381,203)
Increase/(decrease) in operating liabilities:			
Due to other financial institutions		**65,681**	1,706
Deposits and other borrowings excluding subordinated notes and floating rate notes		**805,352**	1,402,550
Net cash flows from/(used in) operating activities	4.1	**(73,571)**	(49,384)
Cash flows from investing activities			
Purchase of intangible assets		**(2,943)**	(4,343)
Proceeds from sale of non-current assets held for sale		**–**	4,765
Purchase of property, plant and equipment		**(2,240)**	(700)
Net cash flows from/(used in) investing activities		**(5,183)**	(278)
Cash flows from financing activities			
Employee share issue		**50**	62
Entitlement and placement offer share issue		**–**	–
Payments for lease liabilities		**(2,060)**	(1,669)
Subordinated notes		**66**	15,097
Floating rate notes issue		**99,871**	99,709
Dividends paid net of dividend reinvestment plan	2.6	**(10,610)**	(24,588)
Net cash flows from/(used in) financing activities		**87,317**	88,611
Net increase/(decrease) in cash held		**8,563**	38,949
Cash at beginning of financial year		**119,215**	80,266
Closing cash carried forward	4.1	**127,778**	119,215

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2023

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 18 August 2023.

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 judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement 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 6.1; and
- assessment of lease liabilities and right-of-use assets, refer notes 4.6 and 5.1.

1.4 Provisions (other than for impairment of financial assets)

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

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

2.1 Net banking operating income

	30 June 2023 $'000	30 June 2022 $'000
Interest income		
Loans and advances	**318,169**	156,130
Investment securities	**30,989**	4,513
Swap interest[1]	**3,813**	(894)
Total interest income	**352,971**	159,749
Interest expense		
At call deposits	**60,633**	16,972
Fixed term deposits	**151,629**	30,379
Floating rate notes	**8,648**	1,003
Financing cost – leases	**781**	918
Swap interest[2]	**(1,313)**	232
Total interest expense	**220,378**	49,504
Non-interest income from banking activities		
Transaction fees	**3,367**	3,703
Loan fees	**5,580**	6,284
Banking commissions	**3,120**	3,282
Other banking operations income	**1,410**	1,834
Total non-interest income from banking activities	**13,477**	15,103

1. Swap interest relates to hedges that the Group has entered into to protect its portfolio of loans and advances from changes in interest rates.
2. Swap interest relates to hedges that the Group has entered into to protect its portfolio of term deposits from changes in interest rates.

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 affect the interest recognised in relation to this portfolio of loans. The average life of loans in the relevant loan portfolios is reviewed annually to ensure the amortisation methodology for loan origination fees is appropriate.

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

Non-interest income from banking activities

Refer to the "income accounting policy" in note 2.2.

2.2 Income from wealth management activities

	30 June 2023 $'000	30 June 2022 $'000
Funds management income	**8,798**	9,078
Other fees and commissions	**5,510**	5,742
Total income from wealth management activities	**14,308**	14,820

Funds management income and fiduciary activities

TPT Wealth Limited, a controlled entity of the Group, acts as Responsible Entity, Trustee and Funds Manager for eight 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 2023 $m	30 June 2022 $m
Funds under management	**994**	1,062
Funds under advice	**490**	434

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 2023 $'000	30 June 2022 $'000
Gain on revaluation of non-current assets held for sale	**–**	530
Gain on disposal of non-current assets held for sale	**–**	324
Total income from other activities	**–**	854

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

2.4 Expenses

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

	30 June 2023 $'000	30 June 2022 $'000
Occupancy costs include:		
Operating lease payments	**453**	185
Depreciation – right-of-use lease assets	**2,662**	2,728
Depreciation – buildings and leasehold improvements	**209**	281
Technology costs include:		
Amortisation – computer software	**3,866**	5,625
Administration costs include:		
Depreciation – furniture, equipment and computer hardware	**336**	282

The Group's leasing activities

(i) Real estate leases

The Group leases land and buildings for its office space and branch network. The leases of office space and branches typically run for a period of between three and 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

(ii) Other leases

The Group leases vehicles, with lease terms of three to five years. In some cases, the Group has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

There are no other covenants or restrictions on the Group's leases other than those identified above.

	30 June 2023 $'000	30 June 2022 $'000
Amount recognised in the Consolidated Income Statement		
Expenses relating to short-term leases and low-value leases	**70**	101

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 and 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 was revised and extended in the prior year as the Group has implemented significant increased functionality and, in turn, longevity of these systems 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 2023 cents	30 June 2022 cents
Basic earnings per share	**35.45**	30.34
Diluted earnings per share	**30.85**	30.15

Reconciliation of earnings used in calculation of earnings per ordinary share	**$ '000**	**$ '000**
Net profit after tax	**38,502**	32,026
Total statutory earnings	**38,502**	32,026
Earnings used in calculating statutory earnings per ordinary share	**38,502**	32,026
Add back: distributions accrued and/or paid on dilutive loan capital instrument	**4,136**	–
Total diluted earnings	**42,638**	32,026

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 (WANOS) used in the calculation of basic and diluted earnings per share:

	Number	Number
WANOS used in the calculation of basic earnings per share	**108,615,478**	105,570,983
Effect of dilution – executive performance rights	**875,663**	652,267
Effect of dilution – loan capital instrument	**28,697,572**	–
WANOS used in the calculation of diluted earnings per share	**138,188,713**	106,223,250

Potentially dilutive instruments

The following instruments are potentially dilutive during the reporting period.

	Dilutive instruments	
	30 June 2023	30 June 2022
Loan capital instrument	**Yes**	n/a
Executive performance rights	**Yes**	Yes
Subordinated note (with non viability clause)	**No**	No

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

2.6 Dividends

	Date of payment	30 June 2023 $'000	30 June 2022 $'000
Dividends paid			
2021 Final dividend paid – 13.0 cents per share	21 Sep 2021	–	13,686
2022 Interim dividend paid – 12.5 cents per share	15 Mar 2022	–	13,188
2022 Final dividend paid – 11.5 cents per share	7 Sep 2022	12,179	–
2023 Interim dividend paid – 11.5 cents per share	21 Mar 2023	12,541	–
Total dividends paid		24,720	26,874

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

	30 June 2023 $'000	30 June 2022 $'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%	92,199	82,170
Franking credits that will arise from the payment of income tax payable at the end of the period	1,075	(638)

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 reviews 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 comprises the MyState Bank Limited Group.

Wealth Management division

The Wealth Management division is a provider of funds management and trustee services. It operates predominantly within Tasmania. It holds $0.994 billion (2022: $1.062 billion) in funds under management on behalf of personal, business and wholesale investors as the responsible entity for eight managed investment schemes. The Wealth Management division comprises 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 2023				
Interest income	**352,801**	**125**	**45**	**352,971**
Interest expense	**(220,365)**	**(1)**	**(12)**	**(220,378)**
Other income				
Transaction fees	**3,367**	**–**	**–**	**3,367**
Loan fee income	**5,580**	**–**	**–**	**5,580**
Banking commissions	**3,120**	**–**	**–**	**3,120**
Other banking operations income	**1,408**	**2**	**–**	**1,410**
Funds management income	**–**	**8,798**	**–**	**8,798**
Other Wealth management fees and commissions	**–**	**5,510**	**–**	**5,510**
Total operating income	**145,911**	**14,434**	**33**	**160,378**
Expenses				
Personnel costs	**32,515**	**7,221**	**4,590**	**44,326**
Administration costs	**24,093**	**4,281**	**(6,946)**	**21,428**
Technology costs	**17,507**	**1,533**	**44**	**19,084**
Occupancy costs	**3,949**	**126**	**317**	**4,392**
Marketing costs	**9,784**	**440**	**9**	**10,233**
Governance costs	**886**	**285**	**2,017**	**3,188**
Impairment expense/(recovery)	**2,542**	**–**	**–**	**2,542**
(Gain)/Loss on disposal of non-current assets	**–**	**–**	**–**	**–**
Income tax expense	**16,426**	**175**	**82**	**16,683**
Segment profit for the year	**38,209**	**373**	**(80)**	**38,502**
Segment balance sheet information				
Segment assets	**9,037,452**	**26,835**	**59,996**	**9,124,283**
Segment liabilities	**8,651,513**	**2,060**	**13,147**	**8,666,720**
Year ended 30 June 2022				
Interest income	159,721	22	6	159,749
Interest expense	(49,495)	(2)	(7)	(49,504)
Other income				
Transaction fees	3,703	–	–	3,703
Loan fee income	6,284	–	–	6,284
Banking commissions	3,282	–	–	3,282
Other banking operations income	1,834	–	–	1,834
Funds management income	–	9,078	–	9,078
Other Wealth management fees and commissions	–	5,742	–	5,742
Total operating income	125,329	14,840	(1)	140,168
Expenses				
Personnel costs	31,514	6,723	4,604	42,841
Administration costs	22,147	2,633	(7,021)	17,759
Technology costs	16,136	1,577	(7)	17,706
Occupancy costs	3,917	95	282	4,294
Marketing costs	9,782	420	95	10,297
Governance costs	752	189	2,044	2,985
Impairment expense/(recovery)	(755)	(7)	–	(762)
(Gain)/loss on disposal of non-current assets	(854)	–	–	(854)
Income tax expense	12,852	967	57	13,876
Segment profit for the year	29,838	2,243	(55)	32,026
Segment balance sheet information				
Segment assets	7,995,029	25,821	58,997	8,079,847
Segment liabilities	7,637,791	1,721	10,422	7,649,934

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

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's 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 TPT Wealth Limited and securitisation special purposes vehicles (Conquest 2014-2 Trust (deregistered during year), Conquest 2016-1 Trust (deregistered during year), Conquest 2016-2 Trust, Conquest 2017-1 Trust, Conquest 2018-1 Trust, Conquest 2019-1 PP Trust, Conquest 2019-2 Trust, Conquest 2022-1 Trust and Conquest 2023-1 Warehouse Trust).

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 14.0% for the Group (2022: 12.5%). Capital adequacy of the Group on a Level 2 basis is detailed in the following table:

	30 June 2023 $'000	30 June 2022 $'000
Qualifying capital		
Common Equity Tier 1 capital		
Paid-up ordinary share capital(i)	**227,306**	211,167
Retained earnings	**237,611**	221,796
Reserves excluding general reserve for credit losses	**(1,134)**	6,980
Total common Equity Tier 1 capital	**463,783**	439,943
Less: Regulatory adjustments		
Deferred expenditure including deferred tax assets	**41,775**	35,540
Goodwill and intangibles	**63,793**	64,556
Other deductions	**49,065**	47,086
Total regulatory adjustments	**154,633**	147,182
Net Common Equity Tier 1 capital	**309,150**	292,761
Additional Tier 1 capital		
Floating rate notes AT1 issuance(iii)	**63,836**	–
Tier 2 capital		
Subordinated notes(ii)	**49,901**	50,000
Equity reserve for credit losses	**2,368**	2,257
Total capital	**425,255**	345,018
Risk weighted assets	**2,755,453**	2,780,972
Capital adequacy ratio	**15.43%**	12.41%

(i) On 24 June 2021, the Group raised $24.2 million (5,628,573 shares at $4.30 each) under a retail entitlement offer. This followed an institutional entitlement offer and fully underwritten institutional placement (Placement), which raised $11.3 million and $20 million respectively (7,274,502 ordinary shares at $4.30 each) from existing and new institutional investors, on 2 June 2021.

(ii) On 10 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 3 November 2021, 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 3 November 2031, and pay interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 2.75% per annum. The issuer has the option to redeem these notes on 3 November 2026 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.

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 3 November 2021, the amount included in the Group's Level 2 Tier 2 regulatory capital is a percentage equal to that of the external interest in the Group's regulatory capital. The amount included in the Group's Level 1 Tier 2 regulatory capital is 100%. For the notes issued on 10 July 2020, the amount included in the Group's Level 1 and Level 2 Tier 2 regulatory capital is 100%.

(iii) On 30 August 2022, MyState Limited (MyState) issued $65 million of inaugural Additional Tier 1 notes to wholesale investors (Capital Notes). The Capital Notes ("notes") were fully paid, mandatorily convertible subordinated perpetual debt securities of MyState. The issuer was MyState Limited. The notes have a term in perpetuity and pay interest quarterly at a floating rate equal to the three-month BBSW plus a margin of 5.50% per annum. The issuer has the option to redeem these notes on 30 August 2027, 30 November 2027 and 28 February 2028 respectively, and for certain regulatory events (in each case subject to APRA's prior written approval). If APRA notifies the issuer that a loss-absorption event has occurred, the notes will be converted into ordinary shares of MyState Limited, or written off.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

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 2023 $'000	30 June 2022 $'000
Cash and liquid assets	**127,778**	119,215
Due from other financial institutions	**48,003**	40,924
Other assets	**12,085**	9,831
Financial instruments	**936,880**	842,926
	1,124,746	1,012,896
Loans and advances	**7,908,080**	6,971,375
Customer commitments(i)	**147,912**	268,364
Maximum exposure to credit risk	**9,180,738**	8,252,635

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

The credit quality of financial assets has been determined based on Standard & 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 2023 $'000	30 June 2022 $'000
Credit quality of financial assets		
Financial assets other than loans and advances at amortised cost		
Equivalent S&P rating A+ and above	**914,400**	622,183
Equivalent S&P rating A and below	**210,346**	390,713
Loans and advances at amortised cost		
New facilities – not closely monitored	**2,589,507**	2,860,403
New facilities – closely monitored	**7,983**	1,372
Continuing facilities – not closely monitored	**5,260,343**	4,085,757
Continuing facilities – closely monitored	**50,247**	23,843
Total on balance sheet exposure to credit risk	**9,032,826**	7,984,271
Loans and advances at amortised cost past due analysis		
Not past due	**7,862,948**	6,942,215
Past due days:		
31 to 60 days	**16,059**	8,285
61 to 90 days	**11,476**	7,166
More than 90 days	**17,597**	13,709
Total loans and advances at amortised cost	**7,908,080**	6,971,375
Estimate of collateral held against past due assets	**51,194**	39,730

Estimate of collateral held

To mitigate credit risk, MyState Bank Limited (ADI) holds collateral against select loans and advances in the form of a mortgage charge over property. The bank 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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

3.2 Financial risk management continued

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

	30 June 2023 $'000	30 June 2022 $'000
Tasmania	**2,533,845**	2,510,364
Victoria	**1,789,071**	1,356,804
New South Wales	**1,648,836**	1,414,717
Queensland	**1,559,328**	1,415,876
Western Australia	**181,467**	125,683
Australian Capital Territory	**83,175**	68,109
South Australia	**99,602**	71,510
Northern Territory	**19,810**	12,769
Gross loans and advances at amortised cost	**7,915,134**	6,975,832

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 MyState Bank are subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rates on its 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. Market risks attributable to trading activities are primarily measured using a historical simulation Value-at-Risk (VaR) model based on historical data. VaR takes account of all material market variables that may cause a change in the value of the loan portfolio. As an additional overlay to VaR, the individual market risks of interest rate, foreign exchange, credit and equity are managed using a framework that includes stress testing, scenario analysis, sensitivity analysis and stop losses. Risks are monitored and measured against limits delegated by the Asset Liability Committee (ALCO) and approved by the Group's Risk Committee. Although an important tool for the measurement of market risk, the assumptions underlying the model are limited to reliance on historical data.

	30 June 2023 $'000	30 June 2022 $'000
Value at risk (post-tax) based on historic data		
Average	**4,440**	4,084
Minimum	**2,059**	3,286
Maximum	**7,964**	4,878

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, corporate and retail term deposits, NCDs and exposure to variable rate debt obligations by paying fixed or variable rates to swap providers and receiving fixed or variable rates in return, dependent on the hedged item. The hedge instruments are benchmarked to either BBSW (Bank Bill Swap rate) or AONIA (RBA Interbank Overnight Cash Rate). The hedging strategy will assist with managing interest rate margins in an increasing interest rate environment and reduce earnings volatility, all else equal. The hedge reduces net interest margin volatility on MyState's variable interest rate loans by matching the repricing frequency of assets and liabilities.

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 assets and liabilities. These derivative instruments are established with terms that exactly match the terms of the asset or liability designated as the hedged item and therefore form highly effective relationships. The portion of the asset or liability designated in the hedging relationship is determined by reference to specific fixed rate assets or liabilities within the deposit or loan portfolio. The Group conducts tests for ineffectiveness and sources of ineffectiveness are limited to credit risk of parties to the relationship. 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.

The following table indicates the Group's hedge exposures at 30 June 2023.

Description	Cash flow hedges $'000	Fair value hedges $'000
Notional amount of hedging instrument[(i)]	**1,243,290**	**–**
Carrying amount of hedging instrument[(i)]	**8,728**	**–**

The following table indicates the Group's hedge exposures at 30 June 2022.

Description	Cash flow hedges $'000	Fair value hedges $'000
Notional amount of hedging instrument[(i)]	577,129	–
Carrying amount of hedging instrument[(i)]	9,534	–

(i) Note that derivatives are reported as financial instruments in the Statement of Financial Position.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

3.2 Financial risk management continued

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, a Liquidity Risk Management framework (LRMF). This process includes acknowledgement 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 LRMF. 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 19 March 2020, the Reserve Bank of Australia (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 Limited, the Group's ADI, was granted an allowance of $109.0m which was fully drawn ahead of the 30 September 2020 deadline.

On 1 September 2020, the RBA announced changes to the TFF, including a Supplementary Allowance that provided ADI's additional three-year funding at a rate of 0.10%. MyState Bank Limited was granted an allowance of $75.7m which was fully drawn ahead of the 30 June 2021 deadline.

The combined drawn amount as at the reporting date of $154.7m is reported separately in note 4.5. At 30 June 2023, funding under the TFF has been secured by $183.7m of eligible asset backed self-securitisation. The funding was drawn down progressively and will therefore be able to be repaid progressively at the end of each respective three-year term, which commenced in May 2023 and will end in June 2024.

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
2023						
At call deposits	**3,380,217**	**–**	**–**	**–**	**–**	**3,380,217**
Due to other financial institutions	**–**	**66,295**	**–**	**–**	**–**	**66,295**
Term deposits	**–**	**70,225**	**2,378,555**	**432,306**	**–**	**2,881,086**
Term funding facility	**–**	**79,633**	**75,874**	**–**	**–**	**155,507**
Negotiable certificates of deposit	**–**	**377,419**	**17,325**	**–**	**–**	**394,744**
Subordinated notes	**–**	**914**	**2,741**	**14,621**	**57,514**	**75,790**
Floating rate notes	**–**	**3,275**	**9,826**	**261,647**	**–**	**274,748**
Securitisation liabilities	**–**	**96,538**	**295,315**	**1,099,499**	**–**	**1,491,352**
Additional Tier 1 Hybrid capital instrument	**–**	**1,121**	**3,362**	**74,713**	**–**	**79,196**
Contractual amounts payable	**3,380,217**	**695,420**	**2,782,998**	**1,882,786**	**57,514**	**8,798,935**
Derivative liability	**–**	**259**	**2,405**	**10,898**	**–**	**13,563**
2022						
At call deposits	3,413,960	–	–	–	–	3,413,960
Due to other financial institutions	–	22,982	–	–	–	22,982
Term deposits	–	789,825	1,219,829	183,770	–	2,193,424
Term funding facility	–	–	30,214	155,507	–	185,721
Negotiable certificates of deposit	–	342,481	174,805	–	–	517,286
Subordinated notes	–	664	1,991	10,619	58,148	71,422
Floating rate notes	–	924	2,771	152,163	–	155,858
Securitisation liabilities	–	92,557	277,672	794,187	–	1,164,416
Additional Tier 1 Hybrid capital instrument	–	–	–	–	–	–
Contractual amounts payable	3,413,960	1,249,433	1,707,282	1,296,246	58,148	7,725,069
Derivative liability	–	186	5,096	18,009	–	23,291

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

3.2 Financial risk management continued

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 2023			30 June 2022		
	< 12 months $'000	> 12 months $'000	Total $'000	< 12 months $'000	> 12 months $'000	Total $'000
Financial assets						
Cash and liquid assets	127,778	–	127,778	119,215	–	119,215
Due from other financial institutions	48,003	–	48,003	40,924	–	40,924
Other assets	12,085	–	12,085	9,831	–	9,831
Financial instruments	194,676	742,204	936,880	381,929	460,997	842,926
Loans and advances(i)	62,808	7,845,272	7,908,080	73,160	6,898,215	6,971,375
Total financial assets	445,350	8,587,476	9,032,826	625,059	7,359,212	7,984,271
Financial liabilities						
Due to other financial institutions	(66,295)	–	(66,295)	(22,982)	–	(22,982)
Other liabilities	(18,111)	–	(18,111)	(17,213)	–	(17,213)
Deposits	(5,777,052)	(876,928)	(6,653,980)	(5,982,929)	(140,918)	(6,123,847)
Term funding facility	(79,040)	(75,660)	(154,700)	(30,000)	(154,700)	(184,700)
Subordinated notes	–	(49,824)	(49,824)	–	(49,758)	(49,758)
Floating rate notes	–	(249,556)	(249,556)	–	(149,685)	(149,685)
Securitisation liabilities	(350,190)	(1,046,100)	(1,396,290)	(273,421)	(816,773)	(1,090,194)
Additional Tier 1 Hybrid capital instrument	–	(63,835)	(63,835)	–	–	–
Total financial liabilities	(6,290,688)	(2,361,903)	(8,652,591)	(6,326,545)	(1,311,834)	(7,638,379)
Net contractual amounts receivable/(payable)	(5,845,338)	6,225,573	380,235	(5,701,486)	6,047,378	345,892

(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.

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 2023			30 June 2022		
	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	**140,274**	**312**	**0.22%**	109,206	26	0.02%
Financial instruments	**890,124**	**30,676**	**3.45%**	739,889	4,487	0.61%
Loans and advances(i)	**7,203,932**	**321,982**	**4.47%**	5,933,925	155,236	2.62%
Total average interest-earning assets	**8,234,330**	**352,970**	**4.29%**	6,783,020	159,749	2.36%
Non-interest earning assets	**148,048**	**–**	**–**	142,541	–	–
Total average assets	**8,382,378**	**352,970**	**4.21%**	6,925,561	159,749	2.31%
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits and derivatives	**6,799,811**	**156,449**	**2.30%**	5,588,647	31,184	0.56%
Notes and bonds on issue	**1,460,606**	**63,927**	**4.38%**	1,146,984	16,822	1.47%
Total average interest-bearing liabilities	**8,260,417**	**220,376**	**2.67%**	6,735,631	48,006	0.71%
Non-interest bearing liabilities	**66,928**	**–**	**–**	36,982	–	–
Total average liabilities	**8,327,345**	**220,376**	**2.65%**	6,772,613	48,006	0.71%
Reserves	**423,242**	**–**	**–**	397,433	–	–
Total average liabilities and reserves	**8,750,587**	**220,376**	**2.52%**	7,170,046	48,006	0.67%

(i) The offset account average balance included in Loans and advances is $295.861 million (2022: $262.919 million).

Notes to the consolidated financial statements
for the year ended 30 June 2023 continued

4.1 Cash and liquid assets

	30 June 2023 $'000	30 June 22 $'000
Notes, coins and cash at bank	**123,138**	114,570
Other short-term liquid assets	**4,640**	4,645
Total cash and liquid assets	**127,778**	119,215

Reconciliation of profit for the year to net cash provided by operating activities		
Profit for the year	**38,502**	32,026
Add/(less) items classified as investing/financing activities or non-cash items:		
Depreciation of property, plant and equipment	**545**	563
Depreciation of right-of-use assets	**4,980**	2,728
Amortisation of intangible assets	**3,866**	5,625
Loss/(gain) on sale of non-current assets	**–**	(854)
Bad and doubtful debts expense net of recoveries	**2,542**	(762)
Share-based payment	**287**	227
Tax movement within reserves	**(564)**	(2,990)
Changes in assets and liabilities:		
Decrease/(increase) in due from other financial institutions	**(7,079)**	(9,065)
Decrease/(increase) in loans and advances	**(939,247)**	(1,363,313)
Decrease/(increase) in financial instruments	**(94,778)**	(125,795)
Decrease/(increase) in other assets	**(2,254)**	(548)
Decrease/(increase) in deferred tax assets	**(664)**	3,617
Increase/(decrease) in due to other financial institutions	**46,271**	2,059
Increase/(decrease) in deposits and other borrowings	**870,064**	1,403,585
Increase/(decrease) in employee benefits provisions	**(240)**	345
Increase/(decrease) in tax liabilities	**4,198**	3,168
Net cash flows used in operating activities	**(73,571)**	(49,384)

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 2023 $'000	30 June 2022 $'000
Financial instruments at amortised cost		
Negotiable certificates of deposits	156,832	341,098
Term deposits	35,700	35,700
Floating rate notes	734,962	455,878
Other deposits	658	721
Total financial instruments at amortised cost	928,152	833,397
Financial instruments at fair value		
Derivatives	8,728	9,529
Total financial instruments	936,880	842,926

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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

4.3 Loans and advances

	30 June 2023 $'000	30 June 2022 $'000
Classification of loans and advances at amortised cost		
Residential loans secured by mortgage	**7,838,723**	6,872,096
Personal loans and unsecured overdrafts	**9,249**	20,238
Overdrafts secured by mortgage	**25,401**	31,846
Commercial loans	**41,761**	51,652
Total loans and advances at amortised cost	**7,915,134**	6,975,832
Less:		
Specific provision for impairment	**171**	–
Collective provision for impairment	**6,883**	4,457
Total loans and advances at amortised cost net of provision for impairment	**7,908,080**	6,971,375

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.

	30 June 2023 $'000	30 June 2022 $'000
Provision for impairment		
Specific provision for impairment		
Opening balance	**–**	50
Net specific provision funding	**171**	(50)
Write-off of previously provisioned facilities	**–**	–
Closing balance of specific provision for impairment	**171**	–
Collective provision for impairment		
Opening balance	**4,457**	5,368
Net collective provision funding	**2,426**	(918)
Write-off of previously provisioned facilities	**–**	7
Closing balance of collective provision for impairment	**6,883**	4,457
Total balance of provision for impairment	**7,054**	4,457
Charge to profit for impairment on loans and advances		
Increase/(decrease) in specific provision for impairment	**171**	(50)
Increase/(decrease) in collective provision for impairment	**2,426**	(918)
Bad debts recovered	**(399)**	(539)
Bad debts written off directly	**344**	745
Total impairment (recovery)/expense on loans and advances	**2,542**	(762)

Movements in provisions and reserve

	Stage 1	Stage 2	Stage 3				
	12-month ECL $'000	Lifetime ECL $'000	Collectively assessed – lifetime ECL $'000	Individually assessed – lifetime ECL $'000	Subtotal (1) $'000	General reserve for credit losses (2) $'000	Grand total (1) + (2) $'000
Balance as at 1 July 2021	2,550	807	1,888	50	**5,295**	2,488	**7,783**
Transfers during the period to:							
Increase/(decrease) in provisions	(433)	72	(427)	(50)	**(838)**	(231)	**(1,069)**
Total provision for doubtful debts as at 30 June 2023	2,117	879	1,461	–	**4,457**	2,257	**6,714**
Balance as at 1 July 2022	2,117	879	1,461	–	**4,457**	2,257	**6,714**
Transfers during the period to:							
Increase/(decrease) in provisions	867	607	952	171	**2,597**	111	**2,708**
Total provision for doubtful debts as at 30 June 2022	2,984	1,486	2,413	171	**7,054**	2,368	**9,422**

The Group has undertaken a review of the expected credit loss (ECL) of its lending portfolios against relevant specific economic conditions under varying scenarios. The review considered the macroeconomic outlook, customer credit quality, the quality of collateral held and exposure at default as at the reporting date. These model inputs including forward-looking information have been revised in recognition that rising cash rates is a key driver of the estimates therein. The modelled ECL is sensitive to the current environment of high inflation and cost of living pressures, and the longevity of any monetary and fiscal intervention, as these influence both the probability of default and the value of collateral that may be utilised. 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.

At 30 June 2023, this review includes forward looking economic assumptions using a scenario weighting of 40% base case, 50% moderate recession and 10% strong recovery. The key assumptions used to determine the forward looking economic overlay were revised to incorporate the latest observed economic data, including a higher Official Cash Rate (OCR), increasing levels of unemployment and lower near term house price growth, with price falls under the moderate recession scenario of -15% and 20% respectively across FY24 and FY25.

Given the uncertain economic outlook of the Australian and global economy, global geopolitical uncertainties still lingering, rising cost of living pressures and their repercussions on financial hardships, future economic conditions that result in outcomes that differ from the current estimate are possible and will be accounted for in future periods.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

4.3 Loans and advances continued

Impairment of financial assets accounting policy

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The primary source of credit risk for the Group arises on its loan portfolio. In relation to this portfolio, the Group maintains 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 months' 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. At 30 June 2023, the forward looking component of the collective provision for doubtful debts is $1.6m (2022: $0.9m). The balance of the overlay at 30 June 2022 reflected the level of uncertainty of the potential ongoing impact of COVID-19 at that time. At 30 June 2023, while there are no customers on COVID-19-related assistance, the overlay now primarily reflects the uncertainty surrounding the impact of inflation and higher interest rates on borrowers and the economy more broadly.

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 2023 $'000	30 June 2022 $'000
Transferred financial assets:		
Loans and advances	**594,305**	350,389
Associated financial liabilities:		
Securitisation liabilities to external investors	**594,305**	350,389

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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

4.5 Deposits and other borrowings including subordinated notes

	30 June 2023 $'000	30 June 2022 $'000
Deposits		
At call deposits	**3,380,217**	3,413,960
Term deposits	**2,881,086**	2,193,424
Negotiable certificates of deposit	**392,677**	516,463
Total deposits	**6,653,980**	6,123,847
Other borrowings		
Subordinated notes(i)	**49,824**	49,758
Floating rate notes(ii)	**249,556**	149,685
Securitisation liabilities	**1,396,290**	1,090,194
Term funding facility	**154,700**	184,700
Additional Tier 1 Hybrid capital instrument(iii)	**63,835**	–
Total deposits and other borrowings including subordinated notes	**8,568,185**	7,598,184
Concentration of deposits:		
Customer deposits	**6,236,356**	5,553,779
Wholesale deposits	**417,624**	570,068
Subordinated notes(i)	**49,824**	49,758
Floating rate notes(ii)	**249,556**	149,685
Term funding facility	**154,700**	184,700
Securitisation liabilities	**1,396,290**	1,090,194
Additional Tier 1 Hybrid capital instrument(iii)	**63,835**	–
Total deposits	**8,568,185**	7,598,184

(i) Refer to note 3.1 (ii) for details regarding the subordinated notes issue.
(ii) On 13 October 2022, floating rate notes with a face value of $100m and term of three years were issued by MyState Limited.
(iii) On 30 August 2022, MyState Limited (MyState) issued $65 million of inaugural Additional Tier 1 notes to wholesale investors (Capital Notes).

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 2023 $'000	30 Jun 2022 $'000
Trade payables and related accruals	**9,934**	6,975
Lease liabilities	**8,177**	10,238
Total other liabilities	**18,111**	17,213

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).

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

4.7 Fair value of financial instruments

Classification of financial instruments

Cash and liquid assets 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 2023		30 June 2022	
	Carrying value $'000	Net fair value $'000	Carrying value $'000	Net fair value $'000
Financial assets				
Financial instruments	**928,152**	**911,377**	833,397	819,283
Loans and advances	**7,908,080**	**7,840,782**	6,971,375	6,893,600
Total financial assets	**8,836,232**	**8,752,159**	7,804,772	7,712,883
Financial liabilities				
Deposits	**6,653,980**	**6,651,540**	6,123,847	6,117,002
Other borrowings including subordinated notes	**1,914,205**	**1,912,535**	1,474,337	1,473,059
Total financial liabilities	**8,568,185**	**8,564,075**	7,598,184	7,590,061

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

	30 June 2023		30 June 2022	
	Carrying value $'000	Net fair value $'000	Carrying value $'000	Net fair value $'000
Financial assets				
Derivative assets	**8,728**	**8,728**	9,529	9,529
Due from other financial institutions	**48,003**	**48,003**	40,924	40,924
Total financial assets	**56,731**	**56,731**	50,453	50,453
Financial liabilities				
Due to other financial institutions	**66,294**	**66,294**	22,982	22,982
Total financial liabilities	**66,294**	**66,294**	22,982	22,982

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 half year, there have been no material transfers between levels of the fair value hierarchy. Classifications are reviewed at reporting dates and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Fair value hierarchy for items carried at amortised cost

	Level 1 value $'000	Level 2 value $'000	Level 3 value $'000	Total value $'000
2023				
Financial assets				
Financial instruments	**–**	**911,377**	**–**	**911,377**
Loans and advances	**–**	**–**	**7,840,782**	**7,840,782**
Financial liabilities				
Deposits	**–**	**6,651,540**	**–**	**6,651,540**
Other borrowings including subordinated notes	**–**	**1,912,535**	**–**	**1,912,535**
2022				
Financial assets				
Financial instruments	–	819,283	–	819,283
Loans and advances	–	–	6,893,600	6,893,600
Financial liabilities				
Deposits	–	6,301,702	–	6,301,702
Other borrowings including subordinated notes	–	1,288,359	–	1,288,359

There has been no impact on profit and loss of fair value movements of assets that are within Level 3 of the fair value hierarchy.

Fair value hierarchy for items carried at fair value

	Level 1 value $'000	Level 2 value $'000	Level 3 value $'000	Total value $'000
2023				
Financial assets				
Derivative assets	**–**	**8,728**	**–**	**8,728**
Due from other financial institutions	**–**	**48,003**	**–**	**48,003**
Financial liabilities				
Due to other financial institutions	**–**	**66,294**	**–**	**66,294**
2022				
Financial assets				
Derivative assets	–	9,529	–	9,529
Due from other financial institutions	–	40,924	–	40,924
Financial liabilities				
Due to other financial institutions	–	22,982	–	22,982

There has been no impact on profit and loss of fair value movements of assets that are within Level 3 of the fair value hierarchy. The Group has performed a VaR analysis as detailed in 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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

5.1 Property, plant and equipment and right-of-use assets

	30 June 2023 $'000	30 June 2022 $'000
Leasehold improvements		
At cost	**7,429**	7,370
Accumulated depreciation	**(7,030)**	(6,820)
	399	550
Plant and equipment		
At cost	**6,175**	5,847
Accumulated depreciation	**(5,375)**	(5,040)
	800	807
Right-of-use assets – land and buildings		
At cost	**15,181**	15,581
Accumulated depreciation	**(8,403)**	(6,485)
	6,778	9,096
Total property, plant and equipment	**7,977**	10,453

Property, plant and equipment accounting policy

Leasehold improvements

Leasehold improvements are carried at cost less any subsequent accumulated depreciation on leasehold improvements.

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

Plant and equipment and right-of-use assets 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.

5.2 Intangible assets and goodwill

	Goodwill $'000	Software $'000	Total $'000
Year ended 30 June 2023			
At 1 July 2022, net of accumulated amortisation	**65,152**	**13,693**	**78,845**
Additions	**–**	**2,943**	**2,943**
Transfer out from derecognition of SAAS capitalised costs	**–**	**–**	**–**
Amortisation	**–**	**(3,866)**	**(3,866)**
At 30 June 2023, net of accumulated amortisation	**65,152**	**12,770**	**77,922**
At 30 June 2023			
Cost (gross carrying amount less impairment)	**65,152**	**40,293**	**105,445**
Accumulated amortisation	**–**	**(27,523)**	**(27,523)**
Net carrying amount	**65,152**	**12,770**	**77,922**
Year ended 30 June 2022			
At 1 July 2021, net of accumulated amortisation	65,152	18,326	83,478
Additions	–	4,343	4,343
Transfer out from derecognition of SAAS capitalised costs	–	(3,351)	(3,351)
Amortisation	–	(5,625)	(5,625)
At 30 June 2022, net of accumulated amortisation	65,152	13,693	78,845
At 30 June 2022			
Cost (gross carrying amount less impairment)	65,152	40,293	105,445
Accumulated amortisation	–	(26,600)	(26,600)
Net carrying amount	65,152	13,693	78,845

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.

Software as a Service arrangement

Any capitalised costs of configuring or customising a supplier's application Software in a Software as a service arrangement have been derecognised in the financials in line with the IFRS Interpretation Committee's (IFRIC) agenda decision in April 2021. The impact has been recognised in the Group's retained earnings.

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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

5.2 Intangible assets and goodwill continued

Impairment testing of goodwill

For the purpose of impairment testing, goodwill has been allocated to the Group's two cash-generating units (CGUs) the Banking Business and the Wealth Management Business. These CGUs 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 2023 $'000	30 June 2022 $'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 CGUs 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 2024. Growth rates have been applied from year two through to year 10. Cash flows are projected by undertaking detailed calculations for each income and expense category over a three-year period and are then extrapolated off the third 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 10.5 and 12.7 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 10.9% (15.6% pre-tax) and 9.9% (14.1% 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 10 using the assumption that the CGU achieves no real growth above inflation into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business which the CGU operates. The discount rate used of 10.9% reflects the Group's post-tax nominal weighted average cost of capital, which has been reviewed by externally engaged advisers and approved by the Board. Average inflation is projected to be 5.6%. 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 reasonable. Management expects 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. Management's assessment of Wealth Management's value-in-use exceeds its carrying value. Any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

Goodwill accounting policy

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

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

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

Impairment of subsidiaries accounting policy

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

5.3 Employee benefits provisions

	30 June 2023 $'000	30 June 2022 $'000
Balances		
Provision for annual leave	**2,198**	2,319
Provision for long service leave	**3,147**	3,266
Total employee benefits provisions	**5,345**	5,585
Due to be settled within 12 months	**4,193**	4,129
Due to be settled in more than 12 months	**1,152**	1,456
Total employee benefits provisions	**5,345**	5,585

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 12 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 12 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 2023 $'000	30 June 2022 $'000
Issued and paid up ordinary shares	**225,274**	211,167

Movements in ordinary share capital

	30 June 2023		30 June 2022	
	Number of shares	Amount $'000	Number of shares	Amount $'000
Opening balance	**105,904,941**	**211,167**	105,275,092	208,196
Shares issued pursuant to the:				
– Group employee share scheme	**10,954**	**50**	12,584	62
– Dividend reinvestment plan underwrite	**2,587,858**	**10,058**	–	–
– Dividend reinvestment plan	**1,090,682**	**4,146**	617,265	3,000
– Less: Share issue transaction costs, net of tax	**–**	**(147)**	–	(91)
Closing balance	**109,594,435**	**225,274**	105,904,941	211,167

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 the Remuneration report for further information regarding these arrangements.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

6.1 Income tax expense, current and deferred tax balances

The major components of income tax expense/(benefit) are:

	30 June 2023 $'000	30 June 2022 $'000
Income tax expense		
Current income tax charge	16,674	12,426
Adjustment in respect of current income tax of previous years	78	(34)
Adjustments in respect of deferred income tax of previous years		–
Adjustments in respect of equity/goodwill	289	(2,789)
Relating to origination and reversal of temporary differences	(358)	4,273
Total income tax expense	16,683	13,876
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	55,185	45,902
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	16,556	13,771
– Under/(over) provision in prior year	78	(34)
Expenditure not allowable for income tax purposes	49	139
Other	–	–
Income tax expense reported in the consolidated income statement	16,683	13,876
Total income tax expense	16,683	13,876
Weighted average effective tax rates	30.2%	30.2%
Deferred income tax relates to the following:		
Deferred tax assets		
Employee entitlements	1,604	1,676
Provisions	267	243
Doubtful debts	2,116	1,337
Other	1,571	1,639
Total deferred tax assets	5,558	4,895
Current tax receivable	–	1,383
Total tax assets	5,558	6,278
Deferred tax liabilities		
Financial assets at fair value	59	61
Property, plant and equipment	1,945	1,711
Other	4,271	4,198
Total deferred tax liabilities	6,275	5,970
Current tax payable	2,509	–
Total tax liabilities	8,784	5,970

Movements in deferred tax balances

	Deferred tax assets		Deferred tax liabilities	
	30 June 2023 $'000	30 June 2022 $'000	**30 June 2023 $'000**	30 June 2022 $'000
Opening balance	**4,895**	5,900	**5,970**	2,802
Reclassification deferred tax	**71**	(130)	**71**	(130)
(Charged)/credited to income statement	**545**	(916)	**476**	468
Credited/(charged) to equity	**47**	41	**(242)**	2,830
Adjustments for deferred tax of prior years	**–**	–	**–**	–
Closing balance	**5,558**	4,895	**6,275**	5,970

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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

7.1 Parent entity information

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

Statement of Financial Position	30 June 2023 $'000	30 June 2022 $'000
Assets		
Cash and liquid assets	**4,903**	3,963
Other receivables	**833**	1,131
Related party receivables	**50,000**	50,000
Investments in subsidiaries	**340,469**	324,392
Current and deferred tax assets	**1,024**	1,200
Total assets	**397,229**	380,686
Liabilities		
Other liabilities	**457**	820
Other borrowings	**50,000**	50,000
Related party payables	**4,188**	5,392
Tax liabilities	**2,557**	(1,467)
Employee benefits provisions	**373**	439
Total liabilities	**57,575**	55,184
Net assets	**339,654**	325,502
Equity		
Share capital	**331,203**	317,095
Retained earnings	**7,139**	7,182
Reserves	**1,312**	1,025
Total equity	**339,654**	325,302
Financial performance		
Profit after income tax for the year	**24,637**	26,813
Other comprehensive income	**–**	–
Total comprehensive income	**24,637**	26,813

The parent entity has not entered into any guarantees and does not have any contingent liabilities as at 30 June 2023 (30 June 2022: nil).

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

7.2 Controlled entities and principles of consolidation

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

Significant subsidiaries	Principal activities	Country of incorporation	Ownership interest
MyState Bank Limited	Banking	Australia	100%
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.

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

7.3 Related party disclosures

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

Managed Investment Schemes

Within the Group, 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 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Management fees received	**8,799**	9,078	**8,799**	9,078
Balance of investment held at year end	**2,605**	2,532	**2,605**	2,532
Distributions received from managed funds	**74**	23	**74**	22

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 $2.61m (2022: $2.58m); and
- invested in the ConQuest Trusts Residential Mortgage Backed Securities Program in the form of Class A and B notes totalling $32.50m (2022: $31.29m).

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

Key Management Personnel

(i) Loans to Directors

During 2023, secured loans advanced to the Managing Director and Chief Executive Officer were nil. At 30 June 2023, the balance outstanding was nil (2022: $0.97m).

(ii) 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 2023 $'000	30 June 2022 $'000
Key Management Personnel compensation		
The key management personnel compensation comprised:		
Short-term employee benefits	**3,963**	3,888
Post-employment benefits	**330**	323
Share-based payment(i)	**261**	208
Termination benefits	**268**	–

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

8.1 Contingent liabilities and expenditure commitments

MyState Bank Limited has provided guarantees to third parties in order to secure the obligations of customers. The maximum exposures to these guarantees are disclosed below. The range of situations in which these 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 2023 $'000	30 June 2022 $'000
Customer commitments		
Loans approved but not advanced to borrowers	**91,849**	207,176
Undrawn continuing lines of credit	**53,591**	58,269
Performance guarantees	**2,472**	2,919
Total customer commitments	**147,912**	268,364

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 MyState Bank Limited is crystallised in the form of an overdraft or loan.

Estate administration

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

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

8.2 Remuneration of auditors

	30 June 2023 $'000	30 June 2022 $'000
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:		
Audit services		
Audit of the financial statements of the consolidated entities	**448**	418
Total remuneration for audit services	**448**	418
Audit-related services		
Assurance-related services	**60**	51
Audit of loans and other services to the securitisation program	**4**	4
Total remuneration for audit-related services	**64**	55
Other non-external audit-related services		
Other services	**49**	51
Total remuneration for non-audit related services	**49**	51
Total remuneration for services provided	**561**	524

Notes to the consolidated financial statements

for the year ended 30 June 2023 continued

8.3 Events subsequent to balance date

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

8.4 Other significant accounting policies, 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 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*.
- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*.

Adoption of these amendments has not resulted in any significant changes in how the Group currently applies accounting standards.

The following accounting standards will become effective in future financial years:

- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (effective 1 January 2024).

Adoption of these amendments is not expected to result in any significant changes to how the Group applies accounting standards in future financial years.

Directors' declaration

for the year ended 30 June 2023

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 54 to 96 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 2023 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 2023.

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

Vaughn Richtor
Chairman

Brett Morgan
Managing Director and Chief Executive Officer

Hobart, dated this 18 August 2023

Independent auditor's report

Independent Auditor's Report to the Shareholders of MyState Limited

Opinion

We have audited the financial report of MyState Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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 consolidated financial position of the Group as at 30 June 2023 and of its consolidated financial performance for the year then ended on that date; 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 & 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. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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.

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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.

1. Operation of IT Systems and Controls

Key audit matter	How our audit addressed the matter
This is a key audit matter because 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. There has been continued change to the Group's IT landscape in the 2023 financial year and it has been essential to ensure 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 in place 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 and integrity. 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 – Goodwill

Refer to Note 5.3 'Goodwill'

Key audit matter	How our audit addressed the matter
There is also a high level of judgement required in the Group's annual testing of impairment of goodwill with significant forward-looking assumptions used in the valuation models. Details on the methodology and assumptions used in the impairment assessment if goodwill are included in Note 5.3 – Intangible assets and goodwill.	To address the risk of material misstatement and obtain sufficient audit evidence, we performed the following procedures over goodwill: • Assessed whether the models used in the impairment testing of goodwill met the requirements of Australian Accounting Standards; • Assessed the appropriateness of the Cash Generating Units (CGU) identified to which goodwill has been allocated;

Independent auditor's report continued

Key audit matter	How our audit addressed the matter
	• Agreed the forecast cash flows to the most recent forecasts approved by management or the Board, considered the reasonableness of these forecasts based on the current economic environment, and assessed the accuracy of the Group's previous forecasts by performing a comparison of historical forecasts to actual results; • Assess the key assumptions used in the impairment assessment with reference to market rates and historical performance; • Test the mathematical accuracy of the impairment models; • Assessed the adequacy of the disclosures associated with the impairment assessment of goodwill within the financial report.

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 a key audit matter because of the Group's significant balance of loans and advances, the significant growth in loan balances during the 2023 financial year, and the significant judgement inherent in the provisioning model. The provisioning model is determined in accordance with the requirements of AASB 9 *Financial Instruments*. 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 expected credit loss model used; • Assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis) such as the financial condition of the counterparty, expected future cash flows, and forward-looking macroeconomic factors (e.g. GDP	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 for; and • Reviewed management assessments of provision for loans that exceed specific thresholds. We also assessed the on-going impact of regulatory changes on the provision for impairment on loans and

Key audit matters	How our audit addressed the matter
growth, unemployment rates, central bank interest rates); • The incorporation of forward-looking information to reflect current or future external factors, specifically judgments related to current economic uncertainty, both in the multiple forward-looking scenarios and the probability weighting determined for each of these scenarios • The design of the management overlays applied in response to significant economic events; and • The stress test modelling undertaken to verify provisioning levels.	advances, specifically the impact of Prudential Standard APS 220 Credit Risk Management. We considered the impact of the growth in loan balances on credit risk and tested the internal control environment that supports lending.

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 2023, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material

Independent auditor's report continued

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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Entity'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 Entity 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 those charged with governance 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 the 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 the Directors' Report (pages 35 to 52 of this Annual Report) for the year ended 30 June 2023.

In our opinion, the Remuneration Report of MyState Limited, for the year ended 30 June 2023 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.

Wise Lord & Ferguson

WISE LORD & FERGUSON

NICK CARTER
Partner
Date: 18 August 2023

Shareholder information

Voting rights

In accordance with the MyState Limited Constitution, a shareholder is entitled to exercise one vote in respect of each fully paid ordinary share held.

Range of units at 17 August 2023

The Company's quoted securities on the ASX (ASX Code: MYS) are ordinary fully paid shares.

Range	Total holders	Units	% units
1 – 1,000	51,302	21,559,109	19.67
1,001 – 5,000	3,405	8,769,055	8.00
5,001 – 10,000	1,322	9,647,810	8.80
10,001 – 100,000	1,298	29,454,576	26.88
100,001 and over	53	40,163,885	36.65
Rounding			**0.00**
Total	**57,380**	**109,594,435**	**100.00**

Unmarketable parcels	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $3.5300 per unit	142	671	38,489

Top holders (grouped) as at 17 August 2023

Rank	Name	Units	% Units
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,237,711	8.43
2	CITICORP NOMINEES PTY LIMITED	8,859,859	8.08
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,951,817	5.43
4	NATIONAL NOMINEES LIMITED	1,363,847	1.24
5	SELECT MANAGED FUNDS LTD	1,225,960	1.12
6	MR BRIAN DAVID FAULKNER	1,026,000	0.94
7	BEECHWORTH HOLDINGS PTY LTD <BEECHWORTH SUPER FUND A/C>	1,000,000	0.91
8	BNP PARIBAS NOMS PTY LTD <DRP>	730,457	0.67
9	MR KENNETH JOSEPH HALL <HALL PARK A/C>	684,588	0.62
10	PRESTIGE FURNITURE PTY LTD	595,000	0.54
11	IOOF INVESTMENT SERVICES LIMITED <IPS SUPERFUND A/C>	569,825	0.52
12	STANBOX NO 2 PTY LTD	540,000	0.49
13	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	538,262	0.49
14	HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	418,905	0.38
15	MRS WENDY JEAN FAULKNER	411,864	0.38
16	ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	393,645	0.36
17	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	354,270	0.32
18	DONETTA PTY LIMITED	350,000	0.32
19	MR SIMON HENRY LUDDINGTON	312,666	0.29
20	MRS JOAN ELIZABETH EVERSHED	312,547	0.29
Totals: Top 20 holders of ordinary fully paid shares (total)		**34,877,223**	**31.82**
Total remaining holders balance		**74,717,212**	**68.18**

Unquoted securities

A total of 588,308 unquoted performance rights issued pursuant to the company's employee incentive scheme (ASX code: MYSAC) are held by 11 people.

Corporate directory

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

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
Level 1, 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