2013 Annual Report

MyState
LIMITED

MyState Limited
Registered Office

113 Cimitiere Street
Launceston, Tasmania, 7250
Telephone: (03) 6348 1111
Facsimile: (03) 6348 1173
Email: info@mystatelimited.com.au
Website: www.mystatelimited.com.au

Annual General Meeting

Date:	29 October 2013
Time:	10.30am
Venue:	Hotel Grand Chancellor 29 Cameron Street, Launceston, Tasmania

Contents

MyState Limited
ABN 26 133 623 962

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

Through our retail brands – MyState Financial, The Rock and Tasmanian Perpetual Trustees – we provide services to around 200,000 customers across Australia.

MyState LIMITED

MyState

ROCK

Tasmanian Perpetual Trustees

$28.5m
net profit
11.8% above the normalised 2012 after-tax profit of $25.5m

Improved
cost-to-income ratio of 68.3%, down from 70.3% in FY2012

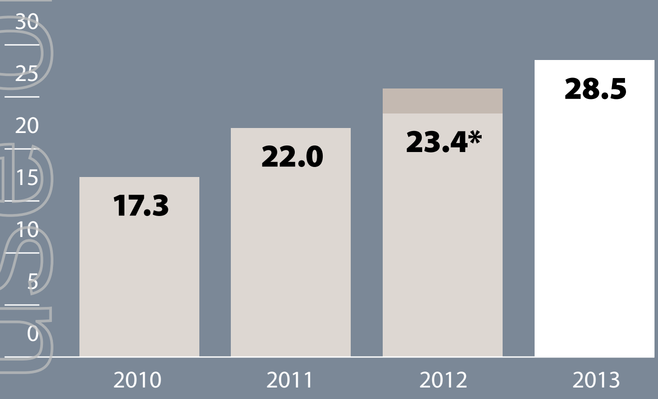
Improved
credit quality
– arrears for MyState Financial and The Rock are well below Standard & Poor's prime mortgage index

Improved
return on equity
of 10.2% – an increase of 9.7% compared to FY2012

28¢
total dividends for the year fully franked

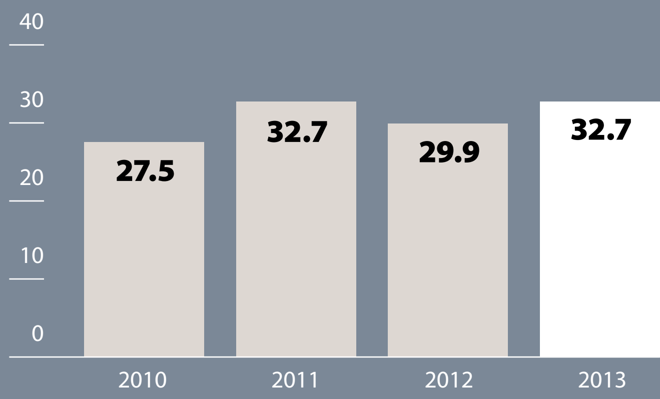
Group Performance

Normalised NPAT ($ millions)

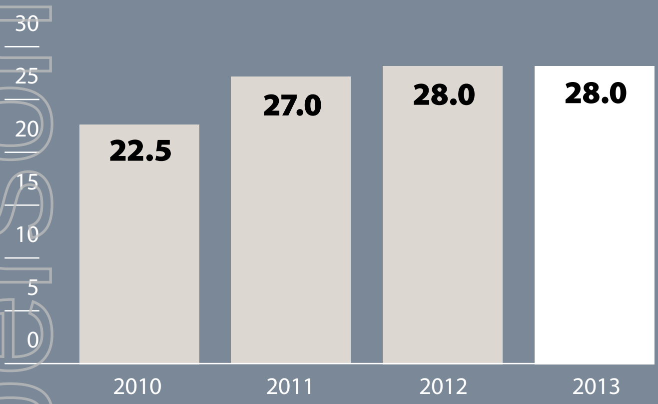


* $23.4m reported + $2.1m merger costs

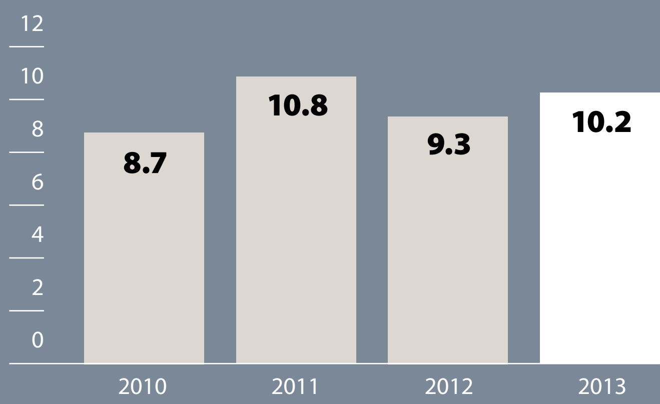
Earnings per share (cents)



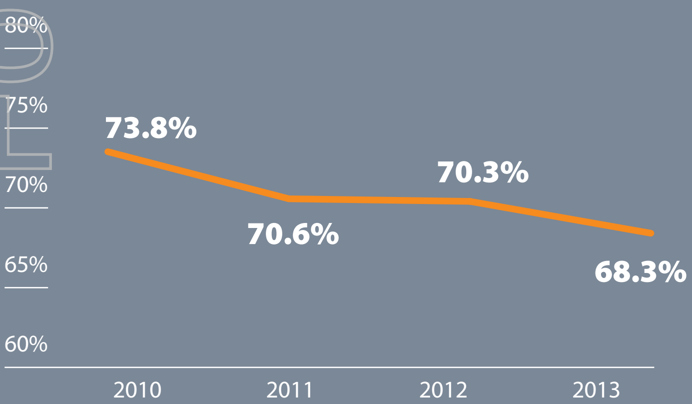
Dividends – fully franked (cents)



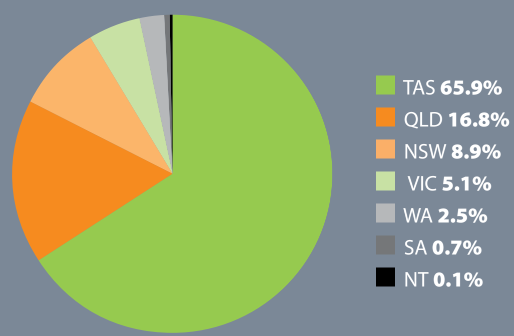
Return on equity (%)



Cost to income ratio (%)



Loan distribution by state



Chairman's Report

" ... A very sound result for the year despite a challenging business environment ... "

Dr Michael Vertigan AC – Chairman

I am delighted to report to shareholders on the continued progress, development and success of MyState Limited during FY2013.

MyState reported a very sound result for the year despite a challenging business environment characterised by low business and consumer confidence, and the lowest rate of housing credit growth for more than 35 years.

The group performed well in these business conditions and maintained strong earnings. Net profit after income tax was $28.5 million, an 11.8% increase over the normalised after-tax profit of $25.5 million (adjusting for The Rock's acquisition costs) and 21.7% above the statutory after-tax profit of $23.4 million in FY2012.

MyState's ability to deliver sustained growth since listing on the ASX in 2009 is a testament to the company's robust business model and our commitment to customer service. Despite weakness in the Tasmanian economy, MyState Financial achieved a 4.1% increase in its loan portfolio and reduced its already low rate of arrears.

Notwithstanding an environment of business uncertainty and subdued lending, your company has achieved an excellent capital position while protecting the high quality of its assets.

Our significant progress toward harnessing operational synergies across the group was reflected in the group's improving cost-to-income ratio of 68.3%, which was 2.8 percentage points lower than the previous year after adjusting for The Rock's acquisition costs. The Rock merger was an important step toward our vision of becoming a leading regional banking institution as it has provided the group with geographic asset diversification. We are well on the way toward creating an integrated group with a scalable banking platform.

We believe we have a great asset in The Rock, as the central Queensland economy is growing with more than $150 billion in projects planned or under development in the energy, coal, minerals and rail industries. Already more than $60 billion has been invested in the Gladstone liquefied natural gas projects which are projected to create 15,000 jobs in the region. The first signs of this growth are evident with a regional population increase of 3% during the year.

The expected rise in demand for accommodation should benefit The Rock, which has strengthened its housing loans and service capability through access to MyState's product development expertise.

One of our strengths as an organisation comes from our mutual heritage. Because we focus on putting our customers first, we look after their financial interests in a localised and very personal way. Our deep commitment to a superior customer experience is positioning our company as one that is easy to do business with. Market testing has provided us with evidence of the extremely high brand recognition that MyState Financial enjoys and the very high levels of satisfaction expressed by our customers.

MyState is committed to maintaining the highest standards of corporate governance. The focus this year was very much on strategy. The board continued to work effectively as a group and has modified the conventional monthly meeting structure to enable additional time to be devoted to strategy development.

The company has continued to look for opportunities to grow through joining with other like-minded financial services companies, but will proceed to a transaction only where it can be demonstrated to be in the interests of shareholders.

The objective to attract a greater level of small business banking during the past year was not achieved but will remain on the agenda.

The quality of our assets, our capital position and the creation of the position of chief risk officer are testament to the company's focus on risk management.

We have maintained our dividend policy of paying between 70% and 90% of after-tax earnings as dividends to shareholders, and in FY2013 dividends for the year were 28 cents per share, fully franked, consistent with the previous year.

Outlook

Looking ahead, we will continue to operate in a challenging environment although we expect some improvement in confidence both nationally and in Tasmania during FY2014. We have positioned ourselves well, particularly in central Queensland, to take advantage of opportunities as the economy improves. We will continue to drive efficiencies through technology and process improvements and seek to participate in consolidation opportunities as they arise.

As this will be my final year as chairman, I would like to reflect on what has been a thoroughly rewarding experience. The merger of MyState Financial and Tasmanian Perpetual Trustees has been very successful for the former members of both organisations. The acquisition of The Rock has brought significant synergies, helping to position MyState as a stronger interstate group and providing access to the growing economy of central Queensland.

I would like to thank John Gilbert and our staff in Tasmania and Queensland for their excellent contributions to the company's success, and shareholders for their continued support. I would also like to express my personal gratitude to my fellow directors for their commitment and support. Finally, I wish the chairman-designate, Miles Hampton, and the company every success in the future.

Business Summary

MyState

Activities

- Provides financial services to approximately 120,000 customers
- Consumer home and personal loans, general, life and auto equity gap insurance, credit and debit cards, transaction, savings and investment products, multi-currency services
- Business lending and overdrafts, transaction, savings and investment products, and merchant services
- Agribusiness lending and overdrafts, transaction, savings and investment products
- Financial planning advice, wealth management services, personal and risk insurance
- Securitisation programs managed by Connect Asset Management Pty Limited under the name of ConQuest

FY2013 commentary

- Operating in a challenging environment
- Loan portfolio increased 4% to $2.1 billion
- The low level of non-performing assets continued to fall, demonstrating high-quality credit assessment
- Net interest margin declined slightly to 2.78%, impacted by RBA cash rate movements and competitive pressures
- Core banking replacement well-progressed
- Branch refurbishment and consolidation program progressed at Hobart City and Newtown branches, branches at Sandy Bay and Claremont were closed

ROCK

- Provides financial services to approximately 40,000 customers
- Consumer home and personal loans
- Transaction, savings and investment products
- Credit and debit cards
- General insurance products including home and contents and vehicle insurance
- Life insurance and auto equity gap insurance
- Securitisation trust management and custodial services managed by Rockhampton Custodial Management Company Limited

FY2013 commentary:

- Profitability impacted by significant reduction in broker channel business
- Direct sales increased by 32%; however, loan portfolio declined to $0.9 billion
- Net interest margin declined slightly to 1.78% following efforts to increase retail deposits
- First contribution of $1.6 million to group overheads
- Significant product offering improvements including home loans, general insurance and new credit and debit cards
- Centralised core support functions including loan processing, collections and shared service functions
- Continued branch improvement program, including full refurbishment of Bolsover Street head office and Yeppoon branch. Branches at East Street and Allenstown were closed
- ATMs sold to rediATM network providing customers with access to more than 3,000 ATMs across Australia

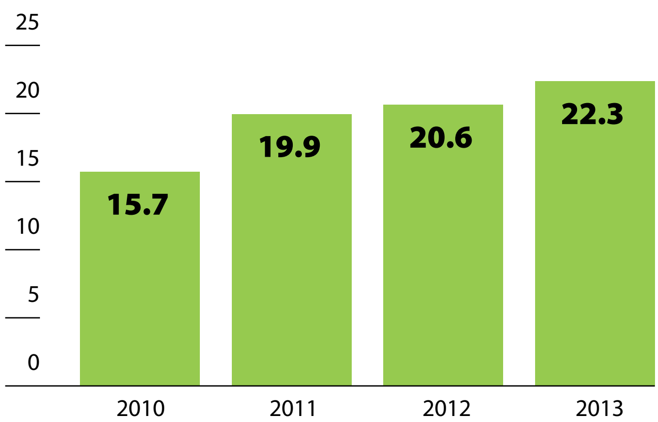
Tasmanian Perpetual Trustees

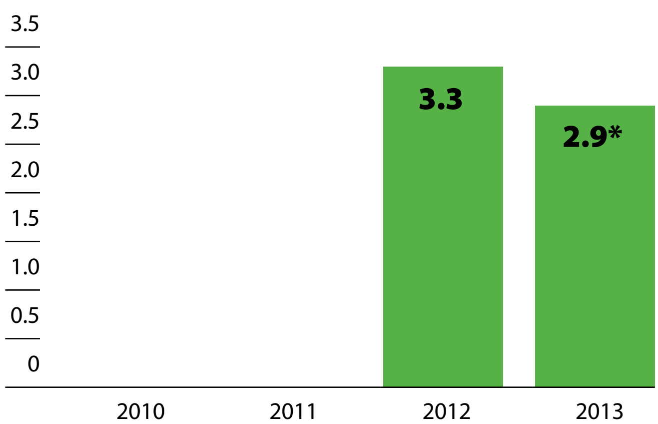
- Investment, estate and trustee services to approximately 80,000 customers
- Provides managed investments including cash and income funds, and investment growth funds
- Wills and estate planning, estate management and trust administration, administration under guardianship and private client services
- Rural and commercial lending

FY2013 commentary:

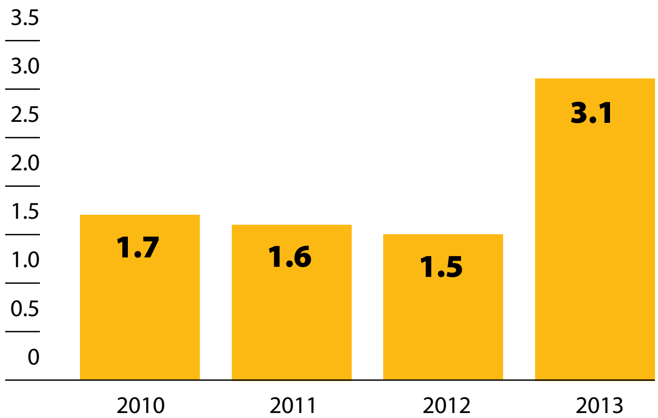
- Operating in a challenging environment
- Revenue increased 3.3%, reflecting 2.2% growth in funds under management to $0.952 billion and higher commission income from estates under advice
- Earnings up, due mainly to cost reductions resulting from centralising functions in head office
- Integration of Trustee support services into MyState operations providing process efficiencies
- Change to flat fee for advice model initiated to comply with future of financial advice (FoFA) legislation
- New Tasmanian Perpetual Mortgage Fund launched on platform receiving positive fund inflows
- TPT Launceston services relocated to new green star building at Cimitiere House proving superior customer experience

NPAT ($ millions)





*After allocation of $1.6m to group overheads (FY2012: nil)



FY2014 strategy

- Deployment of new core banking system delivering ongoing technology cost savings and productivity improvements
- Continued focus on enabling technologies such as loan origination, accounting and information systems
- Introduction of a more competitive and equitable fee structure for customers
- Product portfolio enhancement and simplification under way, offering a more flexible model for the future
- Access interstate broker networks and deploy online loan application systems
- Significant communications enhancements providing superior experience for customers, business process improvements and efficiencies
- Refurbishment of branches continuing in 2014

- Product enhancements and rationalisation for greater consumer offering and reduced administration
- Re-engage broker channel through product and service enhancements including deployment of online loan application systems
- Branch refurbishment planned at Gladstone and relocation of Emerald branch to complete refurbishment and relocation program
- Loan origination system being implemented into The Rock
- Consolidation of technology systems and data centre operations
- Staff training to capitalise on central Queensland growth

- Continue to offer products combining highly competitive yields with capital stability
- Focus on distribution of product and services by capitalising on the customer base and distribution strength of MyState Financial
- Relocating services in Burnie to new site in Wilson Street shared with MyState Financial

Managing Director's Report

"I am pleased to report that MyState Limited **continued to grow** during the year; we increased profits, and maintained tight cost controls across the group."

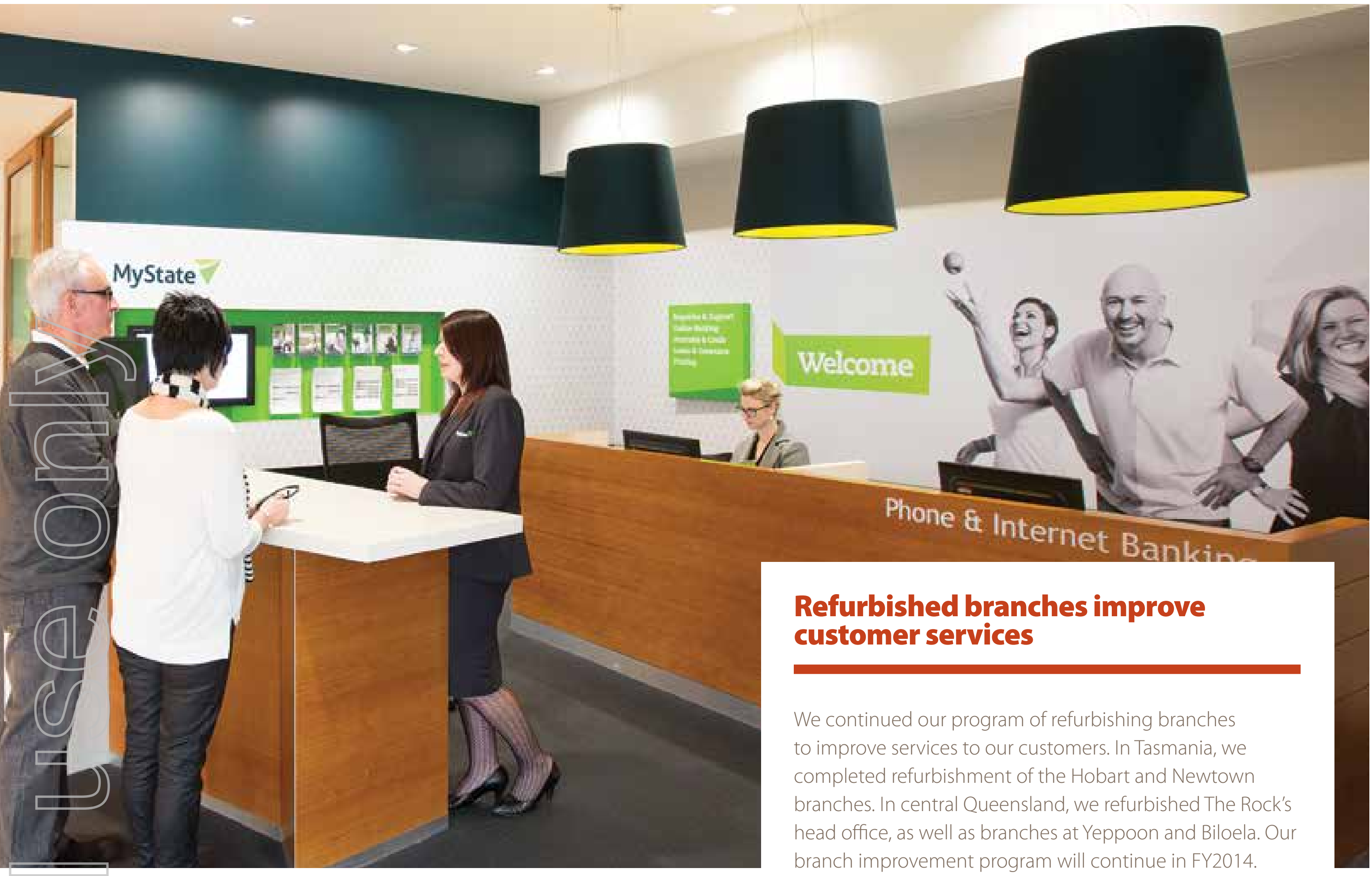
John Gilbert – Managing Director

Significant achievements

I am pleased to report that MyState Limited continued to grow during the year; we increased profits, and maintained tight cost controls across the group. Our results reflected both strong performance in the low-growth Tasmanian economic environment and challenges as we transitioned to a more sales-focused business model in central Queensland.

Significant achievements during the year included:

- Reducing our already low level of arrears and improving asset quality across our banking businesses;
- Reducing our cost-to-income ratio by 2.8% to 68.3%, representing absolute cost reduction over the last three half years;
- Maintaining a high level of capital adequacy 14.0% (13.7% Tier 1);
- Improving return on equity to 10.2% from 8.5% in FY2012, reflecting our focus on efficiency;
- Extracting synergies following our acquisition of The Rock Building Society in December 2011 through streamlined business structures and operations;
- Strengthening The Rock's product and service offering through a broad suite of new banking and insurance products, as well as transitioning to a national ATM network, refurbishing its branch network, and enhancing staff retail skills;
- Progressing our new core banking technology platform which will provide process and cost efficiencies and the foundation for an integrated, scalable banking platform across the group in the future; and



Refurbished branches improve customer services

We continued our program of refurbishing branches to improve services to our customers. In Tasmania, we completed refurbishment of the Hobart and Newtown branches. In central Queensland, we refurbished The Rock's head office, as well as branches at Yeppoon and Biloela. Our branch improvement program will continue in FY2014.

- Delivering industry-leading customer satisfaction levels for MyState Financial, as measured by an independent global brand research firm.

Industry margins came under pressure as the Reserve Bank of Australia reduced its cash rate and price competition increased, particularly during the second half. This led to a slight decline in net interest margin across the group from 2.56% to 2.51% as loans were repriced before deposits.

Pleasingly, despite the economic challenges, we continued to improve our asset quality across the group with a further decrease in non-performing loans which already were well below industry norms. The high credit quality of our portfolio is a reflection of our rigorous lending practices and strong arrears management, supported by appropriate technology. Provisioning and bad and doubtful debts were reduced, with our 30-day secured loan arrears significantly below Standard & Poor's prime mortgage index.

We are well placed to meet incoming capital and liquidity requirements under the Basel III accords. Already, our internal capital adequacy assessment process (ICAAP) is aligned to new prudential standards and includes regular rigorous stress testing and capital forecasting. The group's recently implemented internal liquidity adequacy assessment process (ILAAP) incorporates routine stress testing and has increased the group-wide understanding of liquidity risk management. New liquidity ratios required by scenario-based liquidity entities, including the liquidity coverage ratio which will be required in 2015 and the net stable funding ratio which will be required by 2018, have been calculated, monitored and managed at MyState since 2011 in readiness for the implementation dates.

MyState Financial had the **highest customer satisfaction level** in the Tasmanian banking sector of

96% with 75% of customers either *extremely satisfied* or *very satisfied*.

In a time of economic uncertainty it was necessary to maintain tight control of costs, which we achieved through centralising banking, back-office document processing, collections and corporate functions at the group's Hobart office. This was supported by an external cost benchmarking review which we undertook in mid-2012. Some branches were consolidated in Tasmania and central Queensland where there were nearby branches to service customers. In addition, significant supplier relationships were consolidated to achieve cost efficiencies as well as drive improvements in business processes.

To strengthen our competitive standing, the group's brand strategy was revised, positioning the brands appropriately in their regions and providing a platform for future growth. As part of this strategy, and in keeping with our company values, the group's businesses maintained their strong and visible support for their communities.

Our values

Underlying the group's success has been our commitment to customer service, and the cultural values which underpin everything we do. These values form the strategic foundations that drive MyState Limited and our three businesses:

- We value relationships – recognising that our success is built on the quality of relationships that we have with our customers, colleagues and communities;
- We embrace change and strive for growth – ensuring that our company is competitive, and that our staff are trained, knowledgeable and flexible to support our customers;
- We do what we say – we engage with our customers and aim to exceed their expectations;
- We celebrate success – taking pride in the achievements of our staff, customers and community; and
- We are committed to a sustainable community – participating in the activities of the communities in which we operate, to encourage their continued well-being and success.

By offering simple, reliable and trustworthy financial services, we aim to cement our reputation as a company that is easy to do business with.

Banking operations

MyState Financial

The Tasmanian economy was characterised by declining private and public demand during the year. Weak consumer sentiment was demonstrated by a decline in retail spending of 2.4%, and dwelling approvals fell approximately 17% from an already low base.

Against this backdrop of low growth, the company's Tasmanian loan portfolio increased from $2.0 billion in FY2012 to $2.1 billion in FY2013, up 4% and a strong result despite a slowdown in growth in the second half.

MyState Limited's return on equity improved to **10.2%** in FY2013, up from 8.5% in FY2012

Net interest margin fell slightly, from 2.99% in FY2012 to 2.78% in FY2013. MyState Financial's Tier 1 capital adequacy was 13.46%.

Lack of business confidence led to low levels of lending in the business banking and agribusiness sectors.

Recognising the convenience that internet and smart phone transactions offer, we launched a new mobile website and mobile banking offering which have attracted significant use. We also introduced a new Diners Club business charge card in partnership with Diners Club International, bolstering our business banking offering.

We have increased our investment in technology and are excited by the benefits that will come from the new core banking system for MyState Financial. Since we initiated this $6.5 million project in September 2012 there has been considerable progress and deployment is scheduled for later this year.

While this transformative program has increased our technology costs in the short term, the benefits to MyState Financial from continued investment in our systems and infrastructure include cost savings, process efficiencies, reduced time-to-market for products and services, and enhanced products and services in the future. Importantly, it will lay the foundation for an integrated, scalable banking platform across the group supporting future growth, either organically or through acquisition.

To realise the benefits of the new core banking platform, we initiated projects in a number of critical technology and business areas that are on track for deployment with the new system.

A key aim is to improve business information and reporting to enable better, faster decisions, improve customer experience and increase product penetration into our customer base.

New core banking system on track

We are excited by the benefits that will come from the new core banking system for MyState Financial. Since we initiated this $6.5 million project in September 2012 there has been considerable progress and deployment is scheduled for later this year. This system will lay the foundation for an integrated, scalable banking platform across the group, supporting future growth.

The MyState Australian Wooden Boat Festival is the **largest** collection of wooden boats in the southern hemisphere

To achieve this, a new customer contact management system is being deployed that will greatly enhance the way we provide products and services and communicate. This will enable MyState Financial to maintain its strong service reputation and high levels of customer satisfaction and brand loyalty.

MyState Financial's product range will be rationalised as we reduce the number of supported products that are no longer sold from 49 to just 9 – providing business and process efficiencies as well as reducing complexity.

Our customers will also benefit from a more competitive, transparent fee structure which will simplify their banking experience in line with MyState Financial's brand strategy. In addition, customer communications have been upgraded and simplified, which benefit customers and will result in cost reductions.

With the Tasmanian economy under pressure, we are in the process of expanding MyState Financial's loan portfolio by accessing interstate brokers and investing in online loan application and digital services for existing broker networks.

We continued our program of refurbishing branches to improve services to our customers, completing the refurbishment of the Hobart city and Newtown branches. Decisions were taken to close two smaller branches in close proximity to other services at Sandy Bay and Claremont. Our branch improvement program will continue in FY2014, including the co-relocation of Tasmanian Perpetual Trustees and MyState Financial in Burnie to a new site. As a result of this change, we intend to sell the former Tasmanian Perpetual Trustees building in Cattley Street, Burnie.

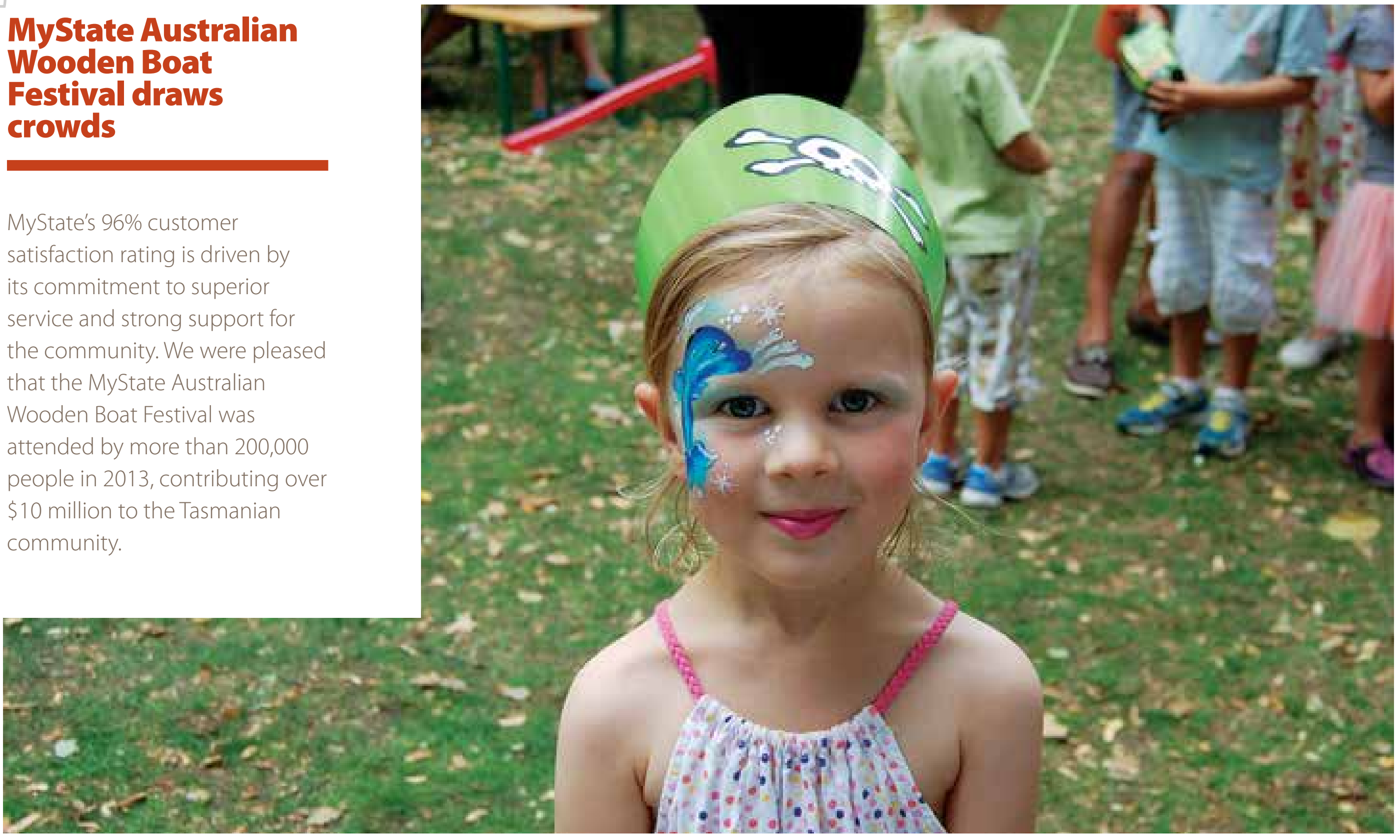
A positive reputation is always a measure of success and we were delighted with the results of a customer satisfaction survey undertaken at the beginning of FY2013 by an independent global brand research firm. This study found that MyState Financial had the highest customer satisfaction level in the Tasmanian banking sector (96%), with 75% of customers either extremely satisfied or very satisfied.

The Rock Building Society

Following our acquisition of The Rock in December 2011, we have taken significant steps towards integrating the business into the MyState group. The Rock is based in a region with strong population

MyState Australian Wooden Boat Festival draws crowds

MyState's 96% customer satisfaction rating is driven by its commitment to superior service and strong support for the community. We were pleased that the MyState Australian Wooden Boat Festival was attended by more than 200,000 people in 2013, contributing over $10 million to the Tasmanian community.



and employment growth; major projects underpinning continued development include the Gladstone liquefied natural gas program and the Great Keppel Island redevelopment.

The Rock, therefore, provides geographic diversification for the group, with approximately 45% of its assets in Queensland and the remainder spread across other states.

During the year, The Rock's loan portfolio was impacted by a significant reduction in new business from the third party broker channel, as we withdrew low-margin fixed rate products and focused on building the retail component of our funding mix. This resulted in a 9.7% reduction in The Rock's loan portfolio to $0.9 billion. In response, we have taken significant steps to reverse the decline. These include improvements in loan and application processing through centralised functions, product and pricing enhancements that provide a highly competitive offering, and implementation of a broker engagement strategy including services to brokers' customers.

Pleasingly, we have started to see a resurgence of applications through the broker channel, and reduced churn. We will continue to improve our services to brokers.

The Rock's net interest margin was 1.78%, higher than at the time of the merger, although slightly lower than the previous year following extensive efforts to increase the proportion of retail deposits. During the year, The Rock made its first full-year contribution of $1.6 million to group overheads.

Our strategy to increase direct sales through the branch channel has been successful. A revitalised brand strategy and enhanced market activity, coupled with a strong retail focus, increased direct loan sales by 32% compared to the previous year, as part of a plan to increase net interest margin. Recently, we introduced a new loan origination system based on MyState Financial's model, which has provided loan processing efficiencies, further enhancing The Rock's services.

Increasing product penetration and organic growth has been a major focus. To support this, The Rock's product offering has been enhanced with a range of new products and services including a revitalised general insurance offering. Partnering with CGU, we introduced a very competitive range of general insurance products to which we succeeded in migrating customers. The new product range, coupled with staff training, contributed to sustained growth in general insurance sales compared to the previous year.

The Rock's customers were also the beneficiaries of an enhanced credit and debit card offering with security features such as 24-hour fraud monitoring and 'payWave' technology. In addition, customers now have access to more than 3,000 ATMs nationally, without incurring direct charge fees, through the rediATM network.

We continued our $2 million investment in The Rock's branch network to improve services to our customers. The Rock's head office relocated to a prime retail position and was upgraded with new facilities including an internet and phone banking hub. Our branches at Yeppoon and Biloela were refurbished while two branches at Allenstown and East Street and two mini-branches were closed due to their close proximity to other services. The refurbishment program will conclude this financial year with the refurbishment of the Gladstone branch and relocation of the branch at Emerald.

The business also benefited from merger integration benefits as we centralised in Hobart a number of corporate and support functions including marketing, human resources, property, treasury, collections, loan operations, risk and compliance.

Trustee and wealth services

Tasmanian Perpetual Trustees

Our funds performed well compared to peers. In a low growth environment, Tasmanian Perpetual Trustees achieved good results; revenue increased by 3.3%, reflecting growth of 2.2% in funds under management to $952 million and higher commission income from estates under administration. Earnings also benefited from cost reduction initiatives including centralisation of functions in the group's head office.

Trustee services, a critical support function, were integrated into MyState Financial's operations, streamlining processes and driving efficiencies. In addition, estate planning and taxation services were integrated into MyState Wealth Management, providing a broader wealth management offering and cross-pollination of skills. Tasmanian Perpetual Trustees' customer service officers were unified under the MyState Financial retail structure increasing cross-referrals from our retail banking network, which generated more than one fifth of new business, particularly investment management and private client services. Over time, cross-referrals will lead to our offering a complete financial services solution across a customer's lifetime, supporting loyalty with high levels of service and a broad range of products. We aim to provide our customers with more flexibility and choice, and expect new business from cross-referrals will continue to grow.

Financial planning revenues (delivered under the MyState Financial brand), while modest, rose slightly during the year. Our financial planning business has prepared well for the Federal government's Future of Financial Advice (FoFA) legislation, replacing its trail and percentage-based fee model with a flat dollar-based fee for advice model during FY2012. Approximately 40% of revenue now comes from fee-for-service business.

This was also the first full year of operation for the MyState wealth management super, pensions and investment accounts platform, and funds under advice more than trebled from $27 million to $91 million. Cash management accounts and term deposits also grew substantially, and inflows to the new Tasmanian Perpetual Mortgage Fund, launched in September 2012, were satisfactory.

Risk management

During the year, our high-level risk, legal and compliance activities were consolidated into a single business unit. This unit safeguards the interests of stakeholders through implementing procedures and practices which are consistent with regulatory standards and our group's risk management policy and framework.

Risk culture

MyState Limited places great emphasis on growing and developing a sound risk culture. In order to do this, we have aimed to create a workplace where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted. All levels of management within the group are expected to take an active role in leading the company through the cultural change to improve the focus on risk management.

The Rock's customers gain access to nationwide ATM network

The Rock's customers benefited from access to more than 3,000 ATMs nationally through the rediATM network, enabling them to transact through a vastly bigger network without incurring direct charge fees.

To do this, the company has developed a risk appetite statement aligned with its corporate values, strategic plan and business objectives. This sets out the amount of risk the group is prepared to pursue to achieve its strategic objectives.

MyState ensures alignment between organisational and risk management objectives and strategies by ensuring its risk management processes are incorporated into all strategic planning activities.

Risk assessment

We assess risks by identifying potential events and evaluating their possible consequences, and the likelihood they will occur. The risk is then assessed against the group's risk appetite to ensure that it is within the group's tolerance.

Our risk management framework provides the foundations and organisational arrangements adopted by the group. This framework is designed to ensure all employees take reasonable steps to identify, assess, monitor and manage risk to help the group achieve its strategic and business objectives.

Risk principles

Our overall approach to risk management is based on:

- Individual business units and branches which identify, evaluate and manage risks aligned with their business;
- Risk management and compliance processes that provide independent monitoring and oversight;
- The board, including internal and external audit, which reviews and tests business unit compliance; and
- Business unit risk specialists ensure rules are actively identified and managed across the group, supported by a new enterprise risk management software solution.

As part of the framework, specific responsibilities include:

- Employees are expected to accept and be accountable for risk management activities relevant to their business and role;
- Through the group risk committee, the board is responsible for ensuring that risks to MyState's continued success are properly identified and managed; and

MyState Financial launches mobile banking

Recognising the convenience that internet and smart phone transactions offer, we launched a new mobile website and mobile banking offering which have attracted significant use

- The chief risk officer reports to the managing director, who oversees risk at an executive level. The chief risk officer has direct access to the chairman of the group risk committee and the external auditor.

To support the framework, MyState also has robust controls built into its business processes.

Community

Strong support for the communities in which we operate is woven into the fabric of our business and in 2013 we contributed approximately $400,000 to local events and programs.

In Tasmania, this included over $100,000 in charitable grants provided by the MyState Foundation to youth-orientated organisations, supporting the MyState Australian Wooden Boat Festival, delivering the MyState Student Film Festival, and supporting the presentation of the Hardie Fellowship and Cape Hope fundraising organisation through Tasmanian Perpetual Trustees.

In addition, following the Tasmanian bushfires in January, we supported the Bushfire Appeal with a $50,000 donation, and together with our customers raised over $117,000 in support of the appeal.

In Queensland, we support a broad range of agricultural, education, health and sporting activities. These include the Central Queensland NRL Bid Junior Development Program which builds the rugby league skills of junior players and, in memory of the former Rock Building Society chairman, the John Maxwell scholarship for a first-year university accounting student. We also contribute to grass roots community activities such as the Goomeri Pumpkin Festival which attracted 14,000 people, and supported the Queensland floods appeal with a $25,000 donation.

As part of our corporate culture, we encourage our staff to contribute personally to the local community. Though our Hands-On program, all MyState staff receive one fully-paid day of leave each year to volunteer their time to assist charities and community organisations.

The Rock **increased** direct loan sales by 32% compared to the previous year

Outlook

We believe that the banking and wealth management industry will continue to face a challenging environment in FY2014. We expect to face headwinds in Tasmania, where business and consumer confidence is low, although we are heartened by the positive impact of commercial building works which will commence during the year. These include a major hospital development, Parliament Square, and the Midlands irrigation program, and the resulting increase in employment has potential to rekindle growth in the island state. In Central Queensland we anticipate benefits to our business as major infrastructure projects advance and stimulate further economic growth.

Overall, we believe that all the group's businesses should continue to grow their assets and profitability modestly in FY2014.

We look forward to the introduction of our new core banking system which we anticipate will improve our efficiency, streamline our internal processes and provide future benefits to our customers.

Our program to revitalise relationships with the third party broker channel shows early signs of improvement, and we expect that MyState's national distribution and diversification strategy will build momentum.

In today's competitive economy, we continue to seek acquisition opportunities which can help to diversify and strengthen our business and bring further economies of scale.

Our staff commitment

Finally, I would like to take this opportunity to express my gratitude for the commitment and dedication of our hard-working staff, who have consistently risen to meet the challenges of change in this highly competitive market. Their good humour, flexibility and customer focus have helped differentiate MyState as an organisation that provides a strong and positive contribution to the customers and communities which we serve.

Community engagement

We are committed to developing thriving, sustainable communities.

It's vital that we contribute to the quality of life of the communities around us and that our actions as a company, and as individuals, demonstrate care for the community we live in.

Staff Hands-On Program ▶1

We aim to enable a vibrant, creative and aspirational community where people encourage and bring out the best in each other. It's important that we not only support these events financially, but contribute to the events and activities to drive their success and build upon their foundations.

In line with this commitment, we encourage all staff to take one paid day annually to volunteer for a not-for-profit charitable organisation of their choice. Through our Hands-On volunteer program we have collaborated with organisations including the RSPCA, BlazeAid, Tasmanian Landcare Association, Conservation Volunteers and Special Olympics Australia.

MyState Foundation ▶5

Through the Foundation, MyState invests in young Tasmanians because we consider them the future custodians of the state. The Foundation believes that investing in the capability of youth enriches the local community and in June 2013 awarded more than $100,000 to 17 youth-focused organisations in Tasmania. Since its inception in 2001, the Foundation has awarded more than $1 million to 80 organisations.

The Foundation also supports the springboard to higher education program, in partnership with the University of Tasmania, providing financial support to help disadvantaged youth further their education.

MyState Student Film Festival ▶7

This is Tasmania's premier youth artistic event which helps young people develop key life-skills such as creative thinking, planning, teamwork, problem solving and management through the art of film. Over the past 11 years more than 750 films have been created by over 250 Tasmanian schools. The festival showcases young Tasmanian talent to Australia and the world and has provided a valuable launch pad with festival participants progressing to successful film industry careers.

MyState Australian Wooden Boat Festival ▶2, 3

The bi-annual MyState Australian Wooden Boat Festival is recognised as one of the best maritime events in the world. In 2013, in excess of 200,000 people came to Hobart's waterfront to celebrate Tasmania's $70 million wooden boat building industry. Sponsored by MyState and the Tasmanian government, this event attracted more than 600 wooden boats with many exhibitors and patrons travelling from interstate and overseas for the event. In 2013, the influx of visitors to the festival contributed more than $10 million to the Tasmanian economy.

We Built This City ▶4

MyState partnered with the Theatre Royal to celebrate the iconic Hobart theatre's 175th anniversary. The Theatre Royal is the oldest working theatre in Australia. MyState helped attract an innovative event to Tasmania and bring the community together for a weekend of creative family fun. Using 4,000 cardboard boxes, Tasmanian families built, created, and then demolished the ultimate cardboard box city. We Built This City won the Partnering Award in the Tasmanian 2013 Creative Partnerships Australia Awards.

Central Queensland NRL Bid Junior Development Program ▶10

The Rock is a proud sponsor of the CQ NRL Bid Junior Development Program, which fosters rugby league skills for local talent. In only its second year, the program gathered the best junior players from across the region for a holistic development camp. In addition to financial support, The Rock counsels young players on how to manage their money to help them develop more complete life skills and prepare for challenges ahead.

John Maxwell scholarship ▶6

Named in memory of a former chairman of The Rock, the scholarship is awarded to a first-year accounting student at Central Queensland University. The scholarship provides financial support to the student enabling them to further their education.

The Goomeri Pumpkin Festival ▶8

The Goomeri Pumpkin Festival is an annual event held in the South Burnett region of Queensland which in 2013 attracted more than 14,000 people. Offering a great fun filled family day out, the event brings people together to celebrate their shared farming heritage.

The Hardie Fellowship ▶9

Tasmanian Perpetual Trustees is a proud supporter of The Hardie Fellowship. The Fellowship is one of the most substantial and prestigious opportunities in Australian education; it provides Tasmanian teachers the opportunity and financial support to achieve excellence in their profession through study and research at universities in the United States. Fellowship recipients then enrich the local community by passing on their learnings to others in Tasmania.

Cape Hope

Tasmanian Perpetual Trustees is proud to support fundraising organisation Cape Hope. This year, Tasmanian Perpetual Trustees helped Cape Hope raise funds for St. Giles and The City Mission charities.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University
AUSTRALIA


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Tasmanian
Perpetual
Trustees
Always in
your best
interest


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Board of **Directors**









Left column: Michael Vertigan; John Gilbert; Peter Armstrong; Robert Gordon; Miles Hampton
Right column: Colin Hollingsworth; Stephen Lonie; Sarah Merridew; Ian Mansbridge

Dr Michael J Vertigan AC BEc (Hons), PhD, Hon LLD, FAICD
Chairman and Independent Non-executive Director
Appointed 8 October 2008

Dr Vertigan is currently a Director of Aurora Energy and the Commonwealth Superannuation Corporation. He is Chair of the Energy Security Council and Chair of the Board of the Australian Maritime College. He was formerly Secretary of the Department of Treasury and Finance in both Tasmania and Victoria. For the past decade, he has had extensive involvement in the finance, investment, energy and utilities sectors. Director of Tasmanian Perpetual Trustees Limited since July 2004 and Chairman since October 2004, Dr Vertigan also serves as Chairman of MyState Limited Board's Group Nomination Committee, is a member of the MyState Financial Limited Community Foundation Limited and was appointed Chairman of The Rock Building Society Limited in December 2011. He was made a Companion of the Order of Australia in January 2004.

G John Gilbert B Com, FAICD, FAMI
Managing Director - Executive Director
Appointed 10 December 2009

Mr Gilbert was appointed Chief Executive Officer of MyState Financial and subsidiary companies on 27 May 2009 and appointed a Director of Tasmanian Perpetual Trustees Limited on 22 December 2009. He was appointed Managing Director of The Rock Building Society Limited in December 2011. Mr Gilbert has extensive experience in the financial services sector. He was the former Chief Executive Officer of Cuscal Limited, a leading provider of wholesale and transactional banking services to specialist retail financial institutions. During this time Mr Gilbert was a Director of Abacus, the industry association for mutual ADIs and a member of the governing council for World Council of Credit Unions. From 1998-2002 he was the CEO of Members Australia Credit Union (now bankmecu). Prior to that time, Mr Gilbert was the CEO of the Victorian Financial Institutions Commission where he was responsible for the prudential supervision of state regulated financial institutions. He is currently a Director of a number of QBE insurance subsidiaries and Chair of the Macquarie Point Development Committee. Mr Gilbert was recently appointed to the Council of the Australian Institute of Company Directors (Tasmanian Division).

Peter D Armstrong BEc (Hons), Dip ED, Dip FP, CPA, FAICD, FAMI
Independent Non-executive Director
Appointed 12 February 2009

Mr Armstrong is Chairman of the MyState Limited Board's Group Corporate Governance and Remuneration Committee and is a member of the Group Audit Committee. He is a former Chairman of connectfinancial and Teachers, Police and Nurses Credit Union. Mr Armstrong was appointed a Director of MyState Financial and subsidiary companies on 1 July 1998 and is a Director of the Gourmet Club Pty Ltd. He was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009 and a Director of The Rock Building Society Limited in December 2011. Mr Armstrong is President of Tennis Tasmania and a Member Representative to Tennis Australia.

Robert L Gordon BSc, MIFA, MAICD, FAIM
Independent Non-executive Director
Appointed 12 February 2009

Mr Gordon the former Managing Director of Forestry Tasmania has been a company director for seventeen years including six years as Chairman of connectfinancial. Mr Gordon was appointed as a Director of MyState Financial on 1 July 1998. He is Chairman of MyState Financial Community Foundation Limited, a Director of the Gourmet Club Pty Ltd and was appointed a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009. He is a member of the MyState Limited Board's Group Corporate Governance and Remuneration and Group Nomination Committees. Mr Gordon was appointed a Director of The Rock Building Society Limited in December 2011.

Miles L Hampton BEc (Hons), FCIS, FCPA, FAICD
Independent Non-executive Director
Appointed 12 February 2009

Mr Hampton has been a Director of Tasmanian Perpetual Trustees Limited since July 2006. He was appointed a Director of MyState Financial and subsidiary companies in September 2009 and was appointed a Director of The Rock Building Society Limited in December 2011. Mr Hampton is Chairman of MyState Limited Board's Group Risk Committee and is a member of the Group Audit Committee. Mr Hampton was Managing Director of agribusiness and real estate public company, Roberts Limited from 1987 until 2006. He is currently a Director of Australian Pharmaceutical Industries Ltd, the Van Diemen's Land Company, Tasman Farms Limited and is Chairman of the Tasmanian Water and Sewerage Corporation and the Mather Foundation. Mr Hampton has previously been a Director of public companies Ruralco Holdings Ltd, Wentworth Holdings Ltd, HMA Ltd and Gibsons Ltd and was a Director of Impact Fertilisers Pty Ltd.

Colin M Hollingsworth CPA, MAICD, FAMI
Independent Non-executive Director
Appointed 12 February 2009

Mr Hollingsworth was General Manager, Corporate Services, TAFE Tasmania from 1998 until April 2008. He is an experienced company director and former Chairman and Director of both CPS and Island State Credit Unions. Mr Hollingsworth was appointed a Director of MyState Financial on 1 July 2007. He is a Director of The Gourmet Club Pty Ltd and was appointed as a Director of Tasmanian Perpetual Trustees Limited on 22 September 2009. Mr Hollingsworth is Chairman of MyState Limited Board's Group Audit Committee and a member of the Group Corporate Governance and Remuneration Committee. He was appointed a Director of The Rock Building Society Limited in December 2011.

Stephen E Lonie *B Com, MBA, FCA, FFin, FAICD, FIMCA*
Independent Non-executive Director
Appointed 12 December 2012

Mr Lonie was a former partner of the international accounting and consulting firm KPMG and now practices as an independent management consultant. Currently, he is Chairman of Central Queensland mining group, Jellinbah Resources Pty Ltd and is a non-executive Director of Corporate Travel Management Ltd. Mr Lonie was formally Chairman of The Rock Building Society Ltd and remains as a non-executive Director of the Company following the acquisition by MyState Limited. Mr Lonie is a member of MyState Limited Board's Group Audit and Group Corporate Governance and Remuneration Committees.

Sarah Merridew BEc, FCA, FAICD
Independent Non-executive Director
Appointed 12 February 2009

Mrs Merridew is a non-executive Director of Tasmanian Railway and TasWater. She is Honorary Treasurer of the Royal Flying Doctor Service Tasmanian Section and actively involved with other community organisations. Mrs Merridew was formerly a Director of the antecedent Tasmanian Water & Sewage Corporations, Tasmanian Public Finance Corporation and a partner of Deloitte Touche Tohmatsu. She is an experienced company director and has extensive experience in providing audit, risk management and business advisory services to the public and private sectors. Mrs Merridew was appointed a Director of MyState Financial and subsidiaries on 22 September 2009 and a Director of Tasmanian Perpetual Trustees on 11 December 2001, following her previous appointment to the Board of Perpetual Trustees Tasmania Limited. She was a Director of Tasmanian Banking Services Limited from 2005 until 2009. She is a member of MyState Limited Board's Group Risk and Group Corporate Governance and Remuneration Committees. Mrs Merridew was appointed a Director of The Rock Building Society Limited in December 2011.

Ian G Mansbridge CPA, FCIS, FCIM
Independent Non-executive Director
Appointed 12 February 2009

Mr Mansbridge's career has included positions as Managing Director of Sandhurst Trustees Ltd, Managing Director of National Mortgage Market Corporation, Managing Director of Elders Rural Bank (Rural Bank) and General Manager of Bendigo Bank. He has been National President of the Trustee Corporations of Australia, a Director of Tasmanian Banking Services and Chair of the National Stock Exchange of Australia Ltd. He is currently a Director of Australian Friendly Society, Sandhurst Trustees Ltd and Goulburn-Murray Water. He was appointed a Director of Tasmanian Perpetual Trustees Ltd in March 2004, and MyState Financial on 22 September 2009. He is a member of MyState Limited Board's Group Risk and the Group Nomination Committees. Mr Mansbridge was appointed a Director of The Rock Building Society Limited in December 2011.

Executive Committee

Clockwise from top left: John Gilbert; Tom Taylor; Tim Rutherford ; Natasha Whish-Wilson

G John Gilbert B Com FAICD, FAMI
Managing Director - Executive Director

Mr Gilbert was appointed Chief Executive Officer of MyState Financial and subsidiary companies on 27 May 2009 and appointed a Director of Tasmanian Perpetual Trustees Limited on 22 December 2009. He was appointed Managing Director of The Rock Building Society Limited in December 2011. Mr Gilbert has extensive experience in the financial services sector. He was the former Chief Executive Officer of Cuscal Limited, a leading provider of wholesale and transactional banking services to specialist retail financial institutions. During this time Mr Gilbert was a Director of Abacus, the industry association for mutual ADIs and a member of the governing council for World Council of Credit Unions.

From 1998-2002 he was the CEO of Members Australia Credit Union (now bankmecu). Prior to that time, Mr Gilbert was the CEO of the Victorian Financial Institutions Commission where he was responsible for the prudential supervision of state regulated financial institutions.

He is currently a Director of a number of QBE insurance subsidiaries and Chair of the Macquarie Point Development Committee. Mr Gilbert was recently appointed to the Council of the Australian Institute of Company Directors (Tasmanian Division).

Tom Taylor B Bus, CPA, ACIS, MAICD
Chief Financial Officer

Mr Taylor was appointed Chief Financial Officer of MyState Limited on 30 April 2013. Formerly he was Chief Financial Officer for AMP Bank and was lead executive responsible for setting up AMP Bank's banking, financial and treasury operations in Australia, New Zealand and also the United Kingdom. In 2001, Mr Taylor was appointed Chief Financial Officer of Cuscal. He has held several non-executive roles in the superannuation sector and has also consulted to a number of other banking organisations.

Natasha Whish-Wilson Adv Dip Bus Mgt, MAICD, CSA (Cert)
Chief Risk Officer

Mrs Whish-Wilson has been an employee of MyState since 1999. Prior to her appointment as Chief Risk Officer Mrs Whish-Wilson in 2011 held a variety of roles in operational and back office environments, including Branch Manager, Manager Quality Assurance, Senior Manager Operational Risk and Group Manager Risk. Previously Mrs Whish-Wilson was employed as a Police Officer at Tasmania Police from 1988 to 1998 and has extensive experience in the Forensic and Criminal Investigation fields. Mrs Whish-Wilson is currently responsible for Enterprise Risk Management throughout the MyState Group and directly oversees the management and operations of the Legal and Compliance, Enterprise Risk Management, Fraud Risk and Credit teams, which includes oversight of Credit Risk.

Tim Rutherford BA (Hons), MA, MBA, GAICD
Chief Operating Officer

Mr Rutherford is responsible for the strategic direction and delivery of MyState Limited's retail operations, wealth management, trustee and estate operations, loans and back office processing and collections.

Mr Rutherford was previously MyState Limited's General Manager – Technology and Operations. Prior to joining MyState Limited Mr Rutherford gained extensive management experience working with PwCC, IBM, NAB and Rio Tinto in Australia, Switzerland, United States, Canada, Japan, Korea, New Zealand and India on large organisational transformation projects covering operational strategy development and implementation, large scale systems implementations, organisational restructuring and performance optimisation.

Mr Rutherford is a member of the Property Council of Tasmania.

Corporate Governance Report

The Board of Directors and Management of MyState Limited recognise the importance of sound corporate governance and are committed to maintaining and continually enhancing the highest standards across the Group. Good corporate governance is not considered to be just a matter for the Board and Management – it is a culture entrenched Company-wide.

These governance standards are of paramount importance as MyState Limited is both a listed company and an entity operating within the highly regulated financial services sector, overseen by the Australian Prudential Regulation Authority (APRA), Australian Securities and Investment Commission (ASIC), Australian Stock Exchange (ASX), and the Australian Transaction Reports and Analysis Centre (AUSTRAC).

The Board is responsible to its Shareholders for the performance of the Company and strives to enhance the interests of Shareholders and other stakeholders, including employees and regulators. Details of the Company's Corporate Governance policies are available on the Company's website at mystatelimited.com.au and may be accessed via the 'Corporate Governance' section.

The Company's Corporate Governance policies are continually under review due to the ever changing regulatory environment and the desire for the Company to operate at the highest governance levels possible.

The Company is pleased to report continuing full compliance with each of the following ASX Corporate Governance Principles and Recommendations:

1 Lay solid foundations for management and oversight

Establish and disclose the respective roles and responsibilities of Board and Management.

2 Structure the Board to add value

Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

3 Promote ethical and responsible decision-making

Actively promote ethical and responsible decision-making.

4 Safeguard integrity in financial reporting

Have a structure to independently verify and safeguard the integrity of the Company's financial reporting.

5 Make timely and balanced disclosure

Promote timely and balanced disclosure of all material matters concerning the Company.

6 Respect the rights of Shareholders

Respect the rights of Shareholders and facilitate the effective exercise of those rights.

7 Recognise and manage risk

Establish a sound system of risk oversight, management and internal control.

8 Remunerate fairly and responsibly

Ensure the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Since listing in September 2009, MyState Limited has fully complied with the ASX Principles of Good Corporate Governance and Best Practice Recommendations. Since that time, the Company has continued to review and enhance its policies and procedures to demonstrate its compliance with the ASX Principles of Good Corporate Governance and Recommendations and, at 30 June 2013, again report full compliance.

This statement sets out the main corporate governance practices that were in operation throughout the financial year, except where otherwise indicated.

Board of Directors

Role of the Board

The Board of Directors is accountable to Shareholders for the overall performance and governance of the Company.

The Board has developed the following suite of policy documents which clearly establish the relationship between the Board and Management and describe their respective roles and responsibilities in a manner consistent with ASX Principles:

- the Role and Composition of the Board;
- the Role, Skills and Attributes of the Chairman;
- the Role and Skills of Individual Directors; and
- the Role of the Managing Director/Chief Executive Officer.

These documents are available on the Corporate Governance section of the Company's website.

Fundamentally, the Board is responsible for:

- determining corporate policy;
- setting the Company's goals and strategic direction, including identification and analysis of merger, acquisition and investment opportunities for the Group in accordance with the Strategic Plan;
- assessing and monitoring performance against budgets and strategic plans; and
- monitoring the management of the business.

The Board also ensures the appropriate integrated control systems and procedures are in place to identify, assess, monitor and manage material business risks and to ensure compliance with all regulatory and prudential requirements.

The Board is responsible for the appointment of the Managing Director, succession plan considerations, sets his/her remuneration and assesses his/her performance annually.

The Board also reviews and approves the Senior Executive structure of the Company, their appointment, succession plan considerations, and their remuneration, and annually assesses their performance, with recommendations brought forward by the Managing Director.

The Managing Director is responsible to the Board for the day-to-day operation of the Company, with all powers, discretions and delegations authorised, from time to time, by the Board.

Board Structure

The Board currently comprises eight non-executive Directors, including the Chairman, together with one executive Director, namely the Managing Director.

The names, terms of office and individual skills, experience and expertise profile of each of the Board members are set out on pages 18 to 19 of this Annual Report.

The Company's Constitution contains provisions relating to the retirement and appointment of Directors at the Annual General Meeting. The Constitution also contains provisions which allow the Board to vary the number of non-executive Directors within certain limitations.

Director Independence

Directors are expected to bring independent views and judgement to the Board's deliberations as well as a strong understanding of the Group's core businesses. The Board includes a majority of non-executive independent Directors, a non-executive independent Chairman and has different persons filling the roles of Chairman and Managing Director/Chief Executive Officer.

The Board has developed a set of 'Independent Director Standards'. In defining the characteristics of an independent Director, the Board uses ASX Principles together with its own consideration of the Company's operations and business, applying appropriate materiality thresholds on a case-by-case basis with reference to each Director and having regard to both quantitative and qualitative principles.

The Independent Director Standards are available on the Company's website.

To qualify as being 'independent', a Director must, in the opinion of the Board, be independent of Management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of his/her unfettered and independent judgement.

Information about any such businesses or relationships, including any related financial or other details, is assessed by the Board to determine whether the relationship could, or could reasonably be perceived to, materially interfere with the exercise of a Director's unfettered and independent judgment. In determining whether an interest or relationship is considered to interfere with a Director's independence, the Board adopts a conservative approach to materiality.

The Board considers that, among other things, Executive positions, substantial shareholdings, acting as a material professional advisor or consultant, having material business relationships, serving as a long-term Director, being affiliated with or employed by a present or former auditor of the Company, being a material supplier or customer, or having a material contractual relationship are all matters to be considered in determining Director independence.

The Board has reviewed the position and associations of each of the Directors in office at the date of this Annual Report and considers that all eight of the current non-executive Directors are independent.

The Board assesses the independence of new Directors upon appointment and reviews their independence and the independence of the other Directors, as appropriate. Where a Director's independence status changes, the Company has procedures in place to provide a timely disclosure to the market of the change.

Board Skills, Knowledge and Experience

The Board, as currently constituted, has a sound knowledge and understanding of the financial services industry and has the range of competencies considered appropriate to the needs of the business.

Each year the Board, under the sponsorship of the Group Nomination Committee, reviews the key competencies required for optimal composition of the Board, having regard to the Company's activities in the financial services sector and the diversity, skills, knowledge and experience collectively required of its Directors. Assessment by the Committee aims to confirm that there is a close alignment between optimal Board composition and the competencies of the Board as currently constituted.

The Directors of MyState Limited understand the need to structure the Board in such a way that it:

- has a proper understanding of and competence to deal with the current and emerging issues of the business;
- exercises independent judgement;
- encourages enhanced performance of the Company; and
- can effectively review and challenge the performance of Management.

The Australian Prudential Regulation Authority (APRA) has in place Prudential Standards that require Directors, Senior Management and auditors of an authorised deposit-taking institution to be assessed to determine whether or not they have the appropriate skills, experience and knowledge to perform their role. They also need to be able to establish that they have acted with honesty and integrity.

During the current reporting period, the Company undertook an extensive review of its comprehensive 'Fit and Proper' Policy. The updated 'Fit and Proper' Policy continues to meet all the requirements of APRA's Prudential Standard (CPS 520 Fit and Proper), has been approved by the Board and implemented by the Company. All 'responsible persons', as defined by the Prudential Standard, have been assessed as meeting the criteria to ensure they are 'fit and proper'.

Board, Committee and Director Performance Evaluation

The Board Renewal and Evaluation Policy governs the process of regular review of its overall effectiveness with the aim of maintaining an energised, proactive and effective Board.

The Policy is available on the Company's website. Pursuant to the Policy, the Group Nomination Committee is responsible for strengthening the governance framework of the Company through an on-going assessment of the composition and effectiveness of the Board as a whole. This Policy includes developing and recommending to the Board effective processes for annually reviewing and assessing the performance of:

- the Board as a whole;
- Board Committees; and
- the Chairman and each of the Directors.

An annual and detailed internal assessment is made of the Board's performance in meeting its various responsibilities. The Chairman undertakes a pivotal role in this process. The Group Nomination Committee also reviews a Board Skills Assessment matrix, completed annually by Directors, to assist the Board Succession Planning process. This review is designed to assist with deliberations regarding the Board's performance as a whole.

This internal process is combined with an independent external review by Board performance consulting specialists conducted at least every three years, and was most recently undertaken during the current reporting period.

Plans for those areas identified for further improvement as a result of the evaluation process are developed where required, with the Board agreeing on which recommendations are to be implemented, when it is proposed to do so and who is to take responsibility for their implementation.

The Group Nomination Committee also annually reviews the Company's adherence to the Board Renewal and Evaluation Policy and reports to the Board in this regard.

The annual performance evaluation for the Board, its respective committees and the individual Directors has been conducted during the current financial year in accordance with the process disclosed in this Annual Report.

Board Renewal and Succession Planning

Board renewal and succession planning is a key part of the Group's corporate governance process.

Board renewal and succession planning matters in the period immediately post merger, in 2009, 2010 and 2011, are detailed in the Company's Constitution, which is available from ASIC and has also been published to the ASX Company Announcements Platform for MyState Limited (ASX Code: MYS).

Recommendations for the appointment of new Directors are made by the Board's Group Nomination Committee for consideration by the Board as a whole.

If it becomes necessary to appoint a new Director to fill a vacancy on the Board, or to complement the existing Board, potential candidates are identified and assessed against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. This assessment extends to attention to the diversity needs of the Board, including gender diversity.

On occasion, professional intermediaries can be used to assist with the identification and assessment of potential Director Candidates.

The Company has developed a comprehensive Board Skills Assessment matrix that is used to assess the skills of existing Directors and potential Director Candidates.

A Director, selected and appointed by the Board, is required to retire in accordance with the Constitution of the Company at the next Annual General Meeting and is eligible for election by Shareholders at that Annual General Meeting.

Non-executive Directors will retire once they have served a maximum of three, three-year terms after first being elected by Shareholders, unless invited by the Board to extend their tenure due to special circumstances.

The appointment of a new Director by the Board is formalised with a detailed letter of appointment from the Chairman which sets out the key conditions of their appointment including such matters as their term of appointment, duties, rights, responsibilities, time commitments, expectations of the role and remuneration.

Induction and Continuing Education

Management, working together with the Board, provides a comprehensive induction programme for new Directors which canvas the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programme, its respective Codes of Conduct, its management structure, its internal and external audit programmes and Directors' rights, duties and responsibilities. This process is designed to ensure that, new Directors fully understand their role, have a working knowledge of the MyState Group (including its culture and values), and are able to operate effectively from the date of their appointment.

To assist Directors to gain a broader understanding of the Company, Management also regularly provide additional presentations for Directors about the Company and the factors impacting, or likely to impact, on its businesses.

Directors are also encouraged to personally keep up-to-date on topical issues.

Meetings of Directors

The Board currently meets formally at least eleven times a year and on other occasions, as required. Senior Management attend and make presentations at Board meetings as considered appropriate and are available for questioning by Directors.

The Board also provides time for discussion at each meeting without Management being present.

The Board also holds annual strategic planning sessions with Management, to review and re-assess the Company's five year strategic plan, which focuses on underpinning the long term profitable growth of the Company.

The number of Board meetings and each Director's attendance at those meetings for the financial year ended 30 June 2013 is set out in the Directors' Report on page 44 of this Annual Report.

All Directors have unrestricted access to all employees of the Company and, subject to the law, access to all Company records and information held by employees and external advisers. The Board receives regular detailed financial and operational reports from Senior Management to enable it to carry out its duties.

Consistent with ASX Principles, each Director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a Director or as a member of a Board Committee. The Company will reimburse the Director for the reasonable expense of obtaining that advice.

Conflicts of Interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Group, which is a matter for on-going consideration by all Directors. Any Director who has a material personal interest in a matter relating to the Group's affairs must notify the other Directors of that interest.

The Group's corporate governance standards provide that when a potential conflict of interest arises, the Director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances, the Director concerned takes no part in discussions and exercises no influence over other members of the Board.

Board Committees

Board Committees assist the Board in the oversight and control of the Company.

Each Committee operates under a formal Charter approved by the Board under which authority is delegated by the Board and which set out matters relevant to the composition, responsibilities and administration of those Committees. The Charters are reviewed at least annually.

The Committee corporate governance structure encompassing all Committee Charters is available on the Company's website.

The performance of each Committee is reviewed annually by the respective Committee and then reported to the Board.

Minutes of Committee meetings and Committee recommendations are provided to the Board.

Each Committee member, including the Chairperson of the Committee, is appointed by the Board of Directors, following consideration of recommendations from the Group Nomination Committee. Membership of each Committee is reviewed by the Board on an annual basis.

All Committees are comprised of non-executive members of the Board, with the majority of members being independent Directors, based on the assessment of the Board under its Independent Director Standards.

The Chairperson of each Committee may call a meeting of the relevant Committee at any time, or if so requested by any member of the Committee.

Each Committee develops and maintains an annual 'Programme of Events', which details major items of business to be considered at set points throughout the year, to support both the Committee's and the Board's activities.

Each Committee is empowered, with the prior approval of the Chairman of the Board, to consult experts at the expense of the Company where the Committee considers it necessary to carry out its duties.

The Chairman of the Board as well as each Director is entitled to attend meetings of all Board Committees.

Group Audit Committee

The Board has established a Group Audit Committee that assists the Directors in discharging the Board's responsibilities of oversight and governance in relation to financial and audit matters.

The Committee is comprised of at least four non-executive Directors and at least one member should have professional accounting, or professional financial management expertise. Members will be financially literate, or become financially literate within a reasonable period of time after appointment to the Committee. The Chairman of the Committee must be an independent non-executive Director. The Chairman of the Board of Directors and the Chairman of the Group Risk Committee are precluded from being the Chairman of the Group Audit Committee.

The Committee meets at least four times per annum and otherwise as required. Two of the Committee meetings must be prior to Board meetings at which the Group's consolidated half year and annual financial reports are adopted.

The Group Audit Committee is comprised of Mr C M Hollingsworth (Chairman), Mr P D Armstrong, Mr M L Hampton and Mr S E Lonie. Details of Committee member's respective skills and qualifications are set out on pages 18 to19 of this Annual Report. The number of Committee meetings that were held over the reporting period and the attendance of Committee members, both current and those retiring during the course of the reporting period, at these meetings, is set out on page 44 of this Annual Report.

Pursuant to its Charter, the Group Audit Committee is responsible for reviewing and making recommendations to the Board on:

- the integrity of the Company's financial reporting, in particular the half year and annual financial reports;
- the reasonableness of significant estimates and judgments in the financial reports;
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group;
- application and appropriateness of accounting principles and policies and clarity of financial disclosures;
- the systems for internal control established by Management and the Board;
- the internal audit function;
- the external audit function;
- the respective scope of both the external and internal audit plans, particularly the identified risk areas and whether all material risks and financial reporting requirements are covered;
- the adequacy of Management's responses to external and internal audit's findings and the timeliness in which action plans are completed; and
- whether the external auditor is fit and proper for APRA purposes.

The Committee also:

- oversees the procedures for the selection and appointment, or removal, of the external and internal auditors;
- oversees and assesses the effectiveness and independence of the external and internal auditors;
- reviews and approves the fraud management framework prepared by Management;
- reviews the fraud risk assessment performed by Management;
- monitors the management and rectification of significant fraud risk exposures by Management;
- establishes and maintains the Company's Whistle-blower Protection Policy and related processes; and
- actively monitors compliance with relevant laws, including the Corporations Act, trustee company legislation, taxation laws, the requirements of ASIC, APRA and ASX listing and business rules. The Group Risk Committee also has oversight of compliance with other laws and there may be some overlap.

The Managing Director, Chief Financial Officer, Chief Risk Officer, Principal Legal Officer Risk and Compliance, internal auditors and external auditors are invited to attend meetings on a regular basis, as required.

The members of the Committee also meet with both external and internal auditors without Management personnel being present at least once per annum. These meetings address, amongst other things, whether the external or internal auditors, as the case may be, have received co-operation from Management and whether there have been any impediments to carrying out their respective audits. The internal and external auditors have a direct line of communication with the Chairman of the Group Audit Committee.

Group Risk Committee

The Board has established a Group Risk Committee that assists the Directors in discharging the Board's responsibilities to set the risk appetite, promote a culture aware of risk, oversee the risk profile and recommend the Risk Management Framework of the MyState Limited Group to the Board.

The Committee is comprised of at least four non-executive Directors. The Chairman of the Committee must be an independent non-executive Director.

The Committee meets at least four times per annum and otherwise as required. The Group Risk Committee is comprised of Mr M L Hampton (Chairman), Mrs S Merridew and Mr I G Mansbridge. Details of Committee member's respective skills and qualifications are set out on pages 18 to 19. The number of Committee meetings that were held over the reporting period and the attendance of Committee members, both current and those members retiring during the course of the reporting period, at these meetings is set out on page 44 of this Annual Report.

Under its Charter, the Group Risk Committee:

- makes recommendations to the Board on the parameters of the Group's risk management strategy, including recommending the risk profile and risk appetite of the MyState Group;
- monitors the risk profile and oversees inherent market, liquidity, balance sheet, credit, operational and compliance risk management;
- recommends and oversees the process developed by Management to identify principal risks, evaluating their potential impact and implementing appropriate strategies to manage those risks;

- assists the Board in the management of compliance obligations, including overseeing APRA statutory reporting requirements pertaining to risk matters;
- ensures that the key business and financial risks and compliance requirements not covered by the activities of other Board Committees (such as monitoring the Company's performance against the Compliance Plans for the Managed Investment Schemes) are identified and assessed;
- reviews and monitors the risk implications of new and emerging risks, organisational change, regulatory change and major initiatives; and
- ensures that appropriate controls are in place to effectively manage current and future risks and compliance requirements.

The Managing Director and Chief Risk Officer attend meetings on a regular basis, as required.

Group Corporate Governance and Remuneration Committee

The Board has established a Group Corporate Governance and Remuneration Committee that assists the Directors in discharging the Board's responsibilities in relation to Corporate Governance and Remuneration Policy.

The Committee is comprised of at least three non-executive Directors; the majority of which are independent. The Chairman of the Committee must be an independent non-executive Director.

The Group Corporate Governance and Remuneration Committee is comprised of Mr P D Armstrong (Chairman), Mr R L Gordon, Mr C M Hollingsworth, Mr S E Lonie and Mrs S Merridew. Details of Committee member's respective skills and qualifications are set out on pages 18 to 19 of this Annual Report. The number of Committee meetings that were held over the reporting period and the attendance of Committee members, both current and those members retiring during the course of the reporting period, at these meetings is set out on page 44 of this Annual Report.

Under its Charter, the Group Corporate Governance and Remuneration Committee's primary remuneration related responsibilities are reviewing and making recommendations to the Board on:

- Remuneration Policy and arrangements for Directors;
- the remuneration and review of performance of the Managing Director, other Senior Executives and other persons whose activities may, in the Committee's opinion, affect the financial soundness of the institution and any other persons specified by APRA;
- Diversity Policy formulation and oversight, noting the Group Nomination Committee's obligations under ASX Principles;
- the general remuneration policy and practices of the Company, having regard to comparative remuneration in the financial services industry and independent advice. This includes an assessment of the Remuneration Policy's effectiveness and compliance with the requirements of APRA Prudential Standards; and
- matters such as a Company Share Scheme or other incentive schemes for Senior Executives and staff.

Formal performance evaluations have been undertaken for the Managing Director and Senior Executives during the current financial year, in accordance with the process disclosed in this Annual Report.

These performance evaluation processes are also consistent with ASX Principles.

The Committee also:

- reviews and makes recommendations to the Board in respect of best practice Corporate Governance policy and procedures to ensure the Company adopts and adheres to the highest standards of corporate governance which are embodied within the Company's Corporate Code of Conduct and other policies relating to ethical conduct;
- consults with the Board and Management regarding the negotiation and ratification of industrial agreements or contracts for senior staff;
- ensures compliance with relevant Company policies and legal requirements of employment, such as Workplace Health and Safety and Anti-Discrimination; and
- monitors programmes in place to ensure Company staff have skills in place to competently perform their roles, including a review of the Company's succession plan.

The Committee is vigilant in monitoring the potential for, or perception of, conflict of interest regarding Executive Director involvement in Board decisions on remuneration packages and also in monitoring the involvement of Management generally in Committee discussions and deliberations regarding remuneration policy.

No Senior Executive is directly involved in deciding their own remuneration.

The Group Corporate Governance and Remuneration Committee has continued to develop remuneration practices during the course of the year, to ensure the Company's Policy and practices are fully compliant with all applicable laws and regulatory guidelines and clearly fall within the Community's expectations of appropriate remuneration and reward practices.

A copy of the Company's Remuneration Policy is available on the Company's website and the ASX Announcements Platform.

The Managing Director, Chief Risk Officer and Head of People and Property attend meetings on a regular basis, as required.

Group Nomination Committee

The Board has established a Group Nomination Committee whose primary roles are to ensure that the Company undertakes an on-going assessment of the composition and effectiveness of the Board and manages the formal process used for the selection and appointment of new Directors.

The Committee and the Board are committed to ensuring that there is a transparent procedure for the selection, appointment and re-appointment of Directors to the Board. The Committee is responsible for making recommendations to the Board regarding:

- appropriate nomination policies and practices in light of best practice, regulatory developments and the needs of the Company;
- the size, composition and skills of the Board appropriate to meet the needs of the Company;
- the necessary and desirable competencies of Directors;
- Board succession plans, including the succession of the Chairman and specific nominations for Directorship appointments to maintain an appropriate mix of skills, experience, expertise and diversity on the Board;
- appropriate policies and strategies to address Board diversity and to monitor the implementation of those policies (noting the Group Corporate Governance and Remuneration Committee has primary responsibility for the Diversity Policy);
- formulating strategies on Board gender diversity and diversity in general (which includes age, ethnicity, culture and religion);
- the development of effective processes for the evaluation of the performance of the Board, its Committees, the Chairman and each of the Directors;
- the appointment and re-election of Directors;
- effective new Director induction processes for both Company responsibilities and off-balance sheet responsibilities; and
- reporting disclosures in relation to nomination and Board performance to meet the Board's disclosure objectives and all relevant statutory and regulatory requirements.

The Committee is comprised of at least three non-executive Directors, the majority of which are independent. The Chairman of the Board is the Chairman of the Committee and must be an independent non-executive Director.

The Group Nomination Committee is comprised of Dr M J Vertigan AC (Chairman), Mr R L Gordon and Mr I G Mansbridge. Details of Committee member's respective skills and qualifications are set out on pages 18 to 19 of this Annual Report. The number of Committee meetings that were held over the reporting period and the attendance of Committee members, both current and those members retiring during the course of the reporting period, at these meetings is set out on page 44 of this Annual Report.

Diversity

The Board approved the Company's Diversity Policy in February 2011, representing 'early adoption' of the related amendments to the ASX Corporate Governance Principles and Recommendations published on 30 June 2010.

This early adoption clearly reflects the Company's commitment to the principles of diversity and that it both strongly recognises and appreciates the benefits that flow from fostering a balanced and diverse workforce, one which embraces differences in age, gender, culture and physical ability.

The Diversity Policy applies to all Companies within the Group and is available on the Company's website.

The Company is strongly focused on attracting and retaining the most talented people. As part of this recruitment and retention strategy, diversity remains an important consideration throughout all levels of the organisation, including the Board.

Diversity at Board Level

In order to facilitate greater gender diversity at the Board level, the Diversity Policy requires:

- the Company to implement an appointment process for future Directors that takes diversity of background into account to fit and enhance the Board Skills Matrix, in addition to previous Board and leadership experience and candidates' skills and experience in a variety of specified fields; and
- the selection process for Board appointments must involve the following steps (including where the Company engages an external recruitment agency to identify and assess candidates)
  - a short-list identifying potential candidates for the appointment must be compiled and should include at least one female candidate, subject to availability of suitable qualified candidates; and
  - if, at the end of the selection process, a female candidate is not selected, the Board must be satisfied that there are objective reasons to support its determination.

Diversity in the Workplace

In order to facilitate greater gender diversity in Management and leadership roles, the Diversity Policy requires:

- the Managing Director to have reference to the Policy in selecting and assessing candidates and in presenting recommendations to the Board regarding appointments to the Senior Executive team; and
- the Board to also consider gender diversity and the objectives of the Policy when considering those recommendations.

In addition, the Policy requires the Company to:

- implement policies which address impediments to gender diversity in the workplace and review their availability and utilisation;
- monitor the effectiveness of and continue to expand on, existing initiatives designed to identify, support and develop talented women with leadership potential; and

- continue to identify new ways to entrench diversity as a cultural priority across the Company.

Gender Diversity

At the 30 June 2013, women account for 71% of the Group's workforce and gender diversity by role within the Group sat at the following levels with percentages representative of women placed in all roles available at that job level:

Role Category	Women Representation % (as at 30 June 2013)
Directors	12.50%
Executives	11.00%
Senior Managers	23.00%
Managers	52.00%
Specialist Roles	68.00%
Generalist Roles	83.00%

There has been minimal movement throughout the financial year, with few vacancies being re-filled consistent with planned restructuring activities. The majority of the ratios have been primarily impacted by a reduction of positions at each level, rather than through general employee turnover and promotion into roles.

The Board acknowledges that there remains inequity in the representation of women at the Senior Manager level and above. The Board does, however, consider the Company to have gender diversity in all other levels of Management, with women well represented. This financial year has proven to be a challenging one, with significant ongoing effort to increase efficiency and improve the Group's cost to income ratio by a reduction in personnel costs. This environment has made it extremely difficult to extensively address Gender Diversity issues at the same time. Further development of the Group's talented pool of women employees will continue to be targeted through a specific development programme aligned with the Group's Succession Plan initiatives.

The Company is committed to identifying and implementing innovative ways to improve and better meet the needs of talented women within the Company's workforce. The proposed development programme aligned to the Succession Plan should see many of the Company's current Management women employees increase their skills and capabilities to ensure readiness to apply for and progress to Senior and General Manager positions which may arise in the future.

It is, however, important to note the Group will still adhere to its Recruitment and Selection Policy and the most suitable applicant for the role will always be successful, regardless of gender or other demographic issues. The challenge is ensuring that the Company, as an employer, positions women employees well so as to be strongly considered for positions that arise, and appropriate gender balance, where possible, is achieved when short listing applicants.

Diversity Objectives and Strategies

The Diversity Policy provides that, each year, the Board will set measurable objectives with a view to progressing towards a balanced representation of women at a Board and Senior Executive level and that performance against these objectives will be reviewed annually by the Group Corporate Governance and Remuneration Committee.

The Company's gender diversity strategy places emphasis on developing talented women and is not simply about increasing the number of women in the workforce. It seeks to ensure an on-going focus to provide support and development for women throughout their careers.

The Board's current set of measurable objectives are detailed in the following table :

Measurable Diversity Objectives – Achievement Goal		
Objective 1:	Flexible work practices procedure to be approved by the Group Corporate Governance and Remuneration Committee. **Update:** The MyState Limited and Rock Building Society Enterprise Agreements, as negotiated in recent times, provide for flexible working arrangements, and company Policy also supports this practice.	By June 2011
Objective 2:	Establish partnership/sponsorship/membership with an external body promoting a women's leadership initiative. **Update:** There has been continued promotion of attendance at the "Women and Leadership Australia" conferences, and initiatives to develop partnerships with different bodies are the subject of ongoing discussion. A new partnership with the Beacon Foundation has proven beneficial, providing Mentoring and "job readiness" advice to young at-risk females from our female Leadership Group.	By June 2011

Measurable Diversity Objectives – Achievement Goal		
Objective 3:	The Group to expand the scope of the Company's Succession Planning programme to identify high potential female managers and develop specific strategies to enhance the skills and experience of these managers, to prepare them to take on Senior Manager/Executive Management roles. The Head of People and Property to report annually to the Group Corporate Governance and Remuneration Committee on the success of this initiative. **Update:** Thirteen new female participants were enrolled in a Company themed, externally facilitated, Leadership Development programme in the current reporting period, providing certification in a Diploma of Management. In addition, the Leadership Development programme in the next financial year will shift focus from emerging leaders, onto existing leaders, in particular females, who have been identified in the Succession Plan. Specific development initiatives will be provided to ensure readiness for the next step into Senior Management, as required.	Annually from June 2011
Objective 4:	The Company to implement an internal mentoring programme which aims to increase opportunities for female employees in Management or professional positions and from the Company's Future Leaders program to have access to Senior Managers and (for women in Senior Management) Directors. **Update:** The focus in the current reporting period was primarily directed towards external mentoring, with an intended shift towards internal mentoring in the upcoming financial year.	June 2013
Objective 5:	Gender diversity target - Aim to increase the percentage of women in Senior Management positions (those positions either in the Company's Executive or reporting directly to the Company Executive) as vacancies arise, subject to identification of candidates with appropriate skills. **Update:** The focus on achieving these targets remains strong, however, challenges in recent times have slowed progress, in particular, the Group's personnel cost reduction programme has, in many cases, seen vacated roles unfilled as the Group restructures to manage the business more efficiently.	Female participation % by June 2013: – Executives 15% – Senior Managers 33%
Objective 6:	Gender diversity target - The Board to develop a succession plan with an aim of increasing the representation of women on the Board. **Update:** This target will be worked on during 2013/14, with reference to Board succession activities generally.	Female participation by June 2013: 25%

Whilst it is difficult to set clear targets when the Company cannot predict natural attrition, nor changes to structure that may arise in the future, the Board considers that targets set are appropriate and considers the targets realistic and achievable.

Conduct and Ethics

The pursuit of excellence in all areas of activity has been embraced by the Board, with the highest ethical standards expected from its own members, Management and staff in all dealings, a respect for the privacy of customers and observance of the law.

The Board has ensured that a Code of Conduct is in place for all subsidiary company operations within the MyState Limited Group to guide the Directors and each employee of the Group, promote high ethical and professional standards and responsible decision-making.

The Code of Conduct clarifies the standard of behaviour that is expected of anyone who is employed by or works for the Company and all subsidiaries, including Directors and employees (both permanent and temporary), contractors and consultants, customers, Shareholders, investors, suppliers and the community.

Pursuant to the Code, employees and Directors are expected to:

- act with honesty, integrity, decency, respect and responsibility at all times;
- respect and comply with laws, regulations, policies and procedures;
- respect confidentiality and privacy;
- properly use Company assets, information and facilities;
- value and maintain professionalism;
- take all reasonable action to avoid conflicts of interest and disclose any conflict of interest that cannot be avoided;
- act in the best interests of Shareholders; and
- contribute to the Group's reputation as a good corporate citizen.

The Code of Conduct is consistent with ASX Principles and the Code is available on the Corporate Governance section of the Company's website.

In the event that a potential conflict of interest arises, Directors are required to disclose their interest and withdraw from all deliberations concerning the matter.

The Board observes due care in relation to loans from the Company or any Fund to Directors and Management and their associates. Fees paid to companies or partnerships related to Directors are in strict accordance with accepted commercial practice.

The Company has a Whistle-blower Protection Policy for confidential reporting of unacceptable or undesirable conduct. The Whistle-blower Protection Policy is designed to encourage employees to confidently and responsibly (anonymously if they wish) raise any concerns and report instances of unethical, fraudulent, non-compliant, suspicious or improper conduct without being subject to victimisation, harassment or discriminatory treatment.

More specifically, the purpose of this Policy is to:

- encourage the reporting of matters that may cause financial or non-financial loss to the Company or damage to the Company's reputation;
- enable the Company to effectively deal with reports from Whistle-blowers in a way that will protect the identity of the Whistle-blower and provide for the secure storage of the information provided;
- formalise the Company's commitment to absolute confidentiality and fairness in dealing with all matters raised;
- establish the protocols and procedures for supporting and protecting Whistle-blowers who report violations in good faith against reprisal by any person internal or external to the entity;
- provide for the appropriate infrastructure including the appointment of a 'Whistleblower Protection Officer' and a 'Whistleblower Investigations Officer' and alternative means of reporting; and
- help to ensure the Company and its Directors and employees maintain the highest standards of ethical behaviour and integrity at all times.

The Company will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) of any person taking reprisals against them.

Financial Reporting

Consistent with ASX Principles, the Company's financial report preparation and approval process for the financial year ended 30 June 2013, involved both the Managing Director and Chief Financial Officer providing a written statement, to the best of their knowledge and belief, that:

- the financial records of the Company and its controlled entities for the financial year ended 30 June 2013 (Financial Period) have been properly maintained in accordance with section 286 of the Corporations Act;
- the financial statements and the notes referred to in section 295(3)(b) of the Corporations Act for the Financial Period comply with the accounting standards and other mandatory professional reporting requirements; and
- the Company's financial report presents a true and fair view, in all material respects, of the Company's financial condition and operating results.

In addition, the Company has, in place, a process whereby the Managing Director and the Chief Financial Officer state to the Board, in writing, that the financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Remuneration Policies

Details on the Company's remuneration policies and practices are set out in detail in the Remuneration Report which forms part of the Directors' Report attached to the Annual Report. The Remuneration Report includes details of remuneration of Directors and other Key Management Personnel of the Company and details of the Company's Executive Long-Term Incentive Plan.

The Group Corporate Governance and Remuneration Committee assist the Directors in discharging the Board's responsibilities in relation to Remuneration Policy.

Non-executive Directors

In accordance with best practice corporate governance, the remuneration of non-executive Directors is structured separately from that of executive Directors and Senior Executives.

The Company's non-executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The Board reviews its fees regularly to ensure the Company's non-executive Directors are fairly remunerated for their services, recognising the level of skill and experience required to conduct the role and to have in place a fee scale which enables the Company to attract and retain talented non-executive Directors.

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

Non-executive Directors do not receive any shares, options or other securities in addition to their remuneration and are not eligible to participate in the Company's Employee Share Plan or any other incentive plan. They do not receive any retirement benefits (other than compulsory superannuation).

The current maximum aggregate remuneration which may be paid to all the non-executive Directors (inclusive of statutory superannuation) is $950,000 per annum, as approved by Shareholders at the Annual General Meeting held on 23 October 2012. This 'fee pool' is only available to non-executive Directors, as Board membership is taken into account in determining the remuneration paid to executive Directors as part of their normal employment conditions. In the current reporting period the total amount paid to non-executive Directors was $775,964 (2012: $719,788). This amount includes statutory superannuation.

Non-executive Directors currently receive $85,000 each per annum inclusive of statutory superannuation. The Chairman is paid an additional amount of $85,000 per annum inclusive of statutory superannuation.

Board Committee Chairmen are paid an additional amount of $13,000 (Group Audit), $10,000 (Group Risk) and $10,000 (Group Corporate Governance and Remuneration), per annum inclusive of statutory superannuation. The Chairman of the Board is also the Chairman of the Nomination Committee, however receives no additional payment for fulfilling that role.

Details of the remuneration of each Director are set out in the Remuneration Report on pages 46 to 58 in this Annual Report and in Note 40 of the financial statements.

The structure and disclosure of the Company's remuneration of non-executive Directors is consistent with ASX Principles.

Executive Directors and Senior Executives

The fundamental objective of the Company's Remuneration Policy is to foster and maintain behaviour that supports the sustained financial performance and security of the Group and to reward Executive and Management efforts which increase Shareholder and customer value.

The Remuneration Policy is premised on delivering long-term sustainable financial security through:

- appropriately balanced measures of performance weighted towards long-term Shareholder interests;
- variable performance based pay for Executives involving a long-term incentive plan subject to an extended period of performance assessment;
- recognition and reward for strong performance;
- a considered balance between the capacity to pay and the need to pay to attract and retain capable staff at all levels;
- the exercise of Board discretion as an ultimate means to mitigate unintended consequences of variable pay and to preserve the interests of the Shareholders; and
- structuring short-term and long-term incentive performance criteria within the overall Risk Management Framework of the Company.

Based on these guiding principles, the Managing Director and Senior Executives of the Company are remunerated on the basis of a reward structure that reflects their contribution to the Company's performance. Each Executive receives a fixed component of remuneration, together with a variable component which depends upon the achievement of short-term incentive goals, set annually for each Executive. The remuneration packages are reviewed annually by the Group Corporate Governance and Remuneration Committee.

An equity based long-term incentive component was established by way of approval of an Executive long-term incentive plan in September 2009, which is based on the concept of reward for sustained superior performance over rolling three year periods through the allocation of fully paid shares in the Company.

These arrangements reflect contemporary remuneration practices and are consistent with ASX Principles. Further details are set out in detail in the Remuneration Report on pages 46 to 58 of this Annual Report and in Note 40 of the financial statements.

A copy of the Company's Remuneration Policy is available on the Company's website and has also been posted to the ASX Company Announcements Platform.

Risk Identification and Management

Consistent with ASX Principles, the Company is committed to the identification; monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. These controls include:

- guidelines and limits for approval of operational, capital expenditure and investments;
- a Risk Management Policy with a regular review of individual business unit risks as well as strategic risks facing the Company;
- a Risk Management Framework, Risk Appetite Statement and Risk Management processes that are aligned to strategy, normal business operations and corporate values, to ensure the desired risk culture is achieved and maintained;
- a comprehensive annual insurance programme;
- policies and procedures for the management of financial risk and treasury operations, including movements in interest rates;
- a formal planning process of preparing five year rolling strategic plans each year;
- annual budgeting and monthly reporting systems for all business units which enable the monitoring of progress against performance targets and the evaluation of trends; and
- disaster recovery and business continuity management systems for all key business operations.

Management is ultimately responsible to the Board for the system of internal control and risk management. Both the Group Audit Committee and the Group Risk Committee assist the Board in monitoring these issues.

MyState Limited has different firms providing internal and external audit services. Deloitte continues to provide outsourced internal audit services and monitor the internal control framework of the Company.

The Group Audit Committee approves the internal audit plan with the intention that planned audit activities are aligned to business risks. Internal audit reports are provided to the Group Audit Committee at scheduled meetings.

Enterprise Risk Management Framework

MyState Limited defines risk as "*the effect of uncertainty on objectives*". The Group's Enterprise Risk Management Framework is based on Australian Standard *AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines* (AS/NZS ISO 31000) and provides the foundations and organisational arrangements adopted by the Group in respect to Risk Management. The Framework is designed to ensure all employees take all reasonable steps in the identification, assessment, monitoring and management of risk within the MyState Group, to help facilitate it to achieve its strategic and business objectives.

Objectives

In accordance with AS/NZS ISO 31000, MyState Limited takes an integrated approach to Risk Management and as such, the framework aims to:

- provide guidance for the context in which risk management within the Group should be considered;
- ensure appropriate communication and consultation at each stage of the Risk Management process;
- ensure risk identification is an integral part of the management of the Group;
- ensure risk levels are analysed according to accepted standards;
- establish criteria for the evaluation of risks;
- provide guidance for the appropriate treatment of risks;
- ensure appropriate records of the Group's identified risks are kept; and
- ensure the risk management system is subject to appropriate monitoring and review.

In addition, to ensure that all Group strategic initiatives and business activities are achieved, MyState Limited approves and continually maintains the Risk Appetite Statement to ensure the Group's strategic initiatives and business activities are within the boundaries of activity that the Board intends, as set within the Risk Appetite Statement.

Risk Principles

MyState Limited's overall approach to risk management is based on 'the three lines of defence' model (Figure 1), which supports the relationship between the individual business units, the risk management and compliance functions, internal and external audit and the Board.

The Framework is designed to ensure that all risk management activity within the Group is linked to its business strategy and operations. The Risk Management Policy, Framework and process is underpinned by responsibilities and functions driven from the Board level down to operational levels, covering all aspects of risk, including business, credit, legal and regulatory, liquidity, market, operational, reputation and strategic risks. In addition, specific details and responsibilities for managing each category of risk are contained in relevant policy, procedures, processes and work instructions.

Specific Accountabilities

Risk management within MyState Limited is part of everyday decision making at all levels. As such, all employees are expected to accept and be accountable for all risk management activities relevant to their respective business units and role.

Further to these responsibilities the Risk Management Policy define the following specific accountabilities apply:

The **Board** is responsible for ensuring that risks to MyState Limited's continued success and viability are properly identified and managed. To meet this responsibility, the Board has approved the Risk Management Policy, Risk Management Framework, Risk Appetite

Statement and Risk Management processes and charges the Group Risk Committee with the responsibility of ensuring there are adequate resources, processes and systems in place to enable these policies and principles to function as intended.

The **Group Risk Committee (GRC)** is responsible for recommending the Risk Management Policy, Framework, Strategies, Risk Appetite and Risk Management processes of the Group to the Board for approval. The GRC is also responsible for receiving and reviewing reports from Management concerning the Group's risk management strategies and activities and for overseeing the risk management process. The GRC may also make recommendations as to the Group's principles, strategies, policies and processes for managing risk.

The **Managing Director** must demonstrate and communicate a genuine commitment to the risk management principles approved by the Board and ensures adequate resources are dedicated to the operation of the Risk Management Framework and to the appropriate treatment of risks. In appointing a Risk Manager, the Managing Director must ensure that the position has sufficient authority to carry out the duties contained within and has clear and independent reporting lines available to them to prevent the possibility of any perceived or real conflicts of interest.

Members of the **Senior Executive** must demonstrate and communicate genuine support to the Risk Management principles adopted by MyState Limited by:

(a) ensuring appropriate resources are available to enable employees to fully engage in risk management processes;

(b) monitoring and reviewing the risk management activities of direct reports;

(c) promoting and encouraging a risk aware culture; and

(d) actively participating in the risk management process, including ensuring that risks are appropriately analysed, evaluated and, where necessary, treated.

The **Chief Risk Officer (CRO)** is a member of the Senior Executive and reports to the Managing Director but also has direct and unfettered access to the Chairman of the GRC and the External Auditor.

Whilst normal line management and in turn, all employees retain responsibility for risk management within the Group, the CRO provides an alternative avenue for identification of risks for example, other than through normal line management, which is particularly important if line management is involved in the risk event. This will also assist in early 'in confidence' notification of concerns, for example in relation to internal fraud, without the risk of alerting the parties concerned or exposure of the reporting employee. In addition to the responsibilities charged to the Senior Executive, the CRO is responsible for:

(a) ensuring a Risk Management Framework appropriate for the Group's activities and risk appetite is maintained and reviewed at the intervals specified later in this Framework;

(b) establishing and maintaining the risk management monitoring and reporting processes necessary to ensure continual improvement;

(c) establishing and reviewing the processes and procedures for implementing the principles of the Risk Management Framework and Risk Appetite Statement;

(d) promoting a risk aware culture;

(e) advising and assisting internal and external stakeholders with regard to the Risk Management Policy, Risk Management Framework and Risk Appetite Statement;

(f) encouraging and promoting communication throughout the risk management process; and

(g) defining qualitative and quantitative risk measurement and risk management systems.

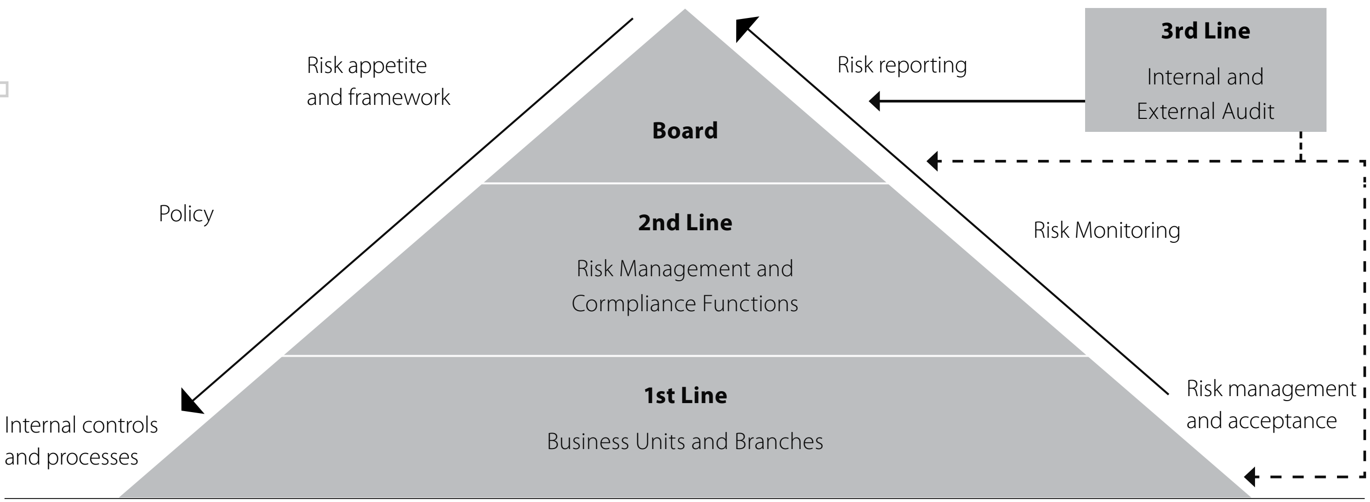


Figure 1 – MyState Limited three lines of defence model:

1st line of defence

Individual business units are responsible for identifying, evaluating and managing the risks that originate in their respective business lines within the Risk Appetite Statements and policies.

2nd line of defence

The Risk Management and Compliance Functions are responsible for independent monitoring and oversight.

3rd line of defence

Internal and external audit independently reviews and tests business unit compliance with risk policies and procedures, and regularly assesses the overall effectiveness of the Risk Management Framework.

All **Managers** are responsible for:

(a) the identification of risks associated with the operation of their business unit or branch and evaluation of those risks at the business unit level;

(b) ensuring those risks identified are evaluated and communicated to the Chief Risk Officer;

(c) reporting on the effectiveness of risk treatments; and

(d) promoting risk awareness to employees.

All **Employees**, including Directors, Senior Executive and Managers, are responsible for:

(a) ensuring their activities are within designated risk management guidelines, as detailed in this Risk Management Framework;

(b) reporting perceived untreated risks; and

(c) maintaining awareness that risk is inherent in all activities and adopting MyState Limited's appetite for risk as articulated by the Board and as defined in the Risk Management Policy, Risk Appetite Statements, this Framework and all policies, procedures, work instructions and system standards.

Internal Audit is outsourced and provides:

(a) independent testing and verification of the effectiveness of policies, procedures, work instructions and associated branch and business unit compliance;

(b) validates the Risk Management Framework and provides assurance that the risk management systems are functioning as intended;

(c) provides reports to Management and the Group Audit Committee (GAC) in respect to the Internal Audit Plan approved by the GAC and in turn the Board;

(d) has free and unfettered access to all operations within the MyState Limited Group; and

(e) is independent of the External Auditor.

Risk Limits

Risk limits for liquidity, market, credit and interest rate risk are set and monitored by the relevant Asset and Liability Committee's (ALCO's) and Management Credit Committees within the parameters approved by the Board. Risk limits are also articulated in policy, procedure, processes and work instructions.

All areas of the business are expected to continually monitor and assess their own performance with respect to risk management, to ensure they are operating within the risk limits, risk appetite and risk tolerances set by the Board.

Internal Controls

To support the Framework, MyState Limited has a series of robust internal controls built into core business applications and articulated in policy, procedure, processes and work instructions across all aspects of the business. It also has strong internal support functions in place including Company Secretariat; Risk, Legal & Compliance and Credit; Finance; Treasury; Loan Operations; Collections; Marketing, Communications & Product; Technology; Wealth Management and Trustees Services; and People & Property. This ensures the efficiency and effectiveness of controls is evaluated in all new and amended systems, processes or products or where external and internal factors impact the operating environment (e.g. changes in organisation structure, new legislation, mergers and acquisitions, growth).

Risk Management Systems

MyState Limited's risk management systems rely on accurate, reliable and timely information to support risk management decisions at all levels. These requirements cross a varied range of the business including market and credit risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, regulatory reporting, as well as accounting and processing systems and those systems supporting normal business operations.

Data reconciliation is undertaken to ensure the integrity of the information used and ensure appropriate security controls are established, maintained and monitored around all systems. Back-up and recovery procedures are defined and documented, and business continuity and disaster recovery plans are documented and communicated to promote awareness, resilience and minimise the impact of an incident.

Categories of Risk

MyState Limited categorises risk into the general categories detailed below. In addition to the Risk Management Policy and Framework, each category has specific risk management systems in place.

Business Risk is the risk of financial loss due to unexpected movements in volume, profit margin and operating expenses (excluding risks elsewhere defined) arising from unexpected changes in the business environment.

- Business risk management within the Group includes but is not limited to:
- Corporate Governance Framework and associated committees;
  - strategic planning;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
  - dedicated product development and research function;
  - dedicated business information function; and
  - appointment of responsible managers and officers.

Credit Risk is the risk of financial loss resulting from the failure of a MyState Limited customer or counterparty to honour or fully perform the terms of a loan or contract. Credit risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Management Credit Committees with specific credit risk charters and delegated authorities to approve higher risk and larger loan exposures;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
  - lending delegations;
  - dedicated loans operations function; and

– dedicated collections function.

- dedicated credit risk analyst function within the Risk business unit;
- dedicated and independent Credit business unit reporting to the CRO;
- measuring and reporting of key risk indicators to the ALCOs, Management Credit Committees and Group Risk Committee;
- reporting of large exposures as required by Prudential Standard APS 221 to the ALCOs, Management Credit Committees and Group Risk Committee;
  - appointment of responsible managers; and
  - credit provisioning.

In addition to the above and to ensure compliance with the requirements of APS 221, the risk management function:

- compiles and provides credit risk management reports to the Management Credit Committees;
- continually reviews, updates and amends credit risk reporting requirements; and
- documents new credit risk management procedures where required.

Legal and Regulatory Risk is the risk that MyState Limited's business is affected by changes in laws and regulations, or by existing laws and regulations, that it had not properly taken into account and includes:

- possible financial or reputation loss resulting from an action by a court, regulator or legislative body;
- legal and regulatory risk management within the Group includes but is not limited to:
- advice and direction from the independent Risk, Legal and Compliance function;
- compliance management, breach and Risk Management Incident (RMI) reporting using an internal compliance and enterprise risk management system;
- quarterly reporting to the Australian Prudential Regulation Authority (APRA) in respect to the Group's standardised approach to credit and operational risk;
- lodgement of an annual declaration to APRA from the Managing Director and endorsed by the Board of Directors attesting that, for the financial year past:

  (a) the Board and Management have identified the key risks facing the Authorised Deposit-Taking Institutions (ADI's);

  (b) the Board and Management have established systems to monitor and manage those risks including, where appropriate, by setting and requiring adherence to a series of prudent limits, and by adequate and timely reporting processes;

  (c) these risk management systems are operating effectively and are adequate, having regard to the risks they are designed to control;

  (d) the risk management systems descriptions provided to APRA are accurate and current; and

  (e) completion of formal due diligence and verification processes, including attestations from Management and External Auditors regarding the Group's financial statements.

Corporate Governance Framework and associated Committees ensure that the Group focuses on:

(a) business continuity management;

(b) compliance programmes and systems;

(c) Employee Codes of Conduct;

(d) Whistleblower Protection Policy;

(e) Anti-Money Laundering and Counter-Terrorism Policy;

(f) Complaints Handling Policy; and

(g) active management of relationships with regulators.

Liquidity Risk is the risk that MyState Limited has insufficient capacity to fund increases in assets, or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt.

Liquidity risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
- Capital Management Policies, which include the MyState Financial and The Rock Internal Capital Adequacy and Assessment Plans (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), including:
  - Liquidity Management Policies;
  - Treasury risk management software;
  - Value at Risk (VaR) and Earnings at Risk (EaR) limits;
  - stress and scenario testing; and
  - funding plans.

Market Risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as interest rates, foreign exchange rates, commodity prices and equity prices. This includes interest rate risk – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. Market Risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated Board and Management committees;
- Asset and Liability Committees (ALCOs) with established reporting requirements;
- Treasury risk management software;
- Value at Risk (VaR) and Earnings at Risk (EaR) limits;
- stress and scenario testing;
- net interest income at risk limits; and
- funding plan.

Operational Risk is the risk of loss resulting from inadequate or failed internal process, people and systems, or from external events, and is a very broad risk category which includes specific risks such as non-compliance with policy and procedure, employment practices and workplace safety, breaches of relevant legislation, damage to physical assets, business disruption and system failures. Operational risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated committees;
- comprehensive Group Insurance Programme;
- dedicated and independent Risk, Legal & Compliance business unit;
- dedicated and independent Credit business unit reporting to the CRO;
- Group Internal Audit program;
- business continuity management;
- business continuity testing and crisis management training;
- incident management and breach reporting;
- Employee Codes of Conduct;
- Workplace Health and Safety Policy;
- Remuneration Policy;
- Outsourcing Services Policy;
- Market Disclosure and Communications Policy;
- Delegations Policies;
- Share Trading Policy;
- Whistleblower Protection Policy;
- Complaints Handling Policy and procedures;
- Fraud and Corruption Control Policy;
- capital allocations for operational risk; and
- loss, event and near-miss data collection and analysis.

Reputation Risk is the risk of loss caused by damage to brand image or adverse perception of MyState Limited held by the public, Shareholders, investors, regulators, or rating agencies that may directly or indirectly impact earnings, capital adequacy or value. Reputational risk management within the Group includes but is not limited to:

- Corporate Governance Framework and associated Committees;
- Market Disclosure and Communications Policy;
- Fit and Proper Policy;
- Board Evaluation Policy;
- Delegations Policies;
- Share Trading Policy;
- dedicated Marketing, Communications & Product business unit;
- business continuity management and disaster recovery planning;
- Whistleblower Protection Policy;
- Complaints Handling Policy and procedures;
- Fraud and Corruption Control Policy; and
- Anti-Money Laundering and Counter-Terrorism (AML/CTF) Policy.

Strategic Risk is the risk of loss arising from a failure in MyState Limited's strategies.

Strategic risk management within the Group includes, but is not limited to:

- Corporate Governance Framework and associated committees;
- strategic planning;
- dedicated Marketing, Communications & Product function; and
- dedicated Business Information function.

Risk Culture

MyState Limited places great emphasis on growing and developing a sound risk culture and recognises an awareness and appreciation of risk amongst Management and employees is more likely to lead to the pursuit of sustainable policies and business practices which are within the Group's risk appetite and which do not put the operations of the Group under unnecessary strain. In this regard, MyState Limited considers that risk culture is a key business driver.

In order to develop the desired risk culture, MyState Limited cultivates a workplace where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted.

MyState Limited's corporate ambition, purpose and values are key considerations in determining risk appetite and also in ensuring the desired risk culture is achieved and maintained.

All levels of management within the Group take an active role in leading MyState Limited through the cultural change to maintain and continually improve the focus on risk management.

Risk Appetite Statement

MyState Limited has developed a set of Risk Appetite Statements which collectively form the Group's Risk Appetite Statement. The Risk Appetite Statements are aligned with its corporate values, strategic plan and existing business objectives.

Risk Appetite represents the amount of risk the Group is prepared to pursue or take to achieve its strategic objectives.

The Risk Appetite Statements are measured against key risk indicators and risk tolerance, to ensure all risk taking activity is conducted within the boundaries of activities that the Board intend for the Group.

Alignment of Risk Management Objectives

MyState Limited ensures alignment between organisational and risk management objectives and strategies by ensuring it's risk management processes are incorporated into all strategic planning activities.

The Chief Risk Officer attends all ALCO, Credit Committee, Executive, Group Risk Committee, Group Audit Committee and Group Human Resources and Governance Committee meetings, to ensure the Risk Management Framework and Risk Appetite is considered during all key business decisions.

Audit, Governance and Independence

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company has implemented policies and procedures to monitor the independence and competence of the Company's external auditors.

Appointment of Auditors

The Company's external auditor for the financial year was Wise Lord and Ferguson. The effectiveness, performance and independence of the external auditor is annually reviewed by the Group Audit Committee. If it becomes necessary to replace the external auditor for performance or independence reasons, the Group Audit Committee will then formalise a procedure for the selection and appointment of a new external auditor.

Independence Declaration

The *Corporations Act 2001* (Corporations Act) requires external auditors to make an annual independence declaration, addressed to the Board of Directors, declaring that the auditors have maintained their independence in accordance with the Corporations Act and the rules of the professional accounting bodies. Wise Lord and Ferguson's existing policy requires that its audit teams provide such a declaration and a declaration was provided to the Group Audit Committee and the Board for the financial year ended 30 June 2013. The independence declaration forms part of the Directors' Report and is set out on page 45 of this Annual Report.

Rotation of lead External Audit Partners

In accordance with the Corporations Act, Wise Lord and Ferguson has a policy for the rotation of the lead audit partner for their clients. The lead audit partner for the Company is due to be rotated from 1 July 2014. The Company intends to apply to APRA for an exemption, to retain the existing auditor as the signing partner for a two year extension to the financial year ended 30 June 2016.

Restrictions on the performance of non-audit services by External Auditor

In accordance with the Corporations Act, prior approval of the Group Audit Committee is required for the provision of any non-audit services to the Company or its businesses by the external auditor. The Group Audit Committee has also adopted guidelines to assist in identifying the types of services that may compromise the independence of the external auditor and regular reviews occur of the independence safeguards put in place by the external auditor.

Examples of services that could potentially compromise independence include valuation services and internal audit services.

The Group Audit Committee has assessed the other services provided by Wise Lord and Ferguson in the financial year and has concluded that the auditor's independence has not been compromised.

Remuneration of External Auditor

Information about the total remuneration of the external auditor, including details of remuneration for any non-audit services, is set out in Note 41 of the financial statements.

Attendance of External Auditor at Annual General Meeting

Consistent with ASX Principles, Wise Lord and Ferguson attends and is available to answer Shareholder questions at the Company's Annual General Meeting on;

- the conduct of the audit;
- the preparation and content of the Auditor's Report;
- the accounting policies adopted by MyState Limited in relation to the preparation of the Financial Report; and
- the independence of the auditor in relation to the conduct of the audit.

Share Trading

The Company's Constitution allows Directors to acquire shares in the Company. In addition, the Board encourages Directors, Senior Executives and employees to own MyState Limited shares, to further align their interests with the interests of Shareholders. Details of Directors' shareholdings are set out in the Directors' Report under the heading 'Directors' Interests' on page 44 of this Annual Report.

The Company undertook a comprehensive 'best practice' review and update of its Share Trading Policy during 2012 and the revised Policy is available on the Company's website.

The Share Trading Policy:

- provides a summary of the insider trading prohibition and sets out the specific requirements in relation to the buying, selling or otherwise dealing in the Company's shares, or shares in other companies;
- establishes procedures relating to buying and selling shares that provides protection to the Company, Directors and employees, to ensure they do not abuse, and do not place themselves under suspicion of abusing, inside information that they have or may be thought to have, especially in periods leading up to an announcement of the Company's results; and
- explains the type of conduct that is prohibited under the Corporations Act.

The Company's Share Trading Policy specifically regulates share dealings by the following defined 'Designated Persons':

- Directors and other Key Management Personnel as defined by the Corporations Act and published in the Company's Remuneration Report;
- all members of the Executive Team ('ET'), to be constituted by the Managing Director and as notified to the ASX from time to time;
- all direct reports of members of the ET;

- all staff employed in the following organisational units:
  - Secretariat;
  - Finance;
  - Treasury;
  - Risk; and
  - Legal and Compliance.
- Other persons specified from time to time by the Managing Director and Chief Financial Officer.

The Share Trading Policy further aims to ensure all Directors, employees and contractors are aware of the requirements to comply with insider trading prohibitions while in possession of unpublished price-sensitive information about:

- MyState Limited; or
- in certain circumstances, about another company where, through an association with MyState Limited, unpublished price-sensitive information is obtained about that company.

Price-sensitive information is information which a reasonable person would expect to have a material effect on the price or value of securities.

Accordingly, under the Share Trading Policy, Designated Persons must not deal in MyState Limited shares if the Designated Person is in possession of unpublished information that, if generally available, might have a material effect on the price or value of the Company's shares or influence investors in deciding whether or not to buy or sell the shares. In this regime , the Board has also established a policy that Designated Persons may only buy, sell or otherwise deal in the Company's shares during the following window periods:

- in the period between three days and two months after the release of the Company's half yearly results to the ASX;
- in the period between three days after the release of the Company's annual results to the ASX and two months after the close of the Company's Annual General Meeting; and
- at such other times as the Board permits.

Designated Persons must notify the Company Secretary:

- before they or a relative buy, sell or otherwise deal in MyState Limited shares during a window period; and
- if the proposed purchase, sale or other dealing does not occur within the relevant window period as previously notified to the Company Secretary.

In these notifications, the Designated Person must declare that, at the time of the proposed purchase, sale or other dealing in MyState Limited shares, they are not in possession of any price-sensitive information relating to MyState which is not generally available.

In addition, members of the Executive Team may only buy, sell or otherwise deal in MyState Limited shares during a window period, only if they have obtained the prior approval of the Chairman of the Board.

In exceptional circumstances and only after being granted approval, Designated Persons may trade in MyState Limited shares outside the approved trading windows where, for example, there is severe financial hardship suffered by them or where required to do so by law. Approval will only be granted if the request is accompanied by sufficient evidence that the proposed purchase, sale or other dealing in MyState Limited shares is the only reasonable course of action available in the circumstances, and that the Designated Person does not possess any price-sensitive information and makes a declaration to this effect.

The Company's Share Trading Policy clearly prohibits the hedging of any economic exposure to MyState Limited shares whether that relates to unvested entitlements under the Executive Long-Term Incentive Plan or to shares owned outright.

Continuous Disclosure

The Company understands and respects that timely disclosure of price-sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market and has adopted a comprehensive continuous disclosure and communications policy covering all announcements to the Australian Securities Exchange.

The Company is openly and transparently committed to complying with its continuous disclosure obligations under ASX Listing Rules and the Corporations Act and by doing so ensuring that all Shareholders and investors have equal and timely access to material information concerning the Company including its financial position, performance, ownership and governance.

The Company's Market Disclosure and Communications Policy is consistent with ASX Principles and sets out the measures adopted by the Company to ensure its continuous disclosure obligations are met.

The Policy attributes accountability at a Senior Executive level for that compliance. In particular, the Policy sets out how information will be identified, considered for disclosure and then (if necessary) disclosed by the Company to the market.

The Company's Market Disclosure and Communications Policy is available on the Company's website.

Pursuant to the Policy, announcements made by the Company must be timely, factual, not omit material information and be expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Policy is designed to:

- provide advice on the requirements for disclosure of information to the market;
- maintain the market integrity and market efficiency of the Company's securities;
- ensure timely and accurate information is provided equally to all Shareholders and market participants regarding the Company including its financial situation, performance, ownership, strategies, activities and governance;
- ensure channels for disseminating information are adopted which are fair, timely and cost-efficient; and

- ensure the Company does not communicate material price, or value-sensitive information to any external party prior to that information being disclosed to all Shareholders and market participants in compliance with its continuous disclosure obligations.

The Company's website contains a direct link via 'Shareholder Information', to the ASX Company Announcements Platform, which provides access to such publications as annual financial reports, half year results, notices of meeting, media releases and analyst and investor briefings, with the latter released prior to or simultaneously with the commencement of the briefing.

The Board is responsible for reviewing material information and determining what information must be disclosed and ensuring the Company complies with all disclosure obligations, including responsibility for ensuring adequate processes are in place for the identification of market sensitive information and the maintenance of the Company's insider lists of people in possession of this information. The Company Secretary liaises with the Managing Director and the Chairman in relation to all continuous disclosure matters.

The Company Secretary is the nominated disclosure officer and has responsibility for overseeing and co-ordinating disclosure of information to the Australian Securities Exchange and administering the Policy.

The Board regularly evaluates the Policy to ensure it is effective in providing accurate and timely disclosure in accordance with the Company's disclosure obligations and that it remains consistent with best practice in the market place. The Group Risk Committee also annually reviews the Company's adherence to Policy.

Communications with Shareholders

The Company recognises the importance of effective, factual, forthright, clear and transparent communication as a key plank in building Shareholder value.

To prosper and achieve growth, the Company must, among other things, earn the trust of employees, customers, suppliers, the community and security holders by being forthright in its communications and consistently delivering on its commitments.

The Company is, accordingly, committed to delivering communications that are informative and in plain, easily understood language, so all its stakeholders can find the information they need, read it, understand it and use it in a useful and practical manner.

The Board is committed to monitoring on-going developments that may improve the Company's Shareholder communication practices, including technological developments, regulatory changes and the continuing development of market place 'best practice' and, whenever reasonably practicable, to implement changes to the Company's communication protocols to reflect any such developments.

The Company's website is a pivotal plank in the Company's communication strategy with Shareholders and the market. It has been designed to enable information to be obtained in a clear and readily accessible manner. The Company's website has a dedicated Corporate Governance section which supplements the communication to Shareholders in the Annual Report regarding the Company's corporate governance policies and practices.

The Company posts all reports, Australian Securities Exchange and media releases, copies of significant business presentations and speeches on the Company's website.

In addition to its formal disclosure obligations under ASX Listing Rules, the Company's communications strategy promotes regular communication of information to Shareholders through a range of other forums and publications, which include:

- the Company's Annual General Meeting and accompanying notices and explanatory memoranda;
- the Chairman's address at the Annual General Meeting;
- distribution of the annual and half yearly reports;
- publishing a financial calendar on its website detailing target dates for the release of half year and full year results, other financial information, Shareholder meetings and business briefings; and
- trading updates and market/investor briefings.

The Company recognises the importance of the relationship between the Company and investors and analysts. From time to time, the Company conducts analyst and investor briefings. In these cases the following protocols apply:

- no information which could be expected to have a material effect on the price or value of the Company's securities will be disclosed at these briefings unless it has been previously or is simultaneously released to the market and if material information of this kind is inadvertently released, it will immediately be released to the market via the Australian Securities Exchange and be available on the Company's website;
- questions at briefings that deal with material information not previously disclosed will not be answered; and
- the Company will ensure a copy of the presentation material is available on the Company's website.

Where requested to do so, the Company may review analysts' research reports but will confine comments to factual matters and material previously disclosed. The Company may comment on analysts' earnings estimate to the extent of:

- acknowledging the current range of estimates;
- questioning an analyst's assumptions or sensitivities if the analyst's estimate is significantly at variance from current market range estimates; and
- advising factual errors where data is already in the public domain.

Forecast information will not be provided by the Company unless it has already been disclosed to the market.

Annual General Meeting (AGM):

The Company's AGM is a major forum for Shareholders to ask questions about the performance of the Company and also provides an opportunity for Shareholders to provide feedback to the Company about information provided to Shareholders.

The Board encourages and welcomes Shareholder attendance at, and participation in, the AGM, at which the external auditor is available to answer Shareholder questions about the conduct of the audit and preparation and content of the Independent Audit Report.

Shareholders are encouraged to use this opportunity to ask questions of the Board and the external auditor.

The 2013 Notice of Annual General Meeting will be provided to all Shareholders, posted to the ASX Company Announcements Platform and posted on the Company's website.

For Shareholders unable to attend, an AGM Question Form will accompany the Notice of Meeting, giving Shareholders the opportunity to forward questions and comments to the Company or the external auditor prior to the AGM.

Additional Company Policies

In addition to the policies and procedures already discussed above, the Company has also implemented a wide range of policies encompassing such areas as safety, health, environment, security, employment and fair trading. These policies form part of the Company's broader governance documentation suite. Where appropriate, these policies are supplemented by supporting Company procedures for compliance and monitoring effectiveness. Together with guidance releases these methods are all designed to ensure that the requisite standards of operation are maintained. Copies of key policies are available on the Corporate Governance section of the Company's website.

Directors' Report

Your Directors present their report on MyState Limited (the Company) for the financial year ended 30 June 2013.

Directors and Company Secretary

The names and particulars of the Directors and Company Secretaries in office during the year and since the end of the year are:

- **Michael J Vertigan** AC, BEc (Hons), PhD, Hon LLD, FAICD
  Chairman and independent non-executive Director
- **G John Gilbert** B Com, FAICD, FAMI
  Managing Director – Executive Director
- **Peter D Armstrong** BEc (Hons), Dip ED, Dip FP, CPA, FAICD, FAMI
  Independent non-executive Director
- **Robert L Gordon** BSc, MIFA, MAICD, FAIM
  Independent non-executive Director
- **Miles L Hampton** BEc (Hons), FCIS, FCPA, FAICD
  Independent non-executive Director
- **Colin M Hollingsworth** CPA, MAICD, FAMI
  Independent non-executive Director
- **Stephen E Lonie** B Com, MBA, FCA, FFin, FAICD, FIMCA
  Independent non-executive Director
- **Sarah Merridew** BEc, FCA, FAICD
  Independent non-executive Director
- **Ian G Mansbridge** CPA, FCIS, FCIM
  Independent non-executive Director
- **Lindsay T Scott** B Bus (Acc.), MBA, FCPA, FCSA, FCIS, MAICD
  Company Secretary (appointed 27 September 2012)
- **Paul K M Viney** B Bus, FCPA, FCSA, FCIS, CFTP, MAICD
  Company Secretary (resigned 27 September 2012)

Principal Business Activities

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

MyState Limited, the nationally operating listed diversified financial services group based in Tasmania, provides a range of financial products and services to existing and new customers through its wholly-owned subsidiaries MyState Financial Limited and The Rock Building Society Limited, both authorised deposit-taking institutions and Tasmanian Perpetual Trustees Limited the trustee and wealth management company.

MyState Limited, MyState Financial Limited and The Rock Building Society Limited are regulated by the Australian Prudential Regulation Authority (APRA) and MyState Limited was enabled under Tasmanian legislation to own an authorised trustee company, namely Tasmanian Perpetual Trustees.

MyState Financial, The Rock Building Society and Tasmanian Perpetual Trustees hold Australian Financial Services Licences issued by Australian Securities and Investments Commission (ASIC). Tasmanian Perpetual Trustees acts as the Responsible Entity for and manages 13 Managed Investment Schemes, which include Cash Funds, Income Funds and Investment Growth Funds.

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

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

Operating and Financial Review

The Group's net profit after income tax for the year ending 30 June 2013 was $28,457,496. (2012: $23,383,844).

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 14 cents per share. The dividend will be payable on 4 October 2013 to shareholders on the register at 5pm EST on 13 September 2013.

Dividends paid in the year ended 30 June 2013 were as follows:

- In respect of the year to 30 June 2012, a fully franked dividend of 14 cents per share amounting to $12,181,772 was paid on 4 October 2012.
- In respect of the year to 30 June 2013, a fully franked dividend of 14 cents per share amounting to $12,196,432 was paid on 5 April 2013.

Total dividends paid from the 2013 results amount to 28 cents per share and the payout ratio of 86% remains in the Board's policy range of 70% to 90%.

Review and Results of Operations

Profit after income tax for the year ended 30 June 2013 increased by 21.7% to $28,457,496 from $23,383,844 in 2012. The 2012 result included after tax costs of $2,071,378 related to the cost of The Rock acquisition. Adjusting for this one-off expenditure, the profit after tax represents an increase of 11.8%.

The 2013 result includes The Rock Building Society Limited (The Rock) for a twelve month period following its acquisition on 1 December 2011. Earnings per share at 32.68 cents, is up 9.3% from the prior period.

The MyState Group represents a broad diversified business with two banking businesses and a trustee and wealth management arm:

- MyState Financial (MSF) with its long history and strong market presence in Tasmania;
- The Rock operating in Central Queensland with one of the strongest performing economies in Australia; and
- Tasmanian Perpetual Trustees (TPT) with over 120 years of providing estate, investment advice and funds management products in the Tasmanian market.

The Group's performance was achieved in a year of challenging and changing economic conditions. Housing credit growth has remained at its lowest levels for nearly 35 years, despite the Reserve Bank of Australia (RBA) reducing rates to record lows in an endeavour to stimulate the economy that has demonstrated declining levels of confidence. At the same time, there has been intense and prolonged competition for new business.

Despite a flagging Tasmanian economy MSF achieved a solid 4.1% growth in its lending portfolio reflecting its strong Tasmanian brand and customer loyalty. Growth in the portfolio and diversification of its liability portfolio has enabled MSF to achieve a sound net interest margin level at 4.1%, despite the RBA rate reductions during the year.

Flowing from the merger, The Rock has been working to reposition its sales channels to focus more on direct branch network sales. Despite an intensely competitive market in Central Queensland, the continued development of a retail sales culture has enabled The Rock to increase its direct sales 32% on 2012. The net interest margin level for The Rock remained largely flat at 1.8%. The Rock has continued to drive customer acquisition and non-interest revenues with the deployment of Visa debit cards, an off-balance sheet credit card and a number of additional general insurance products through the MyState alliance with CGU Insurance Limited.

MyState's national presence, through its Broker alliances, contracted significantly during the year, as MyState sought to reduce its exposure to third party originated business. Unfortunately, the reduction in new business generated from its broker channel was greater than planned due to aggressive lender competition particularly in the fixed rate segment of the market, where larger institutions have a competitive advantage.

In the wealth management area, TPT grew its funds under management by 2.2%. The high performing income funds were the beneficiary of investor demand for quality yield assets. In addition, as equity markets rebounded the growth funds experienced increased investor interest as investors switched from cash products. Demand for estate planning and ancillary services remained consistent through the year.

Group revenue growth shows the effect of the inclusion of The Rock for the full year, however, overall growth has slowed from previous years due to both intense competition and the subdued economic conditions that has reduced levels of new business and led to tightening interest rate margins. Other fee income has shown a modest increase.

Management has retained a strong focus on cost control while positioning the business to benefit from future growth and continues to invest in the technology and capacity to build the business in the future. Synergies and efficiency have been achieved through further integration of its businesses. This has included the consolidation of staff in a new head office located in Hobart, which has brought together staff previously housed in numerous locations under the one-roof enhancing the teamwork, communication and staff culture, resulting in productivity improvements across the business.

MyState has deployed its loan origination system into The Rock and centralised the banking businesses, documentation processing and collections management functions in the MyState head-office, enabling efficiency gains and process standardisation. In addition the Group's corporate services function including Treasury, Human Resources, Marketing, Property, Risk & Compliance functions have all been centralised, realising merger synergies and positioning the business for future growth.

Risk and regulation

MyState's banking businesses are authorised deposit-taking institutions, accordingly, risk management is a key feature of the culture of the business. MyState has an ongoing process to maintain, review and modify its approach to managing its risks.

In recent times, global regulation of the financial systems has become more stringent and MyState has moved to quickly adopt and practise these important advances in the protection of customers and improved confidence and resilience of the Australian financial system.

As a result of new prudential standards through the Basel III initiatives, MyState has refreshed the Internal Capital Adequacy Assessment Process (ICAAP) to align with new requirements including increased use of stress and scenario testing as well as enhanced forecasting.

In addition, MyState has moved to enhance the liquidity risk management framework, including the introduction of the Internal Liquidity Adequacy Assessment Process (ILAAP) to strengthen Board and Management oversight of liquidity risk. Key components of the enhancements of this framework include longer term funding plans, stress testing as well as the adoption of new Basel III liquidity calculations to ensure the Group's funding requirements are met both now and into the future.

Financial Position

Despite the difficult economic environment, MyState's focus on risk has served it well with the quality of its loan book particularly strong. In both the Group's banking businesses, home loan arrears have reduced further during the year and remain at levels almost half of those reported by the major banks. As a measure of this, arrears in the Tasmanian and Central Queensland banking business reduced from already low levels to be amongst the lowest in the industry.

Capital

The Group's capital management policy is to be conservatively capitalised and to maintain diverse funding sources in order to support future growth.

The Group is subject to minimum capital requirements by APRA and, as at 30 June 2013, had a strong capital ratio above 14%. APRA requires all ADI's to have a minimum ratio of capital to risk weighted assets. In addition APRA imposes specific minimum capital ratios which may be higher than these levels. The Group has met all of its capital requirements throughout the year.

Outlook and Strategy

MyState's strategy is to continue to grow its banking business through improved product offering to new and existing customers in Tasmania and Central Queensland. This focus will include further development of its wealth management business, including trustee and advice services. This growth will be facilitated through development of direct branch network business channels and through aligned third party channels.

In the current environment of low credit growth, scale remains important and MyState continues to look for opportunities to merge with like minded businesses.

State of Affairs

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

Events Subsequent To Balance Date

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

Likely Developments and Expected Results

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

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

Environmental Regulation

The consolidated entity is not subject to significant environmental regulation.

Directors' Meetings

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

MyState Limited Directors' Meetings 2012/2013

	Board Meetings		Group Audit Committee Meetings		Group Risk Committee Meetings		Group Corporate Governance and Remuneration Committee Meetings		Group Nomination Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
M J Vertigan	10	11	–	–	–	–	–	–	4	4
P D Armstrong	10	11	4	5	–	–	5	5	–	–
R L Gordon	11	11	–	–	1	1	5	5	4	4
M L Hampton	11	11	5	5	4	4	–	–	–	–
C M Hollingsworth	11	11	5	5	–	–	5	5	–	–
S E Lonie	10	11	5	5	–	–	5	5	–	–
I G Mansbridge	7	11	–	–	4	4	–	–	4	4
S Merridew	11	11	–	–	4	4	4	5	–	–
G J Gilbert	11	11	–	–	–	–	–	–	–	–

A – Number of Meetings attended
B – Number of Meetings eligible to attend

Directors' Interests

Interest in the shares of the Company and Managed Investment Funds offered by a related Body Corporate as at the date of this report.

	Beneficially Held	Non-beneficially Held	Managed Funds Direct	Managed Funds Indirect
M J Vertigan	–	25,000	–	460,053
P D Armstrong	387	774	–	–
G J Gilbert	–	–	–	–
R L Gordon	387	–	–	–
M L Hampton	–	600,000	–	–
C M Hollingsworth	3,000	7,274	–	–
S E Lonie	–	50,000	–	–
I G Mansbridge	–	170,000	–	–
S Merridew	4,000	20,000	–	–

Indemnification and Insurance of Directors and Officers

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

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 41 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 they do not impact the integrity and objectivity of the auditor; and,
- The non-audit services provided do not undermine the general principles relating to the auditor independence as they related to technical disclosure issues.

Auditor's Independence Declaration to the Directors

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

In relation to our audit of the financial report for the consolidated group for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

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

D McCarthy
Partner
Wise Lord & Ferguson
Hobart

Dated 27 August 2013

Remuneration Report

MyState Limited (the Company) is a non-operating holding Company and is a major Tasmanian based listed diversified Group formed in September 2009.

This Remuneration Report forms part of the Directors' Report and outlines the Director and Executive remuneration arrangements of MyState Limited for the year ended 30 June 2013 in accordance with the requirements of the C*orporations Act 2001* and its Regulations.

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

Contents

1. Group Corporate Governance and Remuneration Committee

The Board has established a Group Corporate Governance and Remuneration Committee (GCGRC) that assists the Directors in discharging the Board's responsibilities in relation to Remuneration Policy by reviewing and making recommendations to the Board on:

- Remuneration Policy and arrangements for Directors;
- the remuneration and review of performance of the Managing Director and other Senior Executives;
- matters such as the Company's Employee Share Scheme or other incentive schemes for Senior Executives and staff; and
- the general Remuneration Policy and practices of the Company, having regard to comparative remuneration in the financial services industry and independent advice. This includes an assessment of the Remuneration Policy's effectiveness and compliance with the requirements of APRA Prudential Standards.

The Committee is vigilant in monitoring the potential for, or perception of, conflict of interest regarding Executive Director involvement in Board decisions on remuneration packages and also in monitoring the involvement of Management generally in Committee discussions and deliberations regarding remuneration policy. No Senior Executive is directly involved in deciding their own remuneration.

The GCGRC has continued to enhance remuneration practices during the course of the year, to ensure the Company's Policy and practices are fully compliant with all applicable laws and regulatory guidelines and clearly fall within the Community's expectations of appropriate remuneration and reward practices.

2. Remuneration Philosophy

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

The Remuneration Policy is premised on:

- appropriately balanced measures of performance weighted KPI's aimed towards long-term Shareholder interests;
- variable performance based pay for Executives involving a long-term incentive plan subject to an extended period of performance assessment;
- recognition and reward for strong performance;
- a considered balance between the capacity to pay and the need to pay to attract and retain capable staff at all levels;

- the exercise of Board discretion as an ultimate means to mitigate unintended consequences of variable pay and to preserve the interests of the Shareholders; and
- short-term and long-term incentive performance criteria being structured within the overall risk management framework of the Company.

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

3. Key Management Personnel

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

Name	Position	Change from FY12
Non Executive Directors in office as at 30 June 2013		
Michael Vertigan	Non Executive Chairman	
Peter Armstrong	Non Executive Director	
Robert Gordon	Non Executive Director	
Colin Hollingsworth	Non Executive Director	
Miles Hampton	Non Executive Director	
Stephen Lonie	Non Executive Director	
Ian Mansbridge	Non Executive Director	
Sarah Merridew	Non Executive Director	
Non Executive Directors in office as at 30 June 2013		
John Gilbert	Managing Director	
Senior Executives in office as at 30 June 2013		
Tim Rutherford	Chief Operating Officer *Executive Level 1*	Appointed COO 10 September 2012 – Previously General Manager Technology & Operations
Natasha Whish-Wilson	Chief Risk Officer *Executive Level 1*	
Tom Taylor	Chief Financial Officer *Executive Level 1*	Contracted to role in fixed term capacity – 11 April 2013
Andrew Paynter	Chief Executive Officer – The Rock *Executive Level 2*	Role added to KMP as at 6 July 2012
Aaron Pidgeon	Head of People and Property *Executive Level 2*	Role added to KMP as at 10 September 2012
David Mills	Head of Technology *Executive Level 2*	Role added to KMP as at 10 September 2012
Stephen Pender	Head of Marketing, Communication and Products *Executive Level 2*	Role added to KMP as at 10 September 2012

Name	Position	Change from FY12
Former Senior Executives		
David Benbow	General Manager Wealth Management and Trustee Services *Executive Level 1*	Left office on 7 September 2012
Paul Viney	Chief Financial Officer *Executive Level 1*	Company Secretary component of role removed 10 September 2012 Left office on 30 April 2013

4. Non-Executive Director Remuneration

The Company's Non-Executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's Non-Executive Directors reflect the demands on and responsibilities of those Directors.

The Board reviews its fees to ensure the Company's Non-Executive Directors are fairly remunerated for their services, recognising the level of skill and experience required to conduct the role and to have in place a fee scale which enables the Company to attract and retain talented Non-Executive Directors.

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

Non-Executive Directors do not receive any shares, options or other securities in addition to their remuneration and are not eligible to participate in the Company's Employee Share Plan or any other incentive plan. They do not receive any retirement benefits (other than compulsory superannuation).

The aggregate remuneration paid to all the Non-Executive Directors (inclusive of statutory superannuation) may not exceed the $950,000 amount fixed by Shareholders at the October 2012 Annual General Meeting of Shareholders. This "fee pool" is only available to Non-Executive Directors, as Board membership is taken into account in determining the remuneration paid to Executive Directors as part of their normal employment conditions.

Each Non-Executive Director currently receives $85,000 each per annum inclusive of statutory superannuation.

The Chairman is paid an additional amount of $85,000 per annum inclusive of statutory superannuation.

Board Committee Chairmen are paid an additional amount of $13,000 (Group Audit), $10,000 (Group Risk) and $10,000 (Group Corporate Governance & Remuneration), per annum inclusive of statutory superannuation.

5. Managing Director and Executive Remuneration

5.1 Key Management Personnel Remuneration Policy

The primary responsibility of the GCGRC of the Board of Directors of the Company is to recommend to the Board remuneration policy and arrangements for Directors, the Managing Director and other Executives, as well as the general remuneration practices of the Company, having regard to comparative remuneration in the financial services industry and independent advice.

To assist in achieving these objectives, the GCGRC links the nature and amount of the Managing Director's and Executives' emoluments to the Company's financial and operational performance. The remuneration of the Managing Director and Executives is comprised of two components, being:

- Fixed Annual Remuneration (FAR) – comprised of Base Salary and Superannuation; and
- Variable Remuneration – comprised of Short Term Incentive (STI), and Executive Long Term Incentive Plan (ELTIP)

The following table sets out a summary of each component of Remuneration and how that component links to performance:

	Remuneration Component	Vehicle	Purpose
FAR	Base Salary	Base Salary	Positioned at a market-competitive level which reflects the complexity of the role, individual responsibilities, individual performance, experience and skills.
	Superannuation	Superannuation paid at a rate of 9% of the Base Salary, or the amount stipulated in the *Superannuation Guarantee Act*, whichever is greater. The Super contribution will increase to 9.25% as of FY14.	Superannuation contributions paid according to statutory requirements.
VARIABLE	Short Term Incentive	Annual "at-risk" incentive payment subject to the Company's performance. A portion of the payment Is deferred for a period of 12 months and subject to potential adjustment at the end of the deferral period. Both up front and deferred portions of STI are paid as cash.	Rewards Executive team members for their annual contribution towards the achievement of MyState Limited's strategic goals.
	Executive Long Term Incentive Plan *ELTIP eligibility extends only to Managing Director and Executive Level 1 positions.*	Long term "at risk" incentive, assessed over a three year performance period, and subject to potential adjustment at the end of the vesting period. Allocated as Shares that vest and are subject to performance hurdles being met.	Rewards Executive team members for their contribution to the creation of shareholder value over the longer term.

5.2 Fixed Annual Remuneration (FAR)

The FAR is paid by way of cash salary, superannuation and fringe benefits and is reviewed annually by the GCGRC. In addition, external consultants provide analysis and advice to the Committee to ensure that Executives' remuneration is competitive in the marketplace. The total employment cost of any remuneration package, including fringe benefits tax, is taken into account in determining an employee's FAR.

5.3 Short Term Incentive (STI)

The STI is calculated as a percentage of the FAR and is payable annually in respect of each financial year as cash and/or superannuation contributions.

Assessment of performance, and payment of STI, is based upon KPI's agreed between the Managing Director and the Board. The following percentages are used:

- Managing Director – up to 50% of FAR and based upon Key Performance Indicators (KPI's) to be agreed with the Board;
- Executive Level 1 positions – up to 30% of FAR and based upon KPI's to be agreed between the Executive and the Managing Director with reference to those applicable to the Managing Director; and
- Executive Level 2 positions – up to 15% and based upon KPI's to be agreed between the Executive and the Managing Director with reference to those applicable to the Managing Director.

As of the 2013/2014 performance period, if the Managing Director or an Executive Level 1 position is eligible to be paid a STI benefit with respect to a particular financial year, 75% of the benefit will be paid in October following the end of the relevant financial year and 25% will be deferred for a period of 12 months after the end of that financial year to which the STI relates and will be payable in October the following year. Payment of the deferred STI amount is subject to Board approval.

Deferral components of the Managing Director and Executive Level 1 STI's will be paid at the identified time unless;

- There is an identified requirement to make a material restatement of the prior year accounts; or
- The individual breaches their Executive Employment Agreement.

In most cases, there is no fixed minimum payment amount, and nil payment may be made where appropriate. Maximum payments in line with percentages outlined previously.

Payment is made in accordance with performance, based on the below breakdown of the maximum STI payment;

- Financial – 50%
- Strategic – 40%
- Community Engagement – 10%
- Risk and Compliance – Absolute Hurdle

Payment is conditional upon the achievement of strategic, financial, organisational, operational and individual performance criteria during the financial year under review and are tailored to each respective role.

Each year, the GCGRC, in consultation with the Board, sets the KPI's for the Managing Director who, in turn, sets KPI's for Executives. The GCGRC selects performance objectives which provide a robust link between Executive reward and the key drivers of long term shareholder value.

The KPI's generally are measures relating to the Company and the individual and include financial, strategic, operational and customer/stakeholder measures. The measures are chosen and weighted to best align the individual's reward to the KPI's of the Company and its overall performance.

The financial performance objectives are net profit after tax and cost to income compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, compliance and support of the Company's risk management policies and compliance culture, customer satisfaction and staff development.

After the end of the financial year, the Chairman assesses the actual performance of the Company and the Managing Director against the KPI's set at the beginning of the financial year. Based upon that assessment, a recommendation is made by the GCGRC to the Board regarding the STI payment.

After the end of the financial year, the Managing Director assesses the actual performance of the Company and the Executives against their KPI's set at the beginning of the financial year. Based upon that assessment, a recommendation is made to the GCGRC regarding the STI payment.

The GCGRC recommends the STI payments to be made to the Managing Director and Executives for approval by the Board. Payment of an STI to the Managing Director or Executives is at the complete discretion of the Board and can be adjusted downwards, to zero if necessary, to protect the financial soundness of the Company, such as to ensure that there is no breach of capital adequacy or liquidity policy thresholds occurs.

The Board also has discretion to adjust the STI payment down, potentially to zero, in the event that the Managing Director or an Executive commits a serious breach of duty.

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, they may decline payment of the deferred portion of their STI, in addition to any other disciplinary actions.

5.4 Executive Long Term Incentive Plan

The ELTIP was established by the Board to encourage the Executive Management Team, comprising the Managing Director and Executive Level 1 positions, to have a greater involvement in the achievement of the Company's objectives. To achieve this aim, the ELTIP provides for the issue to the Executive Management Team of fully paid ordinary shares in the Company if performance criteria specified by the Board are satisfied in a set performance period.

Under the ELTIP an offer may be made to the members of the Executive Management Team every year as determined by the Board. The maximum value of the offer is determined as a percentage of the FAR of each member of the executive management team.

The percentages used are as follows:

- for the Managing Director – 50% of FAR; and
- for the Executive Level 1 positions – 30% of FAR.

The value of the offer is converted into fully paid ordinary shares based upon the weighted average price of the Company's shares over the twenty trading days prior to offer date.

In order for the shares to vest in each eligible member of the Executive Management Team, certain performance criteria must be satisfied within a predetermined performance period. Both the performance criteria and the performance period are set by the Board at its absolute discretion. The Board has for the time being set the three financial years commencing with the year in which an offer is made under the plan as the relevant performance period. The performance criteria to apply over the performance period are as follows:

- 2009 and 2010 ELTIP offers made – growth in Earnings Per Share outcomes (EPS) and Total Shareholder Return (TSR) with the respective measures weighted equally; and
- 2011, 2012 ELTIP offers made – growth in TSR.
- 2013 offer is yet to be determined as at the time of the report.

ELTIP performance assessment will be measured against the performance of a selected group of "financial" companies from within the S&P/ASX 300 Index. In line with the intent of the offers, the board has now finalised the composition of this group, consisting of 19 companies , which will be used for assessment:

ASX Ticker	Name
AMP	AMP LTD
ANZ	AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD
BEN	BENDIGO AND ADELAIDE BANK LTD
BOQ	BANK OF QUEENSLAND LTD
CBA	COMMONWEALTH BANK OF AUSTRALIA
CCP	CREDIT CORP GROUP LTD
CCV	CASH CONVERTERS INTERNATIONAL
CGF	CHALLENGER LTD
FXL	FLEXIGROUP LTD
HGG	HENDERSON GROUP PLC
IAG	INSURANCE AUSTRALIA GROUP LTD
IFL	IOOF HOLDINGS LTD
MQG	MACQUARIE GROUP LTD
NAB	NATIONAL AUSTRALIA BANK LTD
PPT	PERPETUAL LTD
QBE	QBE INSURANCE GROUP LTD
SUN	SUNCORP GROUP LTD
WBC	WESTPAC BANKING CORPORATION
WBB	WIDE BAY AUSTRALIA LTD

Any reward payable to any member of the Executive Team under any ELTIP offer is subject to reassessment and possible forfeiture, if the results on which the ELTIP reward was based are subsequently found to have been the subject of deliberate management misstatement.

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

Vesting of shares to the Managing Director or Executives is at the complete discretion of the Board and can be adjusted downwards, to zero if necessary, to protect the financial soundness of the Company, such as to ensure that no breach of capital adequacy or liquidity policy thresholds occurs.

The Trustee will allocate any shares to each member of the executive management team in accordance with their entitlement under the ELTIP. Any shares to be allocated to the Managing Director under this Plan require Shareholder prior approval in accordance with ASX Listing Rules. The Trustee will hold the shares which have been allocated on behalf of the executive management team member.

The executive management team member cannot transfer or dispose of shares which have been allocated to them until the earlier of:

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

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

On separation from the Company, shares will be released only if the separation is due to a Qualifying Reason or is at the initiation of the Company without cause. A Qualifying Reason as defined by the ELTIP Plan Rules is death, total and permanent disability, retirement at normal retirement age, redundancy or other such reason as the Board in its absolute discretion may determine. If either of these occurs and a minimum of twelve months of the performance period has been served within the three year performance period, shares will be allocated on a pro-rata basis by bringing the qualifying date forward to the date of separation.

During the period that allocated shares are held by the Trustee, the Executive Management Team member is entitled to receive the income arising from dividend payments on those shares and to have the Trustee exercise the voting rights on those shares in accordance with their instructions.

On accepting an ELTIP offer made by MyState Limited, Executives are required to agree to not hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and as such will involve disciplinary action and the risk of dismissal under the terms of the Executive's contract.

a) 2009 ELTIP offer

The 2009 ELTIP Offer applied to the three year performance period commencing 1 July 2009 and ended on 30 June 2012. Following the completion of the performance period the plan was subsequently valued in accordance with the Plan Rules.

The ELTIP performance assessment for the 2009 Offer was measured against the performance of the selected group of "financial" companies within the S&P/ASX 300 Index.

b) 2010 ELTIP offer

The 2010 ELTIP offer applies to the three year performance period commencing 1 July 2010 and ended on 30 June 2013.

ELTIP performance assessment for the 2010 Offer will be measured against the performance of the selected group of "financial" companies within the S&P/ASX 300 Index.

In respect of each of these respective ELTIP offers, any reward payable to any member of the Executive Team will be calculated as follows:

- 50% of the ELTIP reward for the performance period will be based upon – the comparison of the actual MyState Limited EPS growth achieved with that of the benchmark group – and will be payable on the following basis:
  - below the mid-point percentage EPS growth – 0% reward;
  - at the 50th percentile – 50% of the applicable reward;
  - between the 50th percentile and the 75th percentile EPS growth – 2% for every 1 percentile above the 50th percentile;
  - above the 75th percentile – 100% of the applicable reward;
  - no reward will be payable if EPS growth is negative irrespective of the benchmark group performance;
  - MyState Limited EPS baseline for calculation of the 2009 ELTIP offer is to be 23.32cps; and
  - MyState Limited EPS baseline for calculation of the 2010 ELTIP offer is to be 27.46cps.
- 50% of the ELTIP reward for the performance period will be based upon -the comparison of the actual MyState Limited TSR growth compared to the benchmark group – and will be payable on the following basis:
  - below the mid-point percentage TSR growth – 0% reward;
  - at the 50th percentile – 50% of the applicable reward;
  - between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile;
  - above the 75th percentile – 100% of the applicable reward;
  - no reward will be payable if TSR is negative irrespective of the benchmark group performance;
  - MyState Limited share price baseline for TSR calculation for the 2009 ELTIP offer is $2.70; and
  - MyState Limited share price baseline for TSR calculation for the 2010 ELTIP offer is $3.12.

c) 2011 ELTIP offer

The 2011 ELTIP offer applies to the three year performance period commencing 1 July 2011 and ending on 30 June 2014.

ELTIP performance assessment for the 2011 Offer will be measured against the performance of the selected group of "financial" companies within the S&P/ASX 300 Index. In respect of each of these respective ELTIP offers, any reward payable to any member of the Executive Team will be calculated as follows:

- 100% of the ELTIP reward for the performance period will be based upon the comparison of the actual MyState Limited TSR growth compared to the benchmark group and will be payable on the following basis:
  - below the mid-point percentage TSR growth – 0% reward;
  - at the 50th percentile – 50% of the applicable reward;
  - between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile;
  - above the 75th percentile – 100% of the applicable reward;
  - no reward will be payable if TSR is negative irrespective of the benchmark group performance; and
  - MYS share price baseline for TSR calculation for the 2011 ELTIP offer is $3.55.

The MYS Board determined that 100% of any future ELTIP, post the 2011 offer, reward will be determined based totally upon TSR as was the case with 2011 offers. This approach differs from the 2009 and 2010 Offers, which provided for 50% of the ELTIP reward to be determined based upon 50% TSR weighting and 50% EPS. The Board resolved to move to the TSR only mechanism for 2011 and onwards, as reflected in the revised Remuneration Policy lodged with the ASX. The Board is monitoring the 2009 and 2010 offers potential valuations to ensure the Executives are treated equitably over time.

d) 2012/2013 ELTIP offer

The 2012/2013 ELTIP offer applies to the three year performance period commencing 1 July 2012 and ending on 30 June 2015.

ELTIP performance assessment for the 2012/2013 Offer will be measured against the performance of the selected group of "financial" companies within the S&P/ASX 300 Index. In respect of each of these respective ELTIP offers, any reward payable to any member of the Executive Team will be calculated as follows:

- 100% of the ELTIP reward for the performance period will be based upon the comparison of the actual MyState Limited TSR growth compared to the benchmark group and will be payable on the following basis:
  - below the mid-point percentage TSR growth – 0% reward;
  - at the 50th percentile – 50% of the applicable reward;
  - between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile;
  - above the 75th percentile – 100% of the applicable reward;
  - no reward will be payable if TSR is negative irrespective of the benchmark group performance; and
  - MYS share price baseline for TSR calculation for the 2012 ELTIP offer is $3.00.

6. Consequences of performance on Shareholder wealth

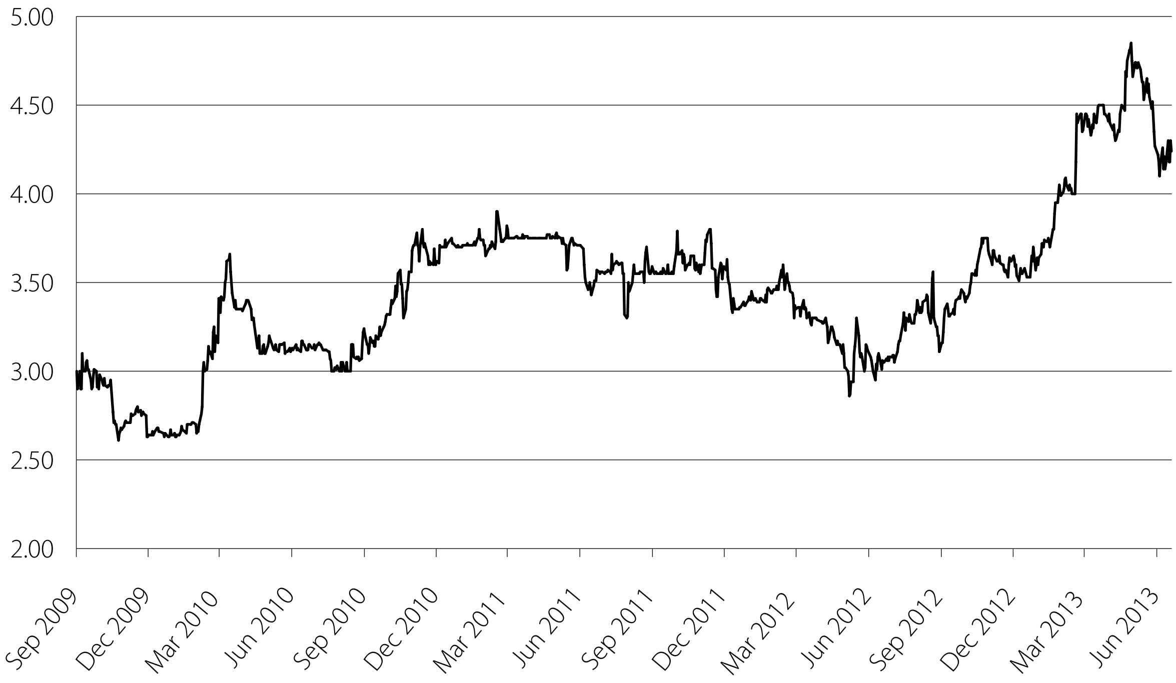
In considering the consolidated entity's performance and benefits for Shareholder wealth, the GCGRC has regard to the following indices:

Indicator	2010	Change %	2011	Change %	2012	Change %	2013
Profit after income tax	$17,341,323	26.98%	$22,019,846	6.19%	$23,383,844	21.70%	$28,457,496
Earnings per share	27.46 cents	18.90%	32.65 cents	8.39%	29.91 cents	9.25%	32.68 cents
Dividends paid	$13,482,212	22.55%	$16,522,942	18.41%	$19,564,402	24.60%	$24,378,204
Share price[(1)]	$3.12	12.50%	$3.51	(13.11%)	$3.05	39.02%	$4.24
Return of capital	Nil		Nil		Nil		Nil

(1) See share price chart below

Share price movements for MYS since listing are illustrated in the following graph :

MyState Limited (ASX: MYS) – Share Pricing



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

STI performance measures include financial measures such as net profit after tax – ELTIP performance measures are: for the 2009 and 2010 offers weighted equally between earnings per share and total shareholder return (TSR) measures; and, for the 2011, 2012/2013 and future offers based solely on (TSR). TSR is a measure which incorporates both dividends paid and movements in share prices.

7. Details of Variable Remuneration Paid

Short Term Incentive

During the 2012/13 financial year, the Managing Director and Executives were paid their STI entitlement in respect of the 2011/12 financial year.

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

	2011/2012					
EXECUTIVE	**Max. %**	**Max Payable**	**% Awarded**	**% Forfeited**	**Amount Paid**	**Date**
John Gilbert	30%	$195,000	50%	50%	$97,500	28/11/12
Tim Rutherford	15%	$44,250	50%	50%	$22,125	28/11/12
Natasha Whish-Wilson	15%	$37,500	50%	50%	$18,750	28/11/12
David Benbow	15%	$44,250	50%	50%	$22,125	28/11/12
Paul Viney	15%	$48,000	50%	50%	$24,000	28/11/12

Executive Long Term Incentive Plan

The offer made under the 2010 ELTIP to the Managing Director and Executives has not yet crystallised as we have not completed the assessment of the performance period to allow a determination for final entitlements.

	Offer Date	Performance Period	Max Share Allocation	Value of Offer	Share Price Used in Calculations	Actual Allocation
Managing Director						
2009	30 June 2010	1 July 2009 to 30 June 2012	71,884	$225,000	$3.13	58,226
2010	29 March 2011	1 July 2010 to 30 June 2013	59,840	$225,000	$3.76	NA
2011	2 November 2011	1 July 2011 to 30 June 2014	65,677	$235,125	$3.58	NA
2012/2013	14 November 2012	1 July 2012 to 30 June 2015	89,532	$325,000	$3.63	NA
Other Eligible Executives						
2009	20 June 2010	11 January 2010 to 30 June 2012	56,581(1)	$177,098	$3.13	22,906
2010	29 March 2011	1 July 2010 to 30 June 2013	104,731(1)	$393,789	$3.76	36,243(2)
2011	6 September 2011	1 July 2011 to 30 June 2014	88,403(1)	$316,482	$3.58	23,009(2)
2012/2013	9 October 2012	1 July 2012 to 30 June 2015	48,516(1)	$163,500	$3.37	NA

(1) Figure Inclusive of all KMP at time of offer.
(2) Performance period not yet completed. Figure reflective of pro rata entitlement allocated to relevant KMP's on resignation.

Actual ELTIP Share Allocations

2009 Offer			
Name	**Full Offer**	**Allocation**	**Forfeited**
John Gilbert	71,884	58,226	13,658
Tim Rutherford	11,108	7,404	3,704
David Benbow	11,108	7,404	3,704
Paul Viney	12,149	8,098	4,051
2010 Offer			
David Benbow	20,561	15,008	5,553
Paul Viney	22,487	21,235	1,252
2011 Offer			
David Benbow	21,595	8,571	13,024
Paul Viney	23,618	14,438	9,180
2012/2013 Offer			
Paul Viney	28,487	0	28,487

8. Remuneration of Key Management Personnel

		Salary & Fees $	Cash Bonus[1] [2]	Non-Monetary Benefits $	Post Employment Super-annuation $	Termination Benefits $	Share Based Payment[1]	Total $
Non-Executive Directors								
Michael Vertigan	**2013**	**153,312**	**–**	**–**	**13,798**	**–**	**–**	**167,110**
	2012	139,778	–	–	12,580	–	–	152,358
Peter Armstrong	**2013**	**73,398**	**–**	**–**	**18,160**	**–**	**–**	**91,558**
	2012	65,726	–	–	14,417	–	–	80,143
Robert Gordon	**2013**	**75,683**	**–**	**–**	**6,811**	**–**	**–**	**82,494**
	2012	67,660	–	–	6,089	–	–	73,749
Miles Hampton	**2013**	**84,554**	**–**	**–**	**7,610**	**–**	**–**	**92,164**
	2012	61,418	–	–	20,099	–	–	81,517
Colin Hollingsworth	**2013**	**72,059**			**23,097**			**95,156**
	2012	35,502			48,112			83,614
Stephen Lonie[3]	**2013**	**75,683**	**–**	**–**	**6,811**	**–**	**–**	**82,494**
	2012	40,089			3,608			43,697
Ian Mainbridge	**2013**	**75,683**	**–**	**–**	**6,811**	**–**	**–**	**82,494**
	2012	69,828	–	–	6,284	–	–	76,112
Sarah Merrridew	**2013**	**75,683**	**–**	**–**	**6,811**	**–**	**–**	**82,494**
	2012	67,660	–	–	6,089	–	–	73,749
Sub Total	**2013**	**686,055**	**–**	**–**	**89,909**	**–**	**–**	**775,964**
	2012	**547,661**	**–**	**–**	**117,278**	**–**	**–**	**664,939**

		Salary & Fees $	Cash Bonus[1][2]	Non-Monetary Benefits $	Post Employment Super-annuation $	Termination Benefits $	Share Based Payment[1]	Total $
Managing Director								
John Gilbert	**2013**	**690,432**	**195,000**	**7,011**	**33,750**	**–**	**148,976**	**1,075,169**
	2012	497,521	195,000	12,079	63,414	–	159,830	927,844
Senior Executives								
David Benbow	**2013**	**27,376**	**22,125**	**951**	**23,008**	**455,390**	**11,390**	**495,990**
	2012	224,526	44,251	6,000	50,236	–	46,816	371,829
Tim Rutherford	**2013**	**333,474**	**81,704**	**3,559**	**38,983**	**–**	**43,574**	**501,294**
	2012	246,215	44,251	7,711	26,836	–	46,816	371,829
Paul Viney	**2013**	**271,772**	**24,000**	**–**	**20,673**	**499,268**	**35,569**	**803,282**
	2012	297,712	48,001	–	31,114	–	51,199	428,026
Natasha Whish-Wilson[4]	**2013**	**315,719**	**105,433**	**1,872**	**39,066**	**–**	**9,811**	**471,901**
	2012	150,293	–	5,105	13,986	–	–	169,384
Tom Taylor[6]	**2013**	**84,935**	**–**	**–**	**3,801**	**–**	**–**	**88,736**
Andrew Paynter[8]	**2013**	**220,661**	**40,258**	**–**	**27,582**	**–**	**1,000**	**289,501**
Aaron Pidgeon[7]	**2013**	**179,240**	**33,350**	**7,570**	**25,753**	**–**	**–**	**238,913**
David Mills[7]	**2013**	**121,452**	**23,220**	**–**	**21,125**	**–**	**–**	**165,797**
Stephen Pender[7]	**2013**	**130,215**	**23,723**	**–**	**15,453**	**–**	**–**	**169,391**
Sub Total[5]	**2013**	**1,677,844**	**261,563**	**13,952**	**215,444**	**954,658**	**101,344**	**3,224,805**
	2012	**918,746**	**136,503**	**18,816**	**122,172**	**–**	**144,831**	**1,341,068**
Total[5]	**2013**	**3,054,331**	**456,563**	**20,963**	**339,103**	**954,658**	**250,320**	**5,075,938**
	2012	**1,963,928**	**331,503**	**30,895**	**302,864**	**–**	**304,661**	**2,933,851**

1) These amounts are estimates of remuneration and will only vest to the Managing Director or Executive when certain performance criteria are met. The fair value of shares is calculated at the date of grant and is allocated to each reporting period evenly 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. As these figures are based on accrual accounting and not a reflection of actual cash paid, negative figures can result in the event of accrual reversals being recorded.
2) 90% of the maximum amount, in respect of the 2012/13 financial year STI offers, has been accrued on the basis that it is probable that the executive management team will meet their respective KPI's for the period. Any adjustments between the actual amounts to be paid, as determined by the GCGRC and Board, and the amounts accrued will be adjusted and disclosed in the MyState Limited financial statements for 2014. In addition, the disclosed amounts include satisfaction of prior year STI obligations.
3) Mr Lonie was appointed on 12 December 2011. The remuneration disclosed was paid by the Company after Mr Lonie's appointment to the Board the date on which he became a KMP. Prior to his appointment as a Director of the Company, Mr Lonie was Chairman of The Rock Building Society Limited (ROK). In the period from 1 July 2011 to the date of acquisition of ROK, he received remuneration of $68,288 from ROK. Following the acquisition of ROK, no further payments were made by that Company to its Directors, including Mr Lonie.
4) Mrs Whish-Wilson was appointed Chief Risk Officer on 27 October 2011. The remuneration disclosed for 2012 is for the period from the date of appointment until 30 June 2012, being the period that Mrs Whish-Wilson met the definition of a KMP.
5) Totals In respect of the year ended 30 June 2012 do not necessarily equal the sum of amounts disclosed for 2012 for individuals specified in the 2012 report, as different individuals were specified in the 2012 Remuneration Report.
6) Mr Taylor was appointed to the role on contract 11 April 2013.
7) Mr Pidgeon, Mr Mills and Mr Pender's roles were added as KMP on the 10 of September 2012, and remuneration details are reflective of amounts paid from that date.
8) Mr Paynter's role was added as KMP on the 6 of July 2012, and remuneration details are reflective of amounts paid from that date.

9. Contract terms and conditions

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

Incumbent	Commenced in role	Contract term	Fixed Annual Remuneration (per year and subject to market based review mechanisms)	Short Term Incentive	Termination Provisions (subject to shareholder approval in the event that they exceed the equivalent of 1 year FAR in total)
John Gilbert	14 December 2009	3 Year term from 14 December 2009 plus a further 2 year term which was accepted.	$655,200	50% of FAR	The contract may be terminated by the Company or the Managing Director by 60 days notice. In certain circumstances, a termination payment of 9 months FAR prior to 14 December 2013, or thereafter – 9 months or the balance of the contract term, whichever is greater may apply (subject to shareholder approval at the 2013 AGM). Pro-rata STI payment applied as at the date of termination. The number of shares calculated on a pro-rata basis according to the number of days in the performance period under any current Long Term Incentive Plan (ELTIP) agreement up to the date the termination takes effect, subject to an independent assessment of company performance.
Tom Taylor	11 April 2013	31 weeks	$384,520 FAR will be applied pro rata for the contract period.	$112,152	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent to the balance of the TFR. Pro-rata STI payment applied as at the date of termination.
Tim Rutherford	11 January 2010	Ongoing	$400,875	30% of FAR	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination. Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.

Incumbent	Commenced in role	Contract term	Fixed Annual Remuneration (per year and subject to market based review mechanisms)	Short Term Incentive	Termination Provisions (subject to shareholder approval in the event that they exceed the equivalent of 1 year FAR in total)
Natasha Whish-Wilson	27 October 2011	Ongoing	$332,687	30% of FAR	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination. Pro-rata ELTIP allocation, made following the completion of the applicable performance periods.
Andrew Paynter	5 December 2011	5 December 2011 to 30 June 2014	$246,765	15% of FAR	The contract can be terminated by the company upon provision of 4 weeks notice. Payment of up to 52 weeks dependant on years of service. Pro-rata STI payment applied as at the date of termination
Aaron Pidgeon	10 September 2012	Ongoing	$277,500	15% of FAR	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination.
David Mills	10 September 2012	Ongoing	$200,000	15% of FAR	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination.
Stephen Pender	10 September 2012	Ongoing	$200,000	15% of FAR	The contract can be terminated by the Company upon provision of 1 months notice. Payment of the equivalent of 9 months FAR. Pro-rata STI payment applied as at the date of termination.

Signed in accordance with a resolution of the Directors.

M J Vertigan AC
Chairman

G J Gilbert
Managing Director

Hobart
Dated this 27 August 2013.

Income Statement

for the financial year ended 30 June 2013

	Notes	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Interest income	3	**208,897,112**	202,985,412	**26,975**	114,953
Interest expense	3	**(123,824,440)**	(123,965,569)	**–**	–
Net interest margin		**85,072,672**	79,019,843	**26,975**	114,953
Other revenue	4	**39,251,478**	38,464,487	**31,760,832**	26,735,595
Other expenses	5	**(80,816,401)**	(79,927,858)	**(7,414,515)**	(9,361,169)
Profit before bad and doubtful debts and income tax		**43,507,749**	37,556,472	**24,373,292**	17,489,379
Less bad and doubtful debts	18 (b)	**(3,164,602)**	(3,395,317)	**–**	–
Profit before income tax expense	6	**40,343,147**	34,161,155	**24,373,292**	17,489,379
Income tax expense/(benefit)	8	**11,885,651**	10,777,311	**(2,235)**	(84,297)
Net profit after income tax		**28,457,496**	23,383,844	**24,375,527**	17,573,676
Basic earnings per share (cents per share)	13	**32.68**	29.91		
Diluted earnings per share (cents per share)	13	**32.68**	29.91		

The accompanying notes form part of these financial statements.

Statement of **Comprehensive Income**

for the financial year ended 30 June 2013

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Net profit after income tax	**28,457,496**	23,383,844	**24,375,527**	17,573,676
Other comprehensive income/(expense):				
Items that may be reclassified subsequently to profit or loss				
Cashflow hedge movements	**1,582,505**	(2,862,560)	**–**	–
Net fair value gains on available for sale financial assets	**306,459**	147,916	**–**	–
Income tax effect	**(566,686)**	814,099	**–**	–
Total other comprehensive income for the period	**1,322,278**	(1,900,545)	**–**	–
Total comprehensive income for the period	**29,779,774**	21,483,299	**24,375,527**	17,573,676
Total comprehensive income for the period is attributable to: Ordinary equity holders of MyState Limited	**29,779,774**	21,483,299	**24,375,527**	17,573,676
Total comprehensive income for the period	**29,779,774**	21,483,299	**24,375,527**	17,573,676

The accompanying notes form part of these financial statements.

Statement of **Financial Position**

As at 30 June 2013

		Consolidated		Company	
	Notes	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
ASSETS					
Cash and cash equivalents	14	**59,429,796**	70,912,983	**1,605,137**	1,392,279
Available for sale financial assets	16	**403,248,894**	402,069,712	**–**	–
Receivables	17	**25,502,195**	26,634,785	**1,592,592**	3,215,129
Loans at amortised cost	18	**3,037,784,750**	3,056,504,557	**–**	–
Other investments	20	**5,020,261**	5,020,527	**237,511,172**	237,511,172
Property, plant and equipment	21	**17,817,674**	16,688,854	**–**	–
Tax assets	9	**6,216,200**	8,744,146	**875,446**	1,410,098
Other assets		**36,194**	36,194	**–**	–
Intangible assets and goodwill	22	**74,685,968**	71,963,313	**–**	–
TOTAL ASSETS		**3,629,741,932**	3,658,575,071	**241,584,347**	243,528,678
LIABILITIES					
Deposits	23	**2,310,298,378**	2,224,000,610	**–**	–
Interest bearing loans and borrowings	24	**980,804,865**	1,092,060,696	**–**	–
Payables and other liabilities	25	**47,373,052**	51,456,486	**1,691,323**	2,254,266
Derivatives	26	**2,988,040**	7,343,468	**–**	–
Tax liabilities	10	**2,957,150**	3,733,895	**679,145**	2,154,018
Provisions	27	**5,611,168**	6,102,666	**227,112**	561,409
TOTAL LIABILITIES		**3,350,032,653**	3,384,697,821	**2,597,580**	4,969,693
NET ASSETS		**279,709,279**	273,877,250	**238,986,767**	238,558,985
EQUITY					
Share capital	28	**132,241,756**	131,785,926	**238,169,911**	237,714,081
Retained earnings	29	**145,173,297**	141,094,005	**316,541**	319,218
Asset revaluation reserve	29	**2,340,314**	2,340,314	**–**	–
Employee equity benefits reserve	29	**500,315**	525,686	**500,315**	525,686
Hedging reserve	29	**(896,334)**	(2,004,087)	**–**	–
Net unrealised gains reserve	29	**349,931**	135,406	**–**	–
TOTAL EQUITY		**279,709,279**	273,877,250	**238,986,767**	238,558,985

The accompanying notes form part of these financial statements.

Statement of
Changes in Equity

for the financial year ended 30 June 2013

	Attributable to equity holders of the company						
Consolidated	**Share Capital $**	**Retained Earnings $**	**Asset Revaluation Reserve $**	**Employee Equity Benefit Reserve $**	**Hedging Reserve $**	**Net Unrealised Gains Reserve $**	**Total $**
At 1 July 2011	64,701,212	137,274,563	2,340,314	253,040	–	31,864	204,600,993
Net profit after income tax	–	23,383,844	–	–	–	–	23,383,844
Other comprehensive income (net of tax)	–	–	–	–	(2,004,087)	103,542	(1,900,545)
Total comprehensive income for the period	–	23,383,844	–	–	(2,004,087)	103,542	21,483,299
Equity issued to acquire the issued capital of The Rock Building Society Limited	66,983,328	–	–	–	–	–	66,983,328
Costs of issuing equity	(20,905)	–	–	–	–	–	(20,905)
Equity issued under employee share scheme	86,980	–	–	–	–	–	86,980
Share based payment expense recognised	–	–	–	307,957	–	–	307,957
Equity issued under Executive long term incentive plan	35,311	–	–	(35,311)	–	–	–
Dividends paid	–	(19,564,402)	–	–	–	–	(19,564,402)
At 30 June 2012	**131,785,926**	**141,094,005**	**2,340,314**	**525,686**	**(2,004,087)**	**135,406**	**273,877,250**
At 1 July 2012	131,785,926	141,094,005	2,340,314	525,686	(2,004,087)	135,406	273,877,250
Net profit after income tax	–	28,457,496	–	–	–	–	28,457,496
Other comprehensive income/(expense) (net of tax)	–	–	–	–	1,107,753	214,525	1,322,278
Total comprehensive income for the period	–	28,457,496	–	–	1,107,753	214,525	29,779,774
Equity issued under employee share scheme	117,551	–	–	–	–	–	117,551
Share based payment expense recognised	–	–	–	312,908	–	–	312,908
Equity issued under Executive long term incentive plan	338,279	–	–	(338,279)	–	–	–
Dividends paid	–	(24,378,204)	–	–	–	–	(24,378,204)
At 30 June 2013	**132,241,756**	**145,173,297**	**2,340,314**	**500,315**	**(896,334)**	**349,931**	**279,709,279**

The accompanying notes form part of these financial statements.

Statement of
Changes in Equity (continued)

for the financial year ended 30 June 2013

	Attributable to equity holders of the company						
Company	**Share Capital $**	**Retained Earnings $**	**Asset Revaluation Reserve $**	**Employee Equity Benefit Reserve $**	**Hedging Reserve $**	**Net Unrealised Gains Reserve $**	**Total $**
At 1 July 2011	170,629,367	2,309,944	–	253,040	–	–	173,192,351
Net profit after income tax	–	17,573,676	–	–	–	–	17,573,676
Total comprehensive income for the period	–	17,573,676	–	–	–	–	17,573,676
Equity issued to acquire the issued capital of The Rock Building Society Limited	66,983,328	–	–	–	–	–	66,983,328
Costs of issuing equity	(20,905)	–	–	–	–	–	(20,905)
Equity issued under employee share scheme	86,980	–	–	–	–	–	86,980
Share based payment expense recognised	–	–	–	307,957	–	–	307,957
Equity issued under Executive long term incentive plan	35,311	–	–	(35,311)	–	–	–
Dividends paid	–	(19,564,402)	–	–	–	–	(19,564,402)
At 30 June 2012	**237,714,081**	**319,218**	**–**	**525,686**	**–**	**–**	**238,558,985**
At 1 July 2012	237,714,081	319,218	–	525,686	–	–	238,558,985
Net profit after income tax	–	24,375,527	–	–	–	–	24,375,527
Total comprehensive income for the period	–	24,375,527	–	–	–	–	24,375,527
Equity issued under employee share scheme	117,551	–	–	–	–	–	117,551
Share based payment expense recognised	–	–	–	312,908	–	–	312,908
Equity issued under Executive long term incentive plan	338,279	–	–	(338,279)	–	–	–
Dividends paid	–	(24,378,204)	–	–	–	–	(24,378,204)
At 30 June 2013	**238,169,911**	**316,541**	**–**	**500,315**	**–**	**–**	**238,986,767**

The accompanying notes form part of these financial statements.

Statement of
Cash Flows

for the financial year ended 30 June 2013

	Notes	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Cash flows from operating activities					
Interest received		**203,595,687**	196,084,411	**26,975**	114,953
Interest paid		**(128,996,206)**	(119,278,758)	**–**	–
Fees and commissions received		**37,424,232**	33,910,581	**808,073**	7,317,673
Other non-interest income received		**1,429,033**	949,140	**–**	–
Payments to suppliers and employees		**(79,649,801)**	(81,162,348)	**(2,040,606)**	(8,917,503)
Dividends received		**594,279**	719,611	**–**	–
Income tax paid		**(10,638,568)**	(8,807,426)	**(10,516,781)**	(8,615,330)
Net income tax contributions received from subsidiaries		**–**	–	**8,690,258**	8,171,122
Net cash flows from/(used in) operating activities	30 (c)	**23,758,656**	22,415,211	**(3,032,081)**	(1,929,085)
Cash flows from investing activities					
Cash acquired on the acquisition of The Rock Building Society Limited		**–**	58,355,363	**–**	–
Dividend paid to the former shareholders of the ROK	42	**–**	(1,509,700)	**–**	–
Net (increase)/decrease in loans to customers		**20,471,068**	(177,398,078)	**–**	–
Net movement in amounts due from other financial institutions		**(872,724)**	(13,801,394)	**–**	–
Dividend received		**–**	–	**24,373,292**	19,560,758
Acquisition of investments		**–**	(500,000)	**–**	–
Purchase of intangible assets		**(4,628,095)**	(688,905)	**–**	–
Disposal of property, plant and equipment		**3,462,917**	1,737,619	**–**	–
Purchase of property, plant and equipment		**(4,604,659)**	(7,204,184)	**–**	–
Net cash flows from/(used in) investing activities		**13,828,507**	(141,009,279)	**24,373,292**	19,560,758
Cash flows from financing activities					
Net increase in deposits		**86,297,768**	151,678,699	**–**	–
Net decrease in loans to related entities		**–**	–	**3,132,300**	3,208,606
Net increase/(decrease) in amounts due to other financial institutions		**(111,107,465)**	22,335,229	**–**	–
Employee share issue		**117,551**	86,980	**117,551**	86,980
Dividends paid	11	**(24,378,204)**	(19,564,402)	**(24,378,204)**	(19,564,402)
Net cash flows from/(used in) financing activities		**(49,070,350)**	154,536,506	**(21,128,353)**	(16,268,816)
Net increase/(decrease) in cash held		**(11,483,187)**	35,942,438	**212,858**	1,362,857
Cash at beginning of financial year		**70,912,983**	34,970,545	**1,392,279**	29,422
Closing cash carried forward	30 (a)	**59,429,796**	70,912,983	**1,605,137**	1,392,279

The accompanying notes form part of these financial statements.

Notes to the **financial statements**

for the financial year ended 30 June 2013

1 Summary of significant accounting policies

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, including applicable Australian Accounting Standards. The financial report has been presented in Australian dollars.

This financial report is for MyState Limited and the entities it controlled at the end of, or during the year ended 30 June 2013. The comparative information disclosed in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows is for the corresponding year to 30 June 2012.

Throughout these notes to the financial statements, the following terms are used with the corresponding meaning:

the "Company"	MyState Limited;
the "consolidated entity"	MyState Limited and the entities it controlled at the end of, or during the period;
"MSF Group"	MyState Financial Limited and the entities it controlled at the end of, or during the period;
"MSF"	MyState Financial Limited;
"TPT"	Tasmanian Perpetual Trustees Limited;
"ROK Group"	The Rock Building Society Limited and the entities it controlled at the end of, or during the period;
"ROK"	The Rock Building Society Limited;
the "Acquisition"	the acquisition of ROK by the Company;
the "period"	the year ended 30 June 2013; and
the "comparative period"	the year ended 30 June 2012.

During the comparative period, the Company acquired all of the issued capital of The Rock Building Society Limited pursuant to a scheme of arrangement approved by the shareholders of ROK. The Company issued its shares to the former shareholders of ROK in exchange for their interest in ROK. The acquisition was effected on 1 December 2011. The results and cash flows of the consolidated entity for the comparative period include the contributions from ROK Group since the acquisition date. ROK controls a number of entities. The results and cashflows of these entities are included within the contribution from ROK Group. These entities are The Rockhampton Custodian and Management Company Proprietary Limited, RBS Trust 2005-1, RBS Trust 2007-1, RBS Warehouse Trust No.2 and RBS Trust 2009R.

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

(b) Historical cost convention

The financial report has been prepared on a historical cost basis, with the exception of certain other assets and liabilities as outlined in these accounting policies.

(c) Compliance with IFRS as issued by the IASB

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards. The consolidated financial report and the financial report of the Company comply with International Financial Report Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

(d) New accounting standards, amendments and interpretations that are not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing this financial report. The consolidated entity will adopt these standards on their effective date.

AASB 9 Financial Instruments was issued in December 2009 and is mandatory for annual reporting periods beginning on or after 1 January 2015. It was further amended by AASB 2010-7. It includes requirements for the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 Financial Instruments: Recognition and Measurement.

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but, upon realisation those accumulated changes in value are not recycled to the income statement. Changes in the fair value of all other financial assets at fair value are reported in the income statement.

1 Summary of significant accounting policies (continued)

AASB 9 must be initially applied in the financial year ending 30 June 2016, with early adoption permitted. Upon adoption, the classification of a financial asset must be assessed based on the facts at the date of initial application, and that classification is to be applied retrospectively. The consolidated entity's preliminary assessment is that the standard will have minimal impact.

AASB 10 Consolidated Financial Statements establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. The consolidated entity's preliminary assessment is that the standard will have minimal impact.

AASB 11 Joint Arrangements replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly-Controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. The consolidated entity's preliminary assessment is that the standard will have minimal impact.

AASB 12 Disclosure of Interest in Other Entities was issued in August 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It introduces new disclosures about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entitles and subsidiaries with non controlling interests. The consolidated entity's preliminary assessment is that the standard will have minimal impact.

AASB 13 Fair Value Measurement was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It establishes a single source of guidance for determining the fair value of assets and liabilities and expands the disclosure requirements for items carried at fair value requiring information on the assumptions made and qualitative impact of those assumptions on the fair value determined. The consolidated entity's preliminary assessment is that the standard will have minimal impact.

The principle accounting policies adopted in the preparation of the Financial report are set out in the following sections.

(e) Principles of consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of MyState Limited and its subsidiaries as at 30 June each year. Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern directly or indirectly decision making in relation to financial and operating policies, so as to require that entity to conform to the Company's objectives. Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent had control. Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Impairment of subsidiaries

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

Securitisations

Securitised positions are held through a number of Special Purpose Entities (SPE's). As the consolidated entity is exposed to the majority of the residual risk associated with these SPE's, their underlying assets, liabilities, revenues and expenses are reported in the consolidated entity's statement of financial position and income statement.

When assessing whether the consolidated entity controls (and therefore consolidates) an SPE, judgement is required about risks and rewards as well as the consolidated entity's ability to make operational decisions for the SPE. The range of factors that are considered in assessing control include whether:

- the majority of the benefits of an SPEs activities are obtained;
- the majority of the residual ownership risks related to the SPEs assets are obtained;
- the decision making powers of the SPE vest with the consolidated entity; and
- the SPEs activities are being conducted on behalf of the consolidated entity and according to its specific business needs.

1 Summary of significant accounting policies (continued)

(f) Critical accounting estimates and significant judgments

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

- fair value of financial instruments (see note 1(i));
- impairment losses on loans and advances and held for sale investments (see note 1(s));
- recoverability of deferred tax assets (see note 1(u));
- impairment losses on goodwill (see notes 1(m) and 22); and
- determining the fair value of the assets and liabilities acquired in the acquisition of the ROK (see note 42).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. Management considers that the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

(g) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined, 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.

(h) Receivables

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis. Other receivables are carried at the nominal amount due and are non-interest bearing. An estimate of doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written-off when identified.

(i) Investments

All investments are initially recognised at cost at trade date, being the fair value of the consideration given and including acquisition charges associated with the investment. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investment is derecognised or impaired, as well as through the amortisation process. Fair value is calculated in accordance with the principles outlined in note 34.

Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not otherwise designated. After initial recognition, available-for-sale securities are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. Interest income from available-for-sale investments is recognised in profit or loss using the effective interest method.

Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the consolidated entity has a positive intent and ability to hold to maturity, and which are not designated as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the consolidated entity from classifying investment securities as held-to-maturity for the current and the following two financial years.

(j) Recoverable amount of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(k) Property, plant and equipment

Land and building

Land and buildings are measured at fair value less accumulated depreciation.

1 Summary of significant accounting policies (continued)

Property

Freehold land and buildings are measured at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, less accumulated depreciation.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Income Statement.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Fair value, is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at valuation date. Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position, unless it reverses a revaluation decrease of the same asset previously recognised in the Income Statement. Any revaluation deficit is recognised in the Income Statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve. Any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Independent valuations are performed with sufficient regularity to ensure the carrying amount does not differ materially from the asset's fair value at the Statement of Financial Position date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the year the item is derecognised.

Depreciation

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

Buildings	2.50%	(2012: 2.50%)
Office furniture and fittings	15.00% – 20.00%	(2012: 15.00% – 20.00%)
Building fit-out (owned buildings)	6.67% – 25.00%	(2012: 6.67% – 25.00%)
Office equipment	25.00%	(2012: 25.00%)
Computer hardware	33.33%	(2012: 33.33%)

(l) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement, to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis in the Income Statement over the life of the lease. The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

(m) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment is reviewed in accordance with the principles outlined in note 22.

1 Summary of significant accounting policies (continued)

(n) Intangible assets

Acquired both separately and from a business combination

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 Income Statement. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. Certain costs directly incurred in acquiring and developing software are capitalised and amortised over the estimated useful life, usually a period of three years.

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

Software Licences

Items of computer software which are not integral to the computer hardware are classified as intangible assets. Computer software is amortised on a straight line basis over the expected useful life of the software.

(o) Payables and other liabilities

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The terms and conditions for creditors and other liabilities are payable between 7 and 30 days. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis. The terms and conditions for payables to related parties are payable within 30 days. The consolidated entity classifies financial instruments as financial liabilities or equity instruments, in accordance with the substance of the contractual terms of the instrument.

(p) Employee Benefits

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

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

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

(q) Interest recognition

Interest on customers' loans is calculated daily on the outstanding balance and charged monthly in arrears. Future interest on long-term loans is not accounted for in advance. Interest expense on deposits is calculated on the daily balance. All borrowings are measured at the principal amount. Interest on borrowings is charged as an expense as it accrues.

(r) Provisions

Provisions are recognised when the consolidated entity 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.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments.

(s) Loans and advances

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The loan interest is calculated on the daily balance and is charged in arrears to a borrower's account on the last day of each month.

Bad debts are written off when identified. If a provision for impairment has previously been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Income Statement.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described as follows:

- Non-accrual loans, being loans classified as categories two, three and four under the APRA Prudential Standard APS 220 – Credit Quality, where statutory provisioning is required. Interest on these loans is not recognised as revenue. There is reasonable doubt about the ultimate collectability of principal and interest, and hence provisions for impairment are recognised.
- Restructured loans, consisting of all loans for which the original contractual terms have been revised to provide for concessions of interest, principal or repayment. Loans with revised terms are included in non-accrual loans when impairment provisions are required.

1 Summary of significant accounting policies (continued)

- Other real estate and assets owned are assets acquired in full or partial settlement of a loan or similar facility through enforcement of security arrangements.
- Past due loans, consisting of loans classified as category one under APS 220 where payments of principal or interest are at least 90 days in arrears but the loans are well secured.

(t) Revenue recognition

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

Interest

Loan interest income is recognised as interest accrues, using the effective interest rate method. The effective interest rate method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the loan to the net carrying amount of the loan.

When a loan is classified as impaired, the consolidated entity ceases to recognise interest and other income earned but not yet received. Loan interest income is not charged when the consolidated entity is informed that a borrower has deceased or, generally, if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the borrower are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Fees

Control of a right to receive consideration for the provision of fees has been attained.

Commission

Control of a right to receive consideration for the provision of funds placement, insurance policy sales or participation in card activities has been attained.

Corpus administration fees

Revenue is recognised progressively as the work is performed during the administration of the estates.

Management fee revenue

Trustee Company revenue is recognised as it accrues and is calculated in accordance within the meaning of Chapter 5D of the Corporations Act 2001 and the Funds' Constitutions.

Distributions from managed fund investments

Revenue is recognised when the right to receive the distribution is obtained.

(u) Taxes

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Statement of Financial Position date.

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that the future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

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.

1 Summary of significant accounting policies (continued)

The Company and consolidated entity exercise judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the tax consolidated group, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

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

Tax consolidation

The consolidated entity's tax liabilities are determined according to tax consolidation legislation. The Company and its wholly owned subsidiaries, Tasmanian Perpetual Trustees Limited, MyState Financial Limited, The Gourmet Club Proprietary Limited, Connect Asset Management Proprietary Limited and The Rock Building Society Limited form a tax consolidated group. The head company is MyState Limited.

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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in note 8.

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.

(v) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset, or as part of the expense.

Receivables and payables in the Statement of Financial Position are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(w) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the consolidated entity no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party.

(x) Derivative instruments and hedging

The consolidated entity is exposed to changes in interest rates. The only derivative instruments currently entered into by the consolidated entity are interest rate swaps, which are used to mitigate the risks arising from the exposure to changes in interest rates. These derivative instruments are principally used for the risk management of existing financial liabilities.

All derivatives, including those derivatives used for Statement of Financial Position hedging purposes, are recognised on the Statement of Financial Position and are disclosed as an asset where they have a positive fair value at balance date, or as a liability where the fair value at balance date is negative.

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

The consolidated entity 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 consolidated entity 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.

Accounting for hedges

Cash flow hedges

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect the Income Statement, the effective portion of the change in the fair value of the derivative is recognised in other comprehensive income. The amount recognised in other comprehensive income is reclassified to the Income Statement as a reclassification adjustment in the same period as the hedged cash flows affect the Income Statement, and in the same line item in the Statement of Comprehensive Income as the hedged item. Any ineffective portion of the change in the fair value of a derivative is recognised immediately in the Income Statement.

1 Summary of significant accounting policies (continued)

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 cash flow 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 Income Statement. If the forecast transaction is no longer expected to occur, it is reclassified to the Income Statement as a reclassification adjustment.

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

At the inception of a hedging transaction, the relationship between the hedging instruments and the hedged items, as well as the risk management objective and strategy for undertaking the transaction, are documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in the cash flows of hedged items are also documented.

(y) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(z) Segment information

Operating segments are identified on the basis of internal reports to senior management about components of the consolidated entity that are regularly reviewed by senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to the senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising reportable segments as disclosed in note 7. Information about products and services and geographical segments are based on the financial information used to produce the consolidated entity's financial statements.

(aa) Earnings per share

Basic earnings per share is calculated by dividing the consolidated entity'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 consolidated entity'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.

(ab) Share-based payment transactions

The consolidated entity provides benefits to its employees in the form of share-based payment transactions, whereby employees render services in exchange for shares ('equity-settled transactions'). The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable); non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment in equity or cash (non-vesting conditions); or, conditions that are linked to the price of the shares of the Company (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and, (ii) the number of shares that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at reporting date. No expense is recognised for shares that do not ultimately vest.

Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting is fulfilled, provided that all other conditions are satisfied.

2 Change in Accounting Policies

There have been no changes in accounting policies which have been applied in this period.

3 Interest income and interest expense

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Interest income				
Loans, other than commercial	**184,419,203**	175,043,849	**–**	–
Deposits with other financial institutions	**17,745,568**	20,605,164	**26,975**	114,953
Cash flow hedges	**2,769,522**	3,165,640	**–**	–
Commercial loans	**3,962,819**	4,170,759	**–**	–
Total interest income	**208,897,112**	202,985,412	**26,975**	114,953
Interest expense				
Interest on deposits	**80,255,903**	80,036,769	**–**	–
Interest due to other financial institutions	**38,752,545**	42,012,242	**–**	–
Derivatives – net of interest received	**4,815,992**	1,916,558	**–**	–
Total interest expense	**123,824,440**	123,965,569	**–**	–

4 Other revenue

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Revenue from operating activities				
Bad debts recovered	**1,536,659**	1,143,131	**–**	–
Loan fee income	**3,278,003**	2,548,606	**–**	–
Other fees	**10,370,809**	11,755,216	**–**	–
Management fees	**8,949,976**	8,659,147	**–**	–
Commissions	**10,094,217**	9,463,491	**–**	–
Estate administration	**2,799,425**	2,668,145	**–**	–
Dividends received from subsidiaries	**–**	–	**24,373,292**	19,560,758
Intercompany management fees	**–**	–	**7,233,157**	7,122,598
Other income	**1,628,110**	1,507,140	**154,383**	52,239
Total revenue from operating activities	**38,657,199**	37,744,876	**31,760,832**	26,735,595
Revenue from non-operating activities				
Dividends				
– Other corporations	**594,279**	719,611	**–**	–
Total revenue from non-operating activities	**594,279**	719,611	**–**	–
Total other revenue	**39,251,478**	38,464,487	**31,760,832**	26,735,595

5 Expenses

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Personnel costs	**38,512,839**	38,422,273	**4,006,889**	3,719,252
Marketing costs	**3,467,491**	3,545,401	**29,284**	29,401
Governance costs	**2,875,313**	2,560,651	**2,129,721**	1,734,459
Technology costs	**9,522,682**	8,384,685	**44,338**	69,347
Occupancy costs	**7,309,962**	5,149,648	**90,214**	43,937
Administration costs[1]	**19,128,114**	21,865,200	**1,114,069**	3,764,773
Total expenses	**80,816,401**	79,927,858	**7,414,515**	9,361,169

(1) Includes costs incurred for the Acquisition of ROK in the comparative period (see note 6).

6 Profit before income tax expense

		Consolidated		Company	
	Note	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Profit before income tax expense includes the following specific expenses:					
Expenses					
Costs incurred for the Acquisition of ROK		**–**	2,071,378	**–**	2,071,378
Termination payments		**2,213,614**	1,091,132	**712,349**	281,469
Operating lease payments		**2,608,827**	1,328,689	**–**	79,077
Supervision levy		**163,817**	98,304	**–**	–
Auditors' remuneration	41	**631,192**	508,402	**170,445**	121,224
Depreciation of property, plant and equipment:					
– Depreciation of plant and equipment	21	**1,219,946**	1,053,554	**–**	–
– Depreciation of buildings	21	**295,023**	114,273	**–**	–
– Depreciation of leasehold improvements	21	**1,221,102**	561,245	**–**	–
Total depreciation of property, plant and equipment		**2,736,071**	1,729,072	**–**	–
Amortisation of intangible assets:					
– Amortisation of software	22	**1,568,432**	1,100,269	**–**	–
– Amortisation of licence fees	22	**24,284**	13,997	**–**	–
– Amortisation of RMBS setup costs	22	**301,342**	323,226	**–**	–
Total amortisation of intangible assets		**1,894,058**	1,437,492	**–**	–
Total depreciation and amortisation expenses		**4,630,129**	3,166,564	**–**	–

7 Segment Financial information

For internal reporting purposes, the consolidated entity is divided into three operating divisions and a corporate cost centre. Performance is measured based on profit after income tax of each segment and is determined in accordance with the consolidated entity's accounting policies.

MSF is a broad based financial institution. It is an authorised deposit taking institution (ADI) operating predominantly in Tasmania. Its product offerings include lending encompassing mortgage, personal, overdraft, line of credit and commercial products, transactional savings accounts and fixed term deposits.

TPT is a Tasmanian based provider of financial products and trustee services. TPT 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. TPT holds an Australian Financial Services Licence. TPT holds over $900 million in funds under management on behalf of personal, business and wholesale investors as the responsible entity for 13 managed investment schemes.

ROK is a broad based financial institution. It is an ADI operating predominantly in Queensland. It provides a range of products and services, including home loans, term deposits, savings accounts, insurance and online financial products through its branch, mini-branch, ATM and mortgage broker networks.

The corporate cost centre is responsible for the governance of the consolidated entity. The corporate cost centre charges the operating divisions on a cost recovery basis for costs it has incurred.

	MSF Group $	ROK Group $	TPT $	Corporate and consolidation adjustment $	Consolidated Total $
Year ended 30 June 2013					
Interest revenue	145,815,519	62,998,620	55,998	26,975	208,897,112
Interest expense	79,060,395	44,764,045	–	–	123,824,440
Other revenue					
Bad debts recovered	1,533,177	3,482	–	–	1,536,659
Loan fee income	2,031,450	954,398	292,155	–	3,278,003
Other fees	7,154,658	2,359,968	856,183	–	10,370,809
Management fees	–	–	8,949,976	–	8,949,976
Commissions	4,790,638	801,833	4,501,746	–	10,094,217
Estate administration	–	–	2,799,425	–	2,799,425
Other income	1,424,710	497,864	285,473	(579,937)	1,628,110
Dividends and distributions	594,279	–	–	–	594,279
Total other revenue	**17,528,912**	**4,617,545**	**17,684,958**	**(579,937)**	**39,251,478**
Material expenditures					
Termination payments	1,136,094	157,492	207,679	712,349	2,213,614
Contractually committed lease payments	1,425,810	847,002	717,387	(381,372)	2,608,827
Bad and doubtful debts	3,082,587	82,015	–	–	3,164,602
Depreciation and amortisation	1,867,874	2,434,420	327,835	–	4,630,129
Income Tax	9,325,915	1,273,437	1,348,534	(62,235)	11,885,651
Segment net profit after income tax	**22,338,633**	**2,921,767**	**3,134,861**	**62,235**	**28,457,496**
Segment assets	2,463,338,147	1,088,635,301	30,040,485	47,727,999	3,629,741,932
Capital expenditure – Property, plant and equipment	1,535,738	1,948,171	1,120,750	–	4,604,659
Capital expenditure – Intangible assets and goodwill	4,311,554	191,069	125,472	–	4,628,095
Total liabilities	**2,313,716,314**	**1,034,558,617**	**3,228,380**	**(1,470,658)**	**3,350,032,653**

7 Segment Financial information (continued)

	MSF Group $	ROK Group $	TPT $	Corporate and consolidation adjustment $	Consolidated Total $
Year ended 30 June 2012					
Interest revenue	159,037,036	43,788,127	45,296	114,953	202,985,412
Interest expense	91,814,063	32,151,506	–	–	123,965,569
Other revenue					
Bad debts recovered	1,142,274	857	–	–	1,143,131
Loan fee income	1,661,006	604,792	282,808	–	2,548,606
Other fees	8,408,626	2,265,647	1,028,704	52,239	11,755,216
Management fees	–	–	8,659,147	–	8,659,147
Commissions	4,342,938	411,039	4,709,514	–	9,463,491
Estate administration	–	–	2,668,145	–	2,668,145
Other income	1,747,627	82,891	5,108	(328,486)	1,507,140
Dividends and distributions	719,611	–	–	–	719,611
Total other revenue	**18,022,082**	**3,365,226**	**17,353,426**	**(276,247)**	**38,464,487**
Material expenditures					
Termination payments	411,356	225,447	172,860	281,469	1,091,132
Loss on disposal of property plant and equipment	261,550	–	600,947	–	862,497
Contractually committed lease payments	379,042	518,583	351,987	79,077	1,328,689
Bad and doubtful debts	3,414,963	(19,646)	–	–	3,395,317
Depreciation and amortisation	1,335,720	1,436,071	394,773	–	3,166,564
Income Tax	8,787,661	1,412,706	656,186	(79,242)	10,777,311
Segment net profit after income tax	**20,583,686**	**3,288,125**	**1,504,170**	**(1,992,137)**	**23,383,844**
Segment assets	2,372,175,443	1,206,974,952	30,931,672	48,493,004	3,658,575,071
Capital expenditure – Property, plant and equipment	3,714,645	3,444,299	45,240	–	7,204,184
Capital expenditure – Intangible assets and goodwill	236,387	380,134	595,239	(522,855)	688,905
Total liabilities	**2,223,805,534**	**1,156,333,492**	**4,182,370**	**376,425**	**3,384,697,821**

8 Income tax

	Consolidated		Company	
	30 June 2013 $	**30 June 2012 $**	**30 June 2013 $**	**30 June 2012 $**
Income tax expense (*benefit*)				
The major components of income tax expense/ (benefit) are:				
Current tax expense	**9,280,593**	9,071,628	**(592,367)**	(296,122)
Deferred tax expense				
– decrease/(increase) in deferred tax assets	**2,229,889**	924,092	**606,828**	165,903
– (decrease)/increase in deferred tax liabilities	**472,241**	854,022	**(2,916)**	13,744
Adjustments for current tax of prior years	**(183,279)**	161,131	**(5,191)**	169,716
Adjustments for deferred tax of prior years	**86,207**	(233,562)	**(8,589)**	(137,538)
	11,885,651	10,777,311	**(2,235)**	(84,297)
Reconciliation of income tax expense to prima facie tax payable				
Accounting profit/(loss) before tax	**40,343,147**	34,161,155	**24,373,292**	17,489,379
Prima facie tax at statutory income tax rate of 30% (2012: 30%)	**12,102,944**	10,248,347	**7,311,988**	5,246,814
Tax effect of amounts which are non assessable/(non deductible) in calculating taxable income:				
– Adjustments for current tax of prior years	**(183,279)**	(72,654)	**–**	–
– Non taxable dividends received	**(196,284)**	(215,884)	**(7,311,988)**	(5,868,227)
– Non deductible ROK Acquisition costs	**–**	480,290	**–**	480,290
– Other adjustments	**76,063**	337,212	**11,546**	24,648
– Adjustments for deferred tax of prior years	**86,207**	–	**(13,781)**	32,178
Income tax expense/ (benefit)	**11,885,651**	10,777,311	**(2,235)**	(84,297)
Weighted average effective tax rates	**29%**	32%	**0%**	0%

Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

A tax consolidated group exists between the Company and its wholly owned subsidiaries, Tasmanian Perpetual Trustees Limited, MyState Financial Limited, The Gourmet Club Proprietary Limited, Connect Asset Management Proprietary Limited and The Rock Building Society Limited. The head company is MyState Limited. 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.

8 Income tax (continued)

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The consolidated entity 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. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, the head entity also recognises 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.

	Company	
	30 June 2013 $	30 June 2012 $
Tax consolidation contributions/(distributions)		
MyState Limited has recognised the following amounts as tax consolidation contribution adjustments:		
Total increase to tax payable of the Company	**9,867,904**	9,367,822
Total increase to intercompany assets of the Company	**9,867,904**	9,367,822

9 Deferred tax assets

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
The balance comprises temporary differences attributable to:				
Amounts recognised in the Income Statement				
Other	**566,279**	1,069,605	**301,708**	598,735
Provision for doubtful debts	**167,884**	1,165,815	**–**	–
Depreciation of property, plant & equipment	**2,003,166**	1,877,179	**–**	1,516
Employee provisions	**1,686,421**	2,300,028	**68,134**	168,423
Creditors & accruals	**649,599**	1,229,757	**198,736**	398,143
Carried forward losses	**243,283**	243,283	**243,281**	243,281
Other costs to be amortised for tax purposes	**1,311,754**	–	**–**	–
	6,628,386	7,885,667	**811,859**	1,410,098
Amounts recognised directly in Equity				
Hedging liability	**(475,773)**	858,479	**–**	–
Other	**63,587**	–	**63,587**	–
	6,216,200	8,744,146	**875,446**	1,410,098
Movements				
Opening balance	**8,744,146**	5,832,281	**1,410,098**	1,423,141
Balance transferred in on merger	**–**	3,686,493	**–**	–
Reclassification deferred tax	**200,560**	(932,354)	**–**	–
Credited/(charged) to Income Statement	**(2,229,889)**	(924,092)	**(606,828)**	(165,903)
Credited/(charged) to Equity	**(412,410)**	858,479	**63,587**	–
Transfers	**–**	62	**–**	15,321
Adjustments for deferred tax of prior years	**(86,207)**	223,277	**8,589**	137,539
Closing balance	**6,216,200**	8,744,146	**875,446**	1,410,098

10 Tax liabilities

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
The deferred tax balance comprises temporary differences attributable to:				
Amounts recognised in the Income Statement				
Other	**908,980**	629,605	**–**	–
Prepaid expenses	**31,610**	94,814	**10,828**	13,744
Intangible assets	**33,797**	56,386	**–**	–
Land and buildings	**1,485,334**	777,868	**–**	–
	2,459,721	1,558,673	**10,828**	13,744
Amounts recognised directly in Equity				
Land and buildings	**–**	44,379	**–**	–
Other	**(91,934)**		**–**	–
	(91,934)	44,379	**–**	–
	2,367,787	1,603,052	**10,828**	13,744
Movements				
Opening balance	**1,603,052**	1,655,092	**13,744**	–
Balance transferred in on Acquisition	**–**	(12,700)	**–**	–
Reclassification deferred tax asset	**200,560**	(932,354)	**–**	–
Charged/(credited) to Income Statement	**472,241**	854,022	**(2,916)**	13,744
Credited/(charged) to Equity	**91,934**	44,379	**–**	–
Adjustments for deferred tax of prior years	**–**	(5,387)	**–**	–
Deferred tax closing balance	**2,367,787**	1,603,052	**10,828**	13,744
Current tax liabilities				
Current tax payable	**589,363**	2,130,843	**668,317**	2,140,274
Total tax liabilities	**2,957,150**	3,733,895	**679,145**	2,154,018

11 Dividends

	Consolidated			Company		
	30 June 2013 $	30 June 2012 $	Date of payment	30 June 2013 $	30 June 2012 $	Date of payment
a) Dividends paid						
2012 Final dividend paid: 14 cents per share (2011: 15 cents per share)	**12,181,772**	10,119,518	4/10/12	**12,181,772**	10,119,518	4/10/2012
2013 Interim dividend paid: 14 cents per share (2012: 14 cents per share)	**12,196,432**	9,444,884	5/04/13	**12,196,432**	9,444,884	5/04/2013
Total dividends paid	**24,378,204**	19,564,402		**24,378,204**	19,564,402	

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

b) Dividends not recognised at the end of the financial year

At a Directors' meeting held on 27th August 2013, Directors resolved to pay a final dividend for the 2013 financial year of 14 cents per share, fully franked at the 30 per cent corporate tax rate (2012: 14 cents per share, fully franked at the 30 per cent corporate tax rate). This dividend has not been brought to account as the amount had not been determined at the reporting date.

Final dividend paid	**12,201,427**	12,176,860		**12,201,427**	12,176,860	
The payment of the 2013 final dividend reduces the balance of the franking account by:	**5,229,183**	5,218,654		**5,229,183**	5,218,654	

12 Franking credit balance

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
The amount of franking credits available for the subsequent financial year are:				
Franking account balance as at the end of the period at 30% (2012: 30%)	**56,152,781**	55,681,259	**56,152,781**	55,681,259
Franking credits that will arise from the payment of income tax payable at the end of the period	**589,363**	1,843,352	**589,363**	1,843,352

13 Earnings per share

	30 June 2013 cents	30 June 2012 cents
Basic earnings per share	**32.68**	29.91
Diluted earnings per share	**32.68**	29.91

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	30 June 2013 $	30 June 2012 $
Net Profit	**28,457,496**	23,383,844

	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share:	**87,074,890**	78,171,402

14 Cash and cash equivalents

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Cash on hand	**59,429,796**	70,912,983	**1,605,137**	1,392,279
Total cash and cash equivalents	**59,429,796**	70,912,983	**1,605,137**	1,392,279

15 Securisation

During this period, the consolidated entity securitised residential, mortgage insured home loans, amounting to $70,497,467 (2012: $93,913,233). Subsidiaries holding securitised loans, pursuant to AASB 127 Consolidated and Separate Financial Statements, are consolidated and, accordingly, securitised loans are included in the consolidated accounts.

16 Available for sale financial assets

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Due from banks	**287,447,105**	156,318,408	**–**	–
Due from other non–bank financial institutions	**115,801,789**	245,751,304	**–**	–
Total due from other financial institutions	**403,248,894**	402,069,712	**–**	–

17 Receivables

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Interest receivable	**1,999,281**	2,847,978	**–**	–
Related party receivables				
– Controlled entities within the wholly owned consolidated entity	**–**	–	**1,468,455**	3,160,618
Other receivables	**23,502,914**	23,786,807	**124,137**	54,511
Total receivables	**25,502,195**	26,634,785	**1,592,592**	3,215,129

18 Loans held at amortised cost

	Notes	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
(a) Classification					
Residential		**2,789,768,384**	2,804,010,464	**–**	–
Personal		**191,354,667**	204,512,949	**–**	–
Commercial		**57,311,549**	49,545,239	**–**	–
Total loans		**3,038,434,600**	3,058,068,652	**–**	–
Provision for doubtful debts	18 (b)	**(649,850)**	**(1,564,095)**	**–**	**–**
Total net loans		**3,037,784,750**	**3,056,504,558**	**–**	**–**
(b) Provision for doubtful debts					
Specific provision					
Opening balance		**1,564,095**	2,900,434	**–**	–
Balance transferred in on Acquisition		**–**	24,820	**–**	–
Charge/(credit) against profit		**(914,245)**	(1,361,159)	**–**	–
Closing balance		**649,850**	1,564,095	**–**	–
Charge to profit for bad and doubtful debts comprises:					
– Bad debts written off directly		**4,078,847**	4,756,476	**–**	–
– Increase/(decrease) in doubtful debts provisions		**(914,245)**	(1,361,159)	**–**	–
Total charge for bad and doubtful debts		**3,164,602**	3,395,317	**–**	–

There are no loans that individually represent 10% or more of shareholders' equity. The acquisition of ROK has resulted in a significant diversification of the geographical location of the consolidated entity's customers. Customers of ROK are predominantly in Queensland, New South Wales and Victoria. The majority of MSF and TPT loans are advanced to customers in the State of Tasmania.

19 Impaired assets

	Notes	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Non–accrual loans					
With provisions		**2,211,389**	4,405,661	**–**	–
Specific provision for impairment		**(649,850)**	(1,564,095)	**–**	–
Net non–accrual loans		**1,561,539**	2,841,566	**–**	–
Restructured loans					
With provisions		**–**	–	**–**	–
Specific provision for impairment		**–**	–	**–**	–
Net restructured loans		**–**	–	**–**	–
Specific provision					
Non–accrual loans		**(649,850)**	(1,564,095)	**–**	–
Restructured loans		**–**	–	**–**	–
Total specific provision for impairment	18 (b)	**(649,850)**	(1,564,095)	**–**	–
Past due but not impaired loans		**5,578,556**	6,462,123	**–**	–
Interest recognised on impaired assets		**8,484**	90,985	**–**	–
Interest income forgone on impaired assets		**81,375**	370,911	**–**	–

20 Other investments

	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Shares in Cuscal Limited	**3,347,038**	3,347,304	**–**	–
Shares in Credit Union Technology Development Limited	**25,223**	25,223	**–**	–
Debentures in CGU Insurance VACC Limited	**648,000**	648,000	**–**	–
Term deposit at bank	**1,000,000**	1,000,000	**–**	–
Shares in subsidiaries	**–**	–	**237,511,172**	237,511,172
Total other investments	**5,020,261**	5,020,527	**237,511,172**	237,511,172

21 Property, plant and equipment

	Consolidated						
	Furniture, fittings and equipment at cost $	Leasehold improvements at cost $	Buildings at independent valuation[1] $	Buildings at cost $	Land at independent valuation[1] $	Land at cost $	Total $
Year ended 30 June 2013							
At 1 July 2012, net of accumulated depreciation	4,343,098	4,308,668	1,466,472	4,085,616	1,350,000	1,135,000	16,688,854
Reclassification	(792,541)	–	792,541	–	–	–	–
Additions	849,503	2,008,927	1,698,521	47,708	–	–	4,604,659
Disposals	(387,118)	(128,179)	–	(74,471)	–	(150,000)	(739,768)
Depreciation charge for the year	(1,219,946)	(1,221,102)	(202,283)	(92,740)	–	–	(2,736,071)
At 30 June 2013, net of accumulated depreciation	**2,792,996**	**4,968,314**	**3,755,251**	**3,966,113**	**1,350,000**	**985,000**	**17,817,674**
At 30 June 2013							
Cost or fair value	7,270,774	7,880,494	4,027,202	4,074,550	1,350,000	985,000	25,588,020
Accumulated depreciation	(4,477,778)	(2,912,180)	(271,951)	(108,437)	–	–	(7,770,346)
Net carrying amount	**2,792,996**	**4,968,314**	**3,755,251**	**3,966,113**	**1,350,000**	**985,000**	**17,817,674**

The Company holds no property plant and equipment. Land and buildings of the consolidated entity are carried at fair value, refer note 1(k). The carrying values of properties held at the beginning of the period are based on independent valuations conducted by Mr. John Vestakis AAPI, MRICS of AON Valuation Services at 30 June 2011 for financial reporting purposes. The carrying value of properties acquired in the Acquisition is based on their fair value at the date of acquisition.

	Consolidated						
	Furniture, fittings and equipment at cost $	Leasehold improvements at cost $	Buildings at independent valuation[1] $	Buildings at cost $	Land at independent valuation[1] $	Land at cost $	Total $
Year ended 30 June 2012							
At 1 July 2011, net of accumulated depreciation	771,845	1,816,791	2,845,000	–	2,650,000	–	8,083,636
Additions as a result of the Acquisition	2,997,774	136,769	–	1,630,000	–	1,135,000	5,899,543
Additions	1,634,677	2,916,353	171,527	2,481,627	–	–	7,204,184
Disposals	(7,644)	–	(1,461,793)	–	(1,300,000)	–	(2,769,437)
Depreciation charge for the year	(1,053,554)	(561,245)	(88,262)	(26,011)	–	–	(1,729,072)
At 30 June 2012, net of accumulated depreciation	**4,343,098**	**4,308,668**	**1,466,472**	**4,085,616**	**1,350,000**	**1,135,000**	**16,688,854**
At 30 June 2012							
Cost or fair value	16,040,611	9,528,029	4,108,047	4,111,627	1,350,000	1,135,000	36,273,314
Accumulated depreciation	(11,697,513)	(5,219,361)	(2,641,575)	(26,011)	–	–	(19,584,460)
Net carrying amount	**4,343,098**	**4,308,668**	**1,466,472**	**4,085,616**	**1,350,000**	**1,135,000**	**16,688,854**

(1) Freehold land and buildings are carried at fair value. Had these land and buildings been recognised under the cost model, the carrying amount would have been: $1,789,230 (2012: $7,363,506).

22 Intangible assets and goodwill

	Consolidated				
	Goodwill $	Licensed fees $	Software $	RMBS setup costs $	Total $
Year ended 30 June 2013					
At 1 July 2012, net of accumulated amortisation	65,978,097	79,488	5,491,728	414,000	71,963,313
Additions	–	35,868	4,592,227	–	4,628,095
Disposals	–	–	(11,382)	–	(11,382)
Amortisation	–	(24,284)	(1,568,432)	(301,342)	(1,894,058)
At 30 June 2013, net of accumulated amortisation	**65,978,097**	**91,072**	**8,504,141**	**112,658**	**74,685,968**
At 30 June 2013					
Cost (gross carrying amount)	65,978,097	138,989	14,135,695	7,516,096	87,768,877
Accumulated amortisation	–	(47,917)	(5,631,554)	(7,403,438)	(13,082,909)
Net carrying amount	**65,978,097**	**91,072**	**8,504,141**	**112,658**	**74,685,968**

	Consolidated				
	Goodwill $	Licensed fees $	Software $	RMBS setup costs $	Total $
Year ended 30 June 2012					
At 1 July 2011, net of accumulated amortisation	47,757,894	13,078	698,003	361,578	48,830,553
Goodwill recognised on Acquisition	18,220,203	–	–	–	18,220,203
Additions as a result of the Acquisition	–	–	5,285,496	375,648	5,661,144
Additions	–	80,407	608,498	–	688,905
Amortisation	–	(13,997)	(1,100,269)	(323,226)	(1,437,492)
At 30 June 2013, net of accumulated amortisation	**65,978,097**	**79,488**	**5,491,728**	**414,000**	**71,963,313**
At 30 June 2012					
Cost (gross carrying amount)	65,978,097	2,673,349	16,242,439	7,516,096	92,409,981
Accumulated amortisation	–	(2,593,861)	(10,750,711)	(7,102,096)	(20,446,668)
Net carrying amount	**65,978,097**	**79,488**	**5,491,728**	**414,000**	**71,963,313**

For the purpose of impairment testing, goodwill recognised on consolidation is allocated to the consolidated entity's cash-generating units (CGUs) identified according to business segments, which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the period, the consolidated entity finalised the accounting for the acquisition of the ROK Group. In the comparative period, the accounting for the Acquisition had been completed on a provisional basis. The finalised amount recognised for goodwill on consolidation arising from this transaction is $18,220,203, which was allocated on the basis of the expected synergy benefits to the following CGUs, being ROK of $12,164,181 and MSF of $6,056,022 (refer note 42).

22 Intangible assets and goodwill (continued)

The aggregate carrying amounts of goodwill recorded within, and allocated for the purpose of impairment testing to each CGU are as follows:

	Consolidated	
	30 June 2013 $	30 June 2012 $
Entity		
MSF	**28,024,784**	28,024,784
ROK	**12,164,181**	12,164,181
Total for ADI businesses	**40,188,965**	40,188,965
TPT	**25,789,132**	25,789,132
	65,978,097	65,978,097

The recoverable amounts for the relevant CGUs have been determined based on value-in-use calculations using cash flow projections from financial budgets approved by Board and the Management. The Company's assessment of goodwill value-in-use exceeds the carrying value allocated to the CGUs and included in the accounts. The manner in which MyState Limited conducts each impairment assessment for each CGU is discussed in the following paragraphs.

Each CGU's value-in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2014 approved by the Board. Various growth rates have been applied from year two through to year twenty. Cash flows are projected by undertaking detailed calculations for each income and expense category over the twenty year period. Certain income categories are modelled by projecting growth in relevant portfolio balances and the resulting income derived there-from. Other non-portfolio related income streams and expense categories are modelled by projecting real rates of growth (above inflation) for each category. Terminal value is determined at year twenty using the assumption that the CGU achieves no real growth above inflation into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's post-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Average inflation is projected to be 2.5% The method for determining value-in-use is consistent with that adopted in the comparative period.

The key assumptions adopted in assessing MSF 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 assumptions are considered to be conservative. The projection for the annual rate of growth in the housing loan portfolio for year two onwards in 2.5%. NIM is projected to be consistent with the budget outlook, which reflects the current low interest rate environment, which depresses this figure. Management expects that, over time, these assumptions will be positively exceeded. Management's assessment of MSF's value-in-use significantly exceeds its carrying value by over 35%. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

The key assumption adopted in assessing TPT value-in-use was 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. Taking into account Management's past experiences and external evidence, the assumption adopted is that MF income will grow by 0.5% in real terms from year two onwards. Management's assessment of TPT's value-in-use significantly exceeds its carrying value by over 50%. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment. While it is not considered to be a reasonably possible change, a growth rate in MF income, applied to year two and subsequent years, and, with all other assumptions being maintained, of 0.25% in nominal terms (2.25% less than projected inflation) would lead to TPT's value-in-use being the same as its carrying value.

The key assumptions adopted in assessing ROK value-in-use are the rate of growth in the balance of the housing loan portfolio and the outlook for net interest margin (NIM). The rate of growth in the housing loan portfolio is based on Management's detailed budget for the year ending 30 June 2014 and projections from industry bodies and economic forecasters for subsequent years. The projection for the annual rate of growth in the housing loan portfolio for year two onwards in 4.0%. NIM is projected to be consistent with the budget outlook and to remain relatively stable.

Taking into account Management's past experiences and external evidence, the assumption for the growth in the housing portfolio is considered to be reasonable. Management's plans are addressing current issues with ROK's channel Management, which is expected to lead to improved performance. NIM is projected, for the purpose of the impairment testing, to be consistent with current levels and the budget level for the year ending 30 June 2014. Management considers that this approach represents a conservative outlook. Management's intentions is that, over time, NIM will improve due to better interest rate Management, including lowering the costs of funds. Overall, it is considered that the assessment of value-in-use is reasonable. Management's assessment of ROK's value-in-use exceeds its carrying value by approximately $3.4m.

22 Intangible assets and goodwill (continued)

A growth rate for the housing loan portfolio, applied to year two and subsequent years, of 3.8% would lead to ROK's value-in-use being the same as its carrying value. In modelling this scenario, assumptions around funding are adjusted. All other assumptions are maintained.

It is considered that there is not any reasonably possible adverse change to the assumptions around NIM. As noted, Management considers that this approach represents a conservative view. Each 1 basis point improvement in NIM over the projected period adds approximately $1m to the assessment of value-in-use.

23 Deposits

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Deposits	**2,310,298,378**	2,224,000,610	**–**	–
Total deposits	**2,310,298,378**	2,224,000,610	**–**	–

Concentration of liabilities

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

24 Interest bearing loans and borrowings

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Due to other financial institutions	**980,804,865**	1,092,060,696	**–**	–
Total Interest bearing loans and borrowings	**980,804,865**	1,092,060,696	**–**	–

25 Payables and other liabilities

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Accounts payable and other creditors	**28,713,226**	30,194,642	**1,138,352**	1,528,047
Related party payables	**–**	–	**552,971**	726,219
Accrued interest payable	**18,659,826**	21,261,844	**–**	–
Total payables and other liabilities	**47,373,052**	51,456,486	**1,691,323**	2,254,266

26 Derivatives

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Interest rate swap contracts – cash flow hedges	**2,988,040**	7,343,468	**–**	–
	2,988,040	7,343,468	**–**	–

27 Provisions

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Provision for annual leave	**2,189,832**	2,498,014	**151,356**	259,280
Provision for long service leave	**3,421,336**	3,604,652	**75,756**	302,129
	5,611,168	6,102,666	**227,112**	561,409
Current	**4,319,769**	4,355,710	**197,409**	275,028
Non-current	**1,291,399**	1,746,956	**29,703**	286,381
	5,611,168	6,102,666	**227,112**	561,409

28 Share Capital

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Issued and paid up capital				
Ordinary shares fully paid	**132,241,756**	131,785,926	**238,169,911**	237,714,081

Movements in share capital	Consolidated			
	30 June 2013		30 June 2012	
	Number of shares	Amount $	Number of shares	Amount $
Ordinary Shares				
Opening balance	86,977,573	131,785,926	67,439,158	64,701,212
Share capital issued to acquire ROK	–	–	19,500,408	66,983,328
Costs of issuing equity	–	–	–	(20,905)
Shares issued pursuant to the Employee share scheme of the consolidated entity	35,090	117,551	24,296	86,980
Shares issued under the Executive long term incentive plan	140,384	338,279	13,711	35,311
Closing balance	87,153,047	132,241,756	86,977,573	131,785,926

Movements in share capital	Company			
	30 June 2013		30 June 2012	
	Number of shares	Amount $	Number of shares	Amount $
Opening balance	86,977,573	237,714,081	67,439,158	170,629,367
Share capital issued to acquire ROK	–	–	19,500,408	66,983,328
Costs of issuing equity	–	–	–	(20,905)
Shares issued pursuant to the Employee share scheme of the consolidated entity	35,090	117,551	24,296	86,980
Shares issued under the Executive long term incentive plan	140,384	338,279	13,711	35,311
Closing balance	87,153,047	238,169,911	86,977,573	237,714,081

28 Share Capital (continued)

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.

29 Reserves

Retained Earnings

The retained earnings reserve contains amounts of retained profits that have been set aside by Directors for the purpose of funding specific projects and asset replacement that are announced from time to time.

Asset revaluation reserve

The asset revaluation reserve is used to record increments in the value of non current assets.

Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees as part of their remuneration. It also records the tax benefit attributable to these transactions that is recognised directly in equity.

Hedging reserve

The cashflow hedge reserve constitutes movements in the fair value of the underlying interest rate swap derivative where it has been deemed to be effective. If, at any stage, the derivative is deemed to be ineffective, the fair value movement is taken from the reserve to the Income Statement.

Net unrealised gains reserve

This reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, since initial recognition or when impairment losses were recognised, until the investment is derecognised or deemed to be further impaired.

30 Statement of Cash Flows

(a) For the purpose of the Statement of Cash Flows, cash includes the items at note 1 (g) which are reconciled to the related items in the Statement of Financial Position.

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Cash on hand	**59,429,796**	70,912,983	**1,605,137**	1,392,279
Total cash and cash equivalents	**59,429,796**	70,912,983	**1,605,137**	1,392,279

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

(i) Customer deposits and withdrawals from savings and fixed–term deposit accounts;

(ii) Movements in investments;

(iii) Due from other financial institutions;

(iv) Loans from subsidiaries;

(v) Due to other financial institutions; and

(vi) Customer loans.

(c) Reconciliation from net profit to net cash flows provided by operating activities:

	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Net profit	**28,457,496**	23,383,844	**24,375,527**	17,573,676
Adjustments for				
Depreciation of non–current assets	**2,736,071**	1,729,072	**–**	–
Amortisation of non–current assets	**1,894,058**	1,437,492	**–**	–
Net (gain)/loss on sale of non current assets	**(199,077)**	829,497	**–**	–
Cash flow hedges	**(2,769,522)**	(3,165,640)	**–**	–
Dividends received	**–**	–	**(24,378,204)**	(19,560,758)
Changes in assets and liabilities				
Decrease/(increase) in accrued interest	**848,697**	(122,016)	**–**	–
Decrease/(increase) in receivables	**(2,237,561)**	(1,287,566)	**(69,626)**	142,836
Increase in other assets	**–**	(304,070)	**–**	–
Decrease in deferred tax assets	**2,527,946**	1,214,738	**534,652**	13,043
Increase/(decrease) in payables	**310,770**	3,850,380	**(1,050,955)**	(47,949)
Increase/(decrease) in derivatives	**(4,355,433)**	(7,343,468)	**–**	–
(Increase)/decrease in interest payable	**(2,602,018)**	4,686,811	**–**	–
(Increase)/decrease in provision for employee benefits	**(491,498)**	1,000,240	**(334,297)**	183,658
Decrease in provision for doubtful debts	**(914,245)**	(1,361,159)	**–**	–
Decrease in provision for income tax liabilities	**(776,745)**	(627,336)	**(2,422,086)**	(541,548)
Increase/(decrease) in reserves	**1,329,717**	(1,505,608)	**312,908**	307,957
Net cash flows used in operating activities	**23,758,656**	22,415,211	**(3,032,081)**	(1,929,085)

31 Financial Risk Management

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

The main risks faced by the consolidated entity are market risk, credit risk, liquidity risk, operational risk, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual business units giving rise to them. It is the responsibility of the Risk Business Unit to ensure the appropriate assessment and management of these risks.

Credit Risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. Credit risk arises from the consolidated entity's lending activities and treasury investments.

The consolidated entity's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals and management committees, with oversight of credit risk exposures by the consolidated entity's Group Risk Committee. The MSF and ROK Asset and Liability Committees (ALCO) monitor credit related activities through regular reporting processes. The roles of funding and oversight of credit are separated. In addition, following the introduction of the MSF Credit Committee in the previous year to provide overview and high level credit assessment, consideration is currently being given to expanding this Committee to a Group wide focus.

The consolidated entity has ensured Board approved loans policies exist which outline 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 Company's Group Risk Committee on a regular basis. Any loan outside of delegated parameters must be approved by the Board prior to funding.

The consolidated entity's policy to control credit risk includes monitoring and regulation of large exposures to single counterparties or groups of counterparties.

The following tables detail the concentration of credit exposure of the consolidated entity's assets to significant counterparty types.

	Consolidated						
	Equivalent S&P rating		New customers[1]		Existing Customers		
	A+ and above $	A– and below $	Closely monitored[2] $	No default[3] $	Closely monitored[2] $	No default[3] $	Total $
2013							
Cash and liquid assets	59,429,796	–	–	–	–	–	59,429,796
Due from other financial institutions	256,034,871	147,214,023	–	–	–	–	403,248,894
Financial assets other than loans and advances	**315,464,667**	**147,214,023**	**–**	**–**	**–**	**–**	**462,678,690**
Gross loans and advances at amortised cost	–	–	843,157	540,317,370	20,247,701	2,476,376,522	3,037,784,750
Total financial assets	**315,464,667**	**147,214,023**	**843,157**	**540,317,370**	**20,247,701**	**2,476,376,522**	**3,500,463,440**

31 Financial Risk Management (continued)

	Consolidated						
	Equivalent S&P rating		New customers[1]		Existing Customers		
	A+ and above $	A– and below $	Closely monitored[2] $	No default[3] $	Closely monitored[2] $	No default[3] $	Total $
2012							
Cash and liquid assets	70,912,983	–	–	–	–	–	70,912,983
Due from other financial institutions	85,488,163	316,581,549	–	–	–	–	402,069,712
Financial assets other than loans and advances	**156,401,146**	**316,581,549**	**–**	**–**	**–**	**–**	**472,982,695**
Gross loans and advances at amortised cost	–	–	2,359,418	777,246,954	28,776,514	2,248,121,671	3,056,504,557
Total financial assets	**156,401,146**	**316,581,549**	**2,359,418**	**777,246,954**	**28,776,514**	**2,248,121,671**	**3,529,487,252**

(1) New customers are counterparties with whom the consolidated entity has traded for less than one year.

(2) Closely monitored customers are customers which have overdue loan repayments in excess of 30 days or overdue overdraft repayments in excess of 14 days.

(3) No default customers are customers that have no history of default, late payments, renegotiated terms or breach of their credit terms.

Loans and advances which were past due but not impaired

Loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal and interest amounts due.

	Consolidated					
2013 **Class of financial asset**	31 to 60 days $M	Past due but not impaired 61 to 90 days $M	More than 90 days $M	Impaired $M	Total $M	Fair value of collateral held $M
Loan assets held at amortised cost	8.42	3.51	5.58	2.21	19.72	43.31
Total	**8.42**	**3.51**	**5.58**	**2.21**	**19.72**	**43.31**
2012 **Class of financial asset**						
Loan assets held at amortised cost	14.52	5.75	6.46	4.41	31.14	41.47
Total	**14.52**	**5.75**	**6.46**	**4.41**	**31.14**	**41.47**

MSF and ROK hold collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees and mortgage insurance. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except where a loan is individually assessed as impaired.

Liquidity Risk Management

Liquidity risk is the risk that the consolidated entity is unable to meet its financial and statutory obligations as they fall due, which could arise due to mismatches in cash flows. The consolidated entity's liquidity risk management framework ensures that the consolidated entity is able to meet its funding requirements as they fall due under a range of market conditions. The primary liquidity objective is to fund in a way that will facilitate growth (and income) in core business under a wide range of market conditions.

The MSF and ROK ALCOs assist the Board with oversight of asset and liability management including liquidity risk management. The consolidated entity's liquidity policies are approved by the Board after endorsement by the Group Risk Committee and MSF and ROK ALCOs. MSF funding and liquidity management is performed centrally by Treasury, with oversight from MSF and ROK ALCOs. TPT's funding and liquidity management is performed centrally by the Investment Services Division. These Divisions manage liquidity on a daily basis and provide regular reports to the Group Risk Committee and MSF, ROK and TPT ALCOs.

31 Financial Risk Management (continued)

Liquidity Risk Management (continued)

The consolidated entity models liquidity scenarios over a twelve month timeframe, taking into account past and expected future cashflows. The objective of this modelling is to determine the consolidated entity's capacity for asset growth, whilst meeting all financial and statutory obligations over the next twelve months. The maturity analysis in this note highlights mis-matches in maturities between asset and liability classes, which is taken into consideration when modelling future cashflow constraints.

The consolidated entity maintains a portfolio of highly liquid assets to ensure adequate funding is available under all conditions. These liquid assets are held to cover both known and contingent funding outflows. The assets are predominantly held in the most liquid asset classes such as short dated inter-bank deposits.

MSF and ROK Treasury and TPT Investment Services Division undertake regular reviews of the liquidity characteristics of the consolidated entity's Statement of Financial Position, which provides an understanding of the liquidity characteristics of assets and liabilities against a backdrop of changing market conditions. The analysis ensures that the Statement of Financial Position is able to be appropriately funded and the liquidity ramifications of market conditions are clearly understood.

Liquidity facilities

The consolidated entity has an approved overdraft of $13.5 million and a standby facility of $34 million with Cuscal Limited. Cuscal Limited holds an equitable charge over all the assets of MSF as security for facilities provided. In addition, there is an MSF uncommitted $10 million overnight facility with the National Australia Bank. Bendigo and Adelaide Bank Limited (BABL) provides an overdraft facility of $100,000, a business card facility of $100,000, an asset purchase/lease facility of $200,000 and a "within-the-day" facility of $10 million to TPT. These facilities are secured by a negative pledge from TPT not to mortgage or encumber, without the consent of BABL, the freehold properties owned by TPT. None of the facilities were in use at 30 June 2013.

At 30 June 2013, the ConQuest Securities securitisation program had available a number of support facilities provided by Westpac Banking Corporation, including a $5 million cash advance facility specifically available to meet cash shortfalls as a result of the timing of the receipt of payments on loans and a $200 million liquidity facility available for the repayment of maturing ConQuest notes in the event that the notes could not be reissued within the market place at the time of maturity. As at 30 June 2013, this facility had not been used since the inception of the program.

A liquidity facility of $1.4 million is supplied to the ConQuest 2007-1 Trust by the Commonwealth Bank of Australia Limited for the express purpose of meeting any payment shortfalls as defined in the ConQuest 2007-1 Series Notice. At reporting date, these facilities have not been used.

ConQuest 2010-1R Trust has collateral liquidity of $1 million held in a separate account with Bankwest to provide liquidity support. As at 30 June 2013, this facility has not been used. The ConQuest 2010-2 Trust has collateral liquidity of $2.8 million held in a separate account with Bankwest to provide liquidity support which can be used. MSF provides a redraw facility to the ConQuest 2010-2 Trust of $500,000 to meet redraw commitments if there are cash shortfalls. As at 30 June 2013, both facilities had not been used.

A number of facilities are provided to entities controlled by the ROK. The RBS Trust 2007-1 has collateral liquidity of $1.4 million held in a separate account with Westpac Banking Corporation to provide liquidity support. As at 30 June 2013, this facility has not been used.

The following table summarises the maturity profile of financial assets and liabilities as at 30 June 2013 based on contractual undiscounted repayment obligations.

Repayments which are subject to notice are treated as if notice was given immediately. However, it is expected that many customers will not request repayment on the earliest date that the consolidated entity could be required to pay and the table does not reflect the expected cashflows indicated by deposit retention history.

31 Financial Risk Management (continued)

	Consolidated					
	On demand $	3 months or less $	Between 3 months and 1 year $	Between 1 and 5 years $	More than 5 years $	Total $
2013						
Assets						
Available for sale assets	17,426,357	231,385,051	65,407,486	89,030,000	–	403,248,894
Receivables	–	25,502,195	–	–	–	25,502,195
Loans	117,840,820	68,570,598	185,971,632	899,136,001	1,766,265,699	3,037,784,750
Other receivables	4,020,261	1,000,000	–	–	–	5,020,261
Total	**139,287,438**	**326,457,844**	**251,379,118**	**988,166,001**	**1,766,265,699**	**3,471,556,100**
Liabilities						
Due to Banks and other financial institutions	–	434,969,212	40,779,205	–	505,056,447	980,804,865
Deposits	968,371,870	698,106,394	606,688,647	36,964,389	167,078	2,310,298,378
Payables	–	47,373,052	–	–	–	47,373,052
Total	**968,371,870**	**1,180,448,659**	**647,467,853**	**36,964,389**	**505,223,525**	**3,338,476,295**
Net mismatch	**(829,084,432)**	**(853,990,815)**	**(396,088,734)**	**951,201,612**	**1,261,042,174**	**133,079,805**
Derivative financial liabilities	**(135,000,000)**	**10,000,000**	**125,000,000**	**–**	**–**	**–**

	Consolidated					
	On demand $	3 months or less $	Between 3 months and 1 year $	Between 1 and 5 years $	More than 5 years $	Total $
2012						
Assets						
Available for sale assets	47,800,502	246,790,249	105,051,726	–	2,427,235	402,069,712
Receivables	–	26,634,785	–	–	–	26,634,785
Loans	137,050,081	17,439,832	62,592,955	156,564,624	2,682,857,065	3,056,504,557
Other receivables	4,020,527	1,000,000	–	–	–	5,020,527
Total	**188,871,110**	**291,864,866**	**167,644,681**	**156,564,624**	**2,685,284,300**	**3,490,229,581**
Liabilities						
Due to Banks and other financial institutions	2,624,568	389,749,959	384,453,041	3,235,000	311,998,128	1,092,060,696
Deposits	992,781,164	702,259,884	518,173,326	10,786,236	–	2,224,000,610
Payables	–	51,456,486	–	–	–	51,456,486
Total	**995,405,732**	**1,143,466,329**	**902,626,367**	**14,021,236**	**311,998,128**	**3,367,517,792**
Net mismatch	**(806,534,622)**	**(851,601,463)**	**(734,981,686)**	**142,543,388**	**2,373,286,172**	**122,711,789**
Derivative financial liabilities	**(245,000,000)**	**20,000,000**	**90,000,000**	**135,000,000**	**–**	**–**

31 Financial Risk Management (continued)

Market Risk

Market risk is the exposure to adverse changes in the value of the consolidated entity's portfolio as a result of changes in market prices or volatility. The consolidated entity is exposed to the following risks:

- Interest rates: changes in the level, shape and volatility of yield curves;
- The basis between different interest rate securities; and
- Derivatives and credit margins.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date, with all other variables held constant.

Judgements of reasonably possible movements:	Net profit after tax higher/(lower)	
In thousands	2013 $	2012 $
+ 1.0% (100 basis points)	5,232	4,486
– 0.5% (50 basis points)	**(2,616)**	**(2,243)**

Derivative financial Instruments

The consolidated entity uses derivatives to hedge asset/liability management and only enters into cash flow hedges to mitigate the exposure to volatility in future interest cash flows.

At 30 June 2013, the fair value of outstanding derivatives held and designated as cash flow hedges was a liability of $2,988,040 (2012: $7,343,468).

The consolidated entity only uses interest rate swaps for hedging purposes. Swap transactions provide for two parties to swap a series of interest rate cash flows in relation to an underlying principal amount, usually to exchange fixed interest for a floating interest rate.

MSF provides a Basis Swap to the ConQuest 2010-2 RMBS Trust to reduce the potential volatility in changing rates given a potential delay in effecting a lending rate change against an immediate change in the base rate of the notes (i.e. BBSW). Given the amount of the payments, the consolidated entity does not consider the amounts to be material to require the derivative to be valued on the face of the Statement of Financial Position. ROK provides Interest Rate Swaps to the RBS Warehouse Trust No2 and the RBS Trust 2009R, to convert the loan interest of these trusts from fixed to floating, which is consistent with the character of the interest on the notes that have been issued by the trusts. As the Interest Rates Swaps are between entities within the consolidated group, their fair value is not shown on the face of the Statement of Financial Position.

The consolidated entity uses Value-At-Risk (VAR) to monitor market risk. VAR is a statistical measure based on a 20 day holding period and 99 per cent confidence level. The consolidated entity uses a historical simulation method for the calculation of VAR. VAR focuses on unexceptional prices moves and it does not account for losses that occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VAR in predicting future price moves when changes to future risk factors deviate from the movements expected by the assumptions.

The following table shows the average, maximum and minimum VAR over the year for interest rate market risk.

	MSF		ROK	
In millions	2013 $	2012 $	2013 $	2012 $
Average	**1.584**	1.136	**1.326**	0.399
Maximum	**2.118**	1.590	**1.640**	0.219
Minimum	**1.176**	0.866	**1.061**	0.652

31 Financial Risk Management (continued)

Interest rate risk

The consolidated entity also has exposure to interest rate risk generated by banking products such as loans and deposits. Interest rate risk is assessed by the consolidated entity's Group Risk Committee and ALCO on a regular basis. The consolidated entity has entered into interest rate swaps to reduce the exposure to fluctuations in variable interest rates. These derivative instruments have been classified as cash flow hedges.

The following table represents the consolidated entity's contractual interest rate risk sensitivity from repricing mismatches as at 30 June 2013 and the corresponding weighted average effective interest rates.

	Consolidated Asset and Liability Repricing						
	Floating interest rate $	1 year or less $	Between 1 and 5 years $	More than 5 years $	Non interest bearing $	Carrying amount in Statement of Financial Position $	Weighted average effective interest rate %
2013							
Assets							
Cash and liquid assets	45,587,743	–	–	–	13,842,053	59,429,796	2.39%
Available for sale assets	16,850,663	296,792,537	89,030,000	–	575,694	403,248,894	3.74%
Receivables	–	–	–	–	25,502,195	25,502,195	0.00%
Loans	2,468,458,876	270,944,020	297,841,284	540,570	–	3,037,784,750	6.29%
Other investments	–	1,000,000	–	–	4,020,261	5,020,261	0.85%
Total financial assets	**2,530,897,282**	**568,736,557**	**386,871,284**	**540,570**	**43,940,203**	**3,530,985,896**	
Liabilities							
Deposits	968,371,870	1,304,795,042	36,964,389	167,078	–	2,310,298,378	3.54%
Interest bearing liabilities and borrowings	–	781,026,133	–	199,778,732	–	980,804,865	4.28%
Payables and other liabilities	–	1,136,952	–	–	46,236,100	47,373,052	0.00%
Total financial liabilities	**968,371,870**	**2,086,958,127**	**36,964,389**	**199,945,810**	**46,236,100**	**3,338,476,295**	
Net mismatch	**1,562,525,412**	**(1,518,221,570)**	**349,906,895**	**(199,405,240)**	**(2,295,897)**	**192,509,601**	
Derivatives	(135,000,000)	135,000,000	–	–	–	–	
	1,697,525,412	**(1,653,221,570)**	**349,906,895**	**(199,405,240)**	**(2,295,897)**	**192,509,601**	

31 Financial Risk Management (continued)

	Consolidated Asset and Liability Repricing						
	Floating interest rate $	1 year or less $	Between 1 and 5 years $	More than 5 years $	Non interest bearing $	Carrying amount in Statement of Financial Position $	Weighted average effective interest rate %
2012							
Assets							
Cash and liquid assets	65,082,803	–	–	–	5,830,180	70,912,983	3.82%
Available for sale assets	47,269,238	354,269,210	–	–	531,264	402,069,712	4.53%
Receivables	–	–	–	–	26,634,785	26,634,785	0.00%
Loans	2,385,728,037	257,149,011	413,627,509	–	–	3,056,504,557	6.81%
Other investments	–	1,000,000	–	–	4,020,527	5,020,527	6.10%
Total financial assets	**2,498,080,078**	**612,418,221**	**413,627,509**	**–**	**37,016,756**	**3,561,142,564**	
Liabilities							
Deposits	992,766,344	1,220,448,030	10,786,236	–	–	2,224,000,610	3.92%
Interest bearing liabilities and borrowings	2,624,568	837,124,167	3,235,000	249,076,961	–	1,092,060,696	4.87%
Payables and other liabilities	–	–	–	–	51,456,486	51,456,486	0.00%
Total financial liabilities	**995,390,912**	**2,057,572,197**	**14,021,236**	**249,076,961**	**51,456,486**	**3,367,517,792**	
Net mismatch	**1,502,689,166**	**(1,445,153,976)**	**399,606,273**	**(249,076,961)**	**(14,439,730)**	**193,624,772**	
Derivatives	(245,000,000)	110,000,000	135,000,000	–	–	–	
	1,747,689,166	**(1,555,153,976)**	**264,606,273**	**(249,076,961)**	**(14,439,730)**	**193,624,772**	

31 Financial Risk Management (continued)

Capital management strategy

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

The consolidated entity's capital management objectives are to:

- Continue to support MSF's and ROK's credit ratings;
- Ensure sufficient capital resource to support the consolidated entity's business and operational requirements;
- Maintain sufficient capital to exceed prudential capital requirements; and
- Safeguard the consolidated entity's ability to continue as a going concern.

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

The consolidated entity has developed a detailed Internal Capital Adequacy Assessment Plan (ICAAP). This plan covers the capital requirements of the Company and also MSF, ROK and TPT.

The ICAAP aims to ensure that adequate planning activities take place so that the consolidated entity is efficiently capitalised to a level also satisfactory to regulators. The ICAAP caters for all known financial events, dividend policy, capital raisings, securitisation and the potential to establish a dividend reinvestment plan in the future.

The consolidated entity is subject to minimum capital requirements externally imposed by Australian Prudential Regulatory Authority (APRA), following the guidelines developed by the Basel Committee on Banking Supervision. MSF and ROK report to APRA as Authorised Deposit Taking Institutions (ADI). The Company reports to APRA as a non-operating holding company (NOHC). As at reporting date, MSF's Level One capital adequacy ratio was 13.46% (2012: 14.00%), ROK's Level One capital adequacy ratio was 13.45% (2012: 12.46%) and the Group's Level Two ratio was 14.04% (2012: 14.14%).

Regulatory capital requirements are measured for MSF, ROK and certain subsidiaries which meet the definition of extended licensed entities (Level 1 reporting) and for the Group (Level 2 reporting). Level 2 consists of MSF, ROK, their subsidiaries and immediate parent less certain subsidiaries of MSF and ROK which are deconsolidated for APRA reporting purposes. These entities conduct non-financial operations or are special purpose vehicles. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least four per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The MyState Limited capital management policy set by the Board requires capital floors above this regulatory required level.

MSF, ROK and certain subsidiaries utilise residential mortgage backed securities programmes to manage liquidity and capital adequacy requirements, in accordance with the operational needs of the business.

MSF's and ROK's Tier 1 capital consists of share capital and retained earnings. Deductions from Tier 1 capital are made for intangibles, certain capitalised expenses, deferred tax assets and equity investments over prescribed limits. In addition, MSF and ROK are required by APRA to deduct investments in subsidiaries that are special purpose securitisation vehicles, or other special purpose entities at a rate of 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital. MSF's Tier 2 capital includes reserves. Deductions from Tier 2 capital include 50 per cent of investments in subsidiaries.

MSF, ROK and the consolidated entity have complied with all internal and external capital management requirements throughout the year.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The consolidated entity cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

32 Average balances and related interest

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 consolidated entity and average interest rates. Averages used are predominantly monthly averages. Interest income figures include interest income on non-accruing loans to the extent that cash payments have been received.

	Consolidated 2013			Consolidated 2012		
	Average balance $	Interest $	Average rate %	Average balance $	Interest $	Average rate %
Average assets and interest income						
Interest-earning assets						
Cash and liquid assets	68,175,336	1,395,806	2.05%	57,878,675	1,380,858	2.39%
Due from other financial institutions	411,879,033	16,266,789	3.95%	353,831,458	19,224,306	5.43%
Loans	3,059,725,032	191,234,517	6.25%	2,538,584,473	182,380,248	7.18%
Total average interest-earning assets	**3,539,779,401**	**208,897,112**	**5.90%**	**2,950,294,606**	**202,985,412**	**6.88%**
Non interest earning assets						
Property, plant and equipment	19,427,023	–	–	18,094,396	–	–
Other assets	102,587,199	–	–	95,807,377	–	–
Total average non interest earning assets	**122,014,222**	**–**	**–**	**113,901,773**	**–**	**–**
Total average assets	**3,661,793,623**	**208,897,112**	**5.70%**	**3,064,196,380**	**202,985,412**	**6.62%**
Average liabilities and interest expense						
Interest-bearing liabilities						
Deposits	2,334,803,136	81,833,022	3.50%	1,927,069,084	78,433,927	4.07%
Due to other financial institutions	289,771,877	11,691,847	4.03%	147,180,849	7,786,953	5.29%
ConQuest Notes and bonds on issue	715,356,954	30,299,571	4.24%	698,501,989	37,744,689	5.40%
Total average interest-bearing liabilities	**3,339,931,967**	**123,824,440**	**3.71%**	**2,772,751,921**	**123,965,569**	**4.47%**
Non interest bearing liabilities						
Other	47,730,730	–	–	50,443,720	–	–
Total average non interest bearing liabilities	**47,730,730**	**–**	**–**	**50,443,720**	**–**	**–**
Total average liabilities	**3,387,662,697**	**123,824,440**	**3.66%**	**2,823,195,641**	**123,965,569**	**4.39%**
Reserves	274,130,926	–	–	241,000,739	–	–
Total average liabilities and reserves	**3,661,793,623**	**123,824,440**	**3.38%**	**3,064,196,380**	**123,965,569**	**4.05%**

33 Maturity analysis of assets and liabilities

The following table shows the maturity profile of the consolidated entity's assets and liabilities. This analysis is based upon contractual terms.

	Consolidated							
	At call $	Overdraft $	Due within 3 months $	Due between 3 months and 12 months $	Due between 1 year and 5 years $	Due in over 5 years $	No maturity specified $	Total $
2013								
Assets								
Cash and liquid assets	59,429,796	–	–	–	–	–	–	59,429,796
Due from other financial institutions	17,426,357	–	231,385,051	65,407,486	89,030,000	–	–	403,248,894
Receivables	–	–	25,502,195	–	–	–	–	25,502,195
Loans	–	105,018,829	12,871,137	43,108,716	216,233,755	2,660,552,312	–	3,037,784,750
Other investments	–	–	1,000,000	–	–	–	4,020,261	5,020,261
Total financial assets	**76,856,153**	**105,018,829**	**270,758,383**	**108,516,203**	**305,263,755**	**2,660,552,312**	**4,020,261**	**3,530,985,896**
Liabilities								
Deposits	968,371,870	–	698,106,394	606,688,647	36,964,389	167,078	–	2,310,298,378
Due to other financial institutions	–	–	434,969,212	40,779,205	–	505,056,447	–	980,804,865
Accounts payable and other liabilities	–	–	47,373,052	–	–	–	–	47,373,052
Total financial liabilities	**968,371,870**	**–**	**1,180,448,659**	**647,467,853**	**36,964,389**	**505,223,525**	**–**	**3,338,476,295**

33 Maturity analysis of assets and liabilities (continued)

	Consolidated							
	At call $	Overdraft $	Due within 3 months $	Due between 3 months and 12 months $	Due between 1 year and 5 years $	Due in over 5 years $	No maturity specified $	Total $
2012								
Assets								
Cash and liquid assets	68,083,048	–	2,829,935	–	–	–	–	70,912,983
Due from other financial institutions	47,800,502	–	246,790,249	105,051,726	–	2,427,235	–	402,069,712
Receivables	–	–	26,634,785	–	–	–	–	26,634,785
Loans	–	106,423,326	17,454,752	62,592,955	156,598,568	2,713,434,956	–	3,056,504,557
Other investments	–	–	1,000,000	–	–	–	4,020,527	5,020,527
Total financial assets	**115,883,550**	**106,423,326**	**294,709,721**	**167,644,681**	**156,598,568**	**2,715,862,191**	**4,020,527**	**3,561,142,564**
Liabilities								
Deposits	992,766,344	–	702,274,704	518,173,326	10,786,236	–	–	2,224,000,610
Due to other financial institutions	2,624,568	–	389,749,959	384,453,051	3,235,000	311,998,118	–	1,092,060,696
Accounts payable and other liabilities	–	–	51,456,486	–	–	–	–	51,456,486
Total financial liabilities	**995,390,912**	**–**	**1,143,481,149**	**902,626,377**	**14,021,236**	**311,998,118**	**–**	**3,367,517,792**

34 Net fair value

The aggregate net fair values of financial assets and financial liabilities, at balance date, are as follows:

	Consolidated			
	2013		2012	
	Carrying value $	Net fair value $	Carrying value $	Net fair value $
Assets				
Cash and liquid assets	59,429,796	59,429,796	70,912,983	70,912,983
Due from other financial institutions	403,248,894	403,248,894	402,069,712	402,069,712
Receivables	25,502,195	25,502,195	26,634,785	26,634,785
Loans	3,037,784,750	3,043,937,509	3,056,504,557	3,061,011,285
Other investments	5,020,261	5,020,261	5,020,527	5,020,527
Total financial assets	**3,530,985,896**	**3,537,138,655**	**3,561,142,564**	**3,565,649,292**
Liabilities				
Deposits	2,310,298,378	2,310,461,920	2,224,000,610	2,230,212,599
Due to other financial institutions	980,804,865	980,804,865	1,092,060,696	1,092,060,696
Accounts payable	47,373,052	47,373,052	51,456,486	51,456,486
Total financial liabilities	**3,338,476,295**	**3,338,639,836**	**3,367,517,792**	**3,373,729,781**

The net fair value estimates of all assets and liabilities with a maturity of less than 12 months were determined based on the assumption that the carrying amounts in the Statement of Financial Position approximate fair value because of their short term to maturity or are receivable on demand. The net fair value of deposits with more than 12 months to maturity assumes the carrying amount is discounted by the market rate. The net fair value of fixed loans with more than 12 months to maturity assumes the carrying amount is discounted by the market rate.

Within the fair value hierarchy, all assets or liabilities are considered to be Level 1, where quoted prices exist in active markets and disclosures comply with this definition.

35 Contingent liabilities and expenditure commitments

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
(a) Lease expenditure committments				
(i) Operating leases				
– not later than 1 year	**4,251,581**	4,572,449	**–**	6,473
– later than 1 and not later than 5 years	**13,412,735**	12,612,183	**–**	8,091
– later than 5 years	**20,506,272**	21,611,268	**–**	–
Total lease expenditure contracted for at balance date	**38,170,588**	38,795,900	**–**	14,564

During the comparative period, MSF commenced leasing its Headquarters building located in Hobart. The term of the lease is fifteen years, with an option for a further ten year term. Rental increases over the term of the lease are determined by reference to movements in the consumer price index.

During the comparative period, the consolidated entity entered into a lease of a property situated in Launceston, which is principally used to house elements of the TPT business. The term of the lease is five years with an option for two further five year terms. Rental increases over the term of the lease are determined by reference to movements in the consumer price index. If the options for further terms are exercised, the rental is to be determined by market appraisal at that time.

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

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

(b) Loans approved but not advanced	30,395,925	49,769,416
(c) Undrawn continuing lines of credit	88,102,033	93,297,567
(d) Performance guarantees	2,011,475	3,125,986

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

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

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 MSF is crystallised in the form of an overdraft or loan.

(e) Bank Guarantee	1,000,000	1,000,000

The consolidated entity is a non-broker participant in the Clearing House Electronic Sub register System operated by the Australian Securities Exchange and has provided a guarantee and indemnity for the settlement account from Bendigo and Adelaide Bank Limited (BABL). The consolidated entity maintains a deposit with BABL for $1,000,000 (2012: $1,000,000) as collateral for the guarantee.

(f) Loan Guarantees	140,184	179,325

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

35 Contingent liabilities and expenditure commitments (continued)

g) Contracts

The consolidated entity has contracted computer requirements to Transaction Solutions Proprietary Limited.

(h) Estate Administration

The consolidated entity acts as executor and trustee for a significant number of trusts and estates. In this capacity, the consolidated entity 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.

36 Capital and other expenditure commitments

During the period, the consolidated entity commenced a project to install the TCS BaNCS application as the core banking system for MSF. This application is already in use by the ROK as its core banking system. This project will incur a range of costs with various suppliers and consultants, including direct costs for the application, application modifications and enhancements, project governance and management, testing, and data migration. The cost of the project will also include the capitalisation of internal personnel costs for staff that have been assigned to the project. The total cost is expected to amount to $6.5 million. Approximately $3.6 million has been expended as at the reporting date. Commitments for further expenditure at the reporting date amount to $1.7 million.

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

37 Economic dependency

The consolidated entity has an economic dependency on the following suppliers of services:

(i) Cuscal Limited

Cuscal provides central banking services including overdraft and standby facilities, EFT switching, electronic settlement services and access to chequing, Visa and Redicard.

(ii) Fiserv (ASPAC) Proprietary Limited

Fiserv provides services and maintains the core banking system for MSF.

(iii) Tata Consulting Services

Tata Consulting Services supports the TCS BaNCS system, which provides services and maintains the core banking system for ROK.

(iv) Transaction Solutions Proprietary Limited (TAS)

TAS provides hosting facilities for the MSF core banking system (ICBS), as well as the TPT trustee system (TACT).

38 Employee benefits

		Consolidated		Company	
	Note	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
The aggregated employee benefit liability is comprised of the following:					
Bonus		**1,285,445**	1,328,551	**570,599**	388,140
Provisions	27	**5,611,168**	6,102,666	**227,112**	561,409
Total employee benefits		**6,896,613**	7,431,217	**797,711**	949,549

Superannuation commitments

Superannuation plans have been established for the provision of benefits to employees on retirement, death or disability. Benefits provided under the plan are based on contributions for each employee. Employees contribute various percentages of their annual salaries and the consolidated entity contributed between 9% and 14% of the employees annual salaries, thus complying with the Superannuation Guarantee Legislation. As the superannuation plans are accumulation schemes, the consolidated entity does not guarantee their performance.

39 Related parties

(i) Ultimate Parent Company

MyState Limited is the ultimate parent company.

(ii) Significant subsidiaries

	Country of incorporation	Ownership interest 30 June 2013 %	Ownership interest 30 June 2012 %
MyState Financial Limited	Australia	**100**	100
Tasmanian Perpetual Trustees Limited	Australia	**100**	100
Connect Asset Management Proprietary Limited	Australia	**100**	100
The Rock Building Society Limited	Australia	**100**	100

(iii) Subsidiaries

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.

	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Management fees received	**–**	–	**7,233,157**	7,122,598
Dividends	**–**	–	**24,373,292**	19,560,758
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	**–**	–	**(552,971)**	(3,160,618)
Amounts payable	**–**	–	**1,468,454**	726,219
			915,483	(2,434,399)

(iv) Managed Investment Schemes

Within the consolidated entity, 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 has also invested in these Funds and receives distributions on these investments. These investments are made on the same terms and conditions that apply to all investors in these Funds. Details of these transactions and balances are as follows:

	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Management fees received	**8,949,975**	8,659,147	**–**	–
Investments in managed funds				
Balance at year end	**5,298,683**	5,786,236	**–**	–
Distributions received from managed funds	**254,161**	240,764	**–**	–

The Company has invested in these Funds and receives distributions on these investments. These investments are made on the same terms and conditions that apply to all investors in these Funds. Details of these transactions and balances are as follows:

	Consolidated 30 June 2013 $	Consolidated 30 June 2012 $	Company 30 June 2013 $	Company 30 June 2012 $
Balance at year end	**4,018,353**	3,782,233	**4,018,353**	3,782,233
Distributions received from managed funds	**154,383**	52,239	**154,383**	52,239

39 Related parties (continued)

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 Financial Limited, in the form of term deposits, totalling $18,100,000 (2012: $17,500,000); and
- Loaned money to ConQuest 2010-2 Trust, in the form of Class B RMBS notes, totalling $10,250,000 (2012: $10,030,546).

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

(v) MSF

MSF has a controlling interest in Connect Asset Management Proprietary Limited, ConQuest 2007-1 Trust, ConQuest 2010-1R Trust and ConQuest 2010-2 Trust as its wholly owned subsidiaries. Transactions with related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions and are eliminated on consolidation. Details of these transactions with these related parties are as follows:

Connect Asset Management Proprietary Limited

MSF makes payments on behalf of Connect Asset Management Proprietary Limited (CAM), which are reimbursed the following month. At the end of the period, the loan balance totalled $– (2012: $17,222). MSF charged a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest Mortgage Trust at an interest rate of 0.25% per annum. During the period, MSF commenced charging ConQuest Mortgage Trust directly for this service. For the period, the total of the servicing fee was $176,299 (2012: $316,296).

ConQuest Mortgage Trust

During the period, MSF commenced charging the ConQuest Mortgage Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest Mortgage Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $163,170 (2012: $–).

ConQuest 2010-1R Trust

MSF charges the ConQuest 2010-1R Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest 2010-1R Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $239,729 (2012: $238,077).

ConQuest 2010-2 Trust

MSF charges the ConQuest 2010-2 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest 2010-2 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $332,764 (2012: $412,910).

(vi) ROK

ROK has a controlling interest in The Rockhampton Custodian and Management Company Limited (RCMC), RBS2005-1 Trust, RBS2007-1 Trust, RBS 2009R Trust, and RBS Warehouse Trust #2. In October 2012, Connect Asset Management Proprietary Limited took over the role of Manager of the ROK's securitisation programme from RCMC. In October 2012, RCMC also ceased to be the custodian of the ROK's securitisation programme. The role of custodian was assumed by the ROK. In November 2012, the call option for the RBS2005-1 Trust was exercised. Transactions with related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions and are eliminated on consolidation. Details of these transactions with these related parties are as follows:

The Rockhampton Custodian and Management Company Limited (RCMC)

RCMC received commission and fees for custodian and management services provided to ROK's securitisation special purpose vehicles, which, in turn, are remitted to ROK in return for management services. For the period, the total of these fees was $22,385 (2012: $76,760).

RBS 2005-1 Trust

ROK charges the RBS 2005-1 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2005-1 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $21,995 (2012: $43,463).

RBS 2007-1 Trust

ROK charges the RBS 2007-1 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2007-1 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $73,179 (2012: $53,165).

39 Related parties (continued)

RBS 2009R Trust

ROK charges the RBS 2009R Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS 2009R Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $134,977 (2012: $111,880). ROK and the RBS 2009R Trust have entered into an interest rate swap contract. Payments under this contract are determined on the outstanding monthly balance of the fixed rate loans sold into the RBS 2009R Trust at a rate calculated as the difference between the weighted average interest rate of the outstanding fixed rate loans and the one month BBSW rate plus the required swap margin. For the period, the total of the swap interest paid by the RBS 2009R Trust to ROK was $259,568 (2012: $175,907).

RBS Warehouse Trust #2

ROK charges the RBS Warehouse Trust #2 a loan servicing fee based on the outstanding monthly balance of the loans sold to the RBS Warehouse Trust #2 at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was $752,177 (2012: $535,633). ROK and the RBS Warehouse Trust #2 have entered into an interest rate swap contract. Payments under this contract are determined on the outstanding monthly balance of the fixed rate loans sold into the RBS Warehouse Trust #2 at a rate calculated as the difference between the weighted average interest rate of the outstanding fixed rate loans and the one month BBSW rate plus the required swap margin. For the period, the total of the swap interest paid by the RBS Warehouse Trust #2 to ROK was $2,168,568 (2012: $867,740).

40 Key Management Personnel disclosure

a) Individual Directors and Executive compensation disclosures

Information regarding individual Directors and Executive compensation and some equity instruments disclosures, as required by the Corporations Regulation 2M.3.03, 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 consolidated entity is comprised of the non Executive Directors, Managing Director and certain Executives.

b) Key management personnel compensation

The key management personnel compensation comprised:

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Short-term employee benefits	**3,531,857**	2,628,889	**2,759,168**	2,628,889
Post employment benefits	**339,103**	341,256	**249,190**	341,256
Share-Based payment(1)	**250,320**	294,763	**249,320**	294,763
Termination benefits	**954,658**	363,809	**954,658**	363,809
	5,075,938	3,628,717	**4,212,336**	3,628,717

(1) 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, refer note 40 (c).

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, refer note 1 (ab).

(c) Executive Long Term Incentive Plan

The Executive long term incentive plan (ELTIP) was established by the Board to encourage the executive management team, currently comprising the Managing Director and those Executives classified at the "Executive Level 1" band, to have a greater involvement in the achievement of the Company's objectives. To achieve this aim, the ELTIP provides for the issue to the executive management team of fully paid ordinary shares in the Company if performance criteria specified by the Board are satisfied in a set performance period.

Under the ELTIP, an offer may be made to the members of the executive management team every year, as determined by the Board. The maximum value of the offer is determined as a percentage of the fixed annual remuneration (FAR) of each member of the executive management team. The percentages used are 50% for the Managing Director and 30% for the Executives classified at the "Executive Level 1" band. The value of the offer is converted into fully paid ordinary shares, based upon the weighted average price of the Company's shares over the twenty trading days prior to the offer date.

40 Key Management Personnel disclosure (continued)

In order for the shares to vest in each eligible member of the executive management team, certain performance criteria must be satisfied within a predetermined performance period. Both the performance criteria and the performance period are set by the Board at its absolute discretion. The Board has, for the time being, set the three financial years commencing with the year in which an offer is made under the plan as the performance period. The Board has determined, commencing with the offer made in the comparative period (the "2011" offer), that Total Shareholder Return (TSR) over the relevant performance period would be the sole performance criteria. For the two offers made prior to the "2011" offer (the "2009" and "2010" offers), growth in Earnings Per Share outcomes (EPS) and TSR over the relevant performance period are the performance criteria with the measures weighted equally.

ELTIP performance assessment, for offers that have been made, has been and will be measured against the performance of a selected group of "financial" companies from within the S&P/ASX 300 Index (the benchmark group).

Any reward payable to any member of the Executive Team under any ELTIP offer is subject to reassessment and possible forfeiture, if the results, on which the ELTIP reward was based, are subsequently found to have been the subject of deliberate management mis-statement.

Rewards payable to any member of the Executive Team under the four ELTIP offers made (the "2009", "2010", "2011" and "2012" offers) is calculated as follows:

- For the "2009" and "2010" offers, 50% of the ELTIP reward for the performance period is based upon the comparison of the actual MyState Limited EPS growth achieved with that of the benchmark group and will be payable on the following basis:
  - Below the mid-point percentage EPS growth – 0% reward;
  - At the 50th percentile – 50% of the applicable reward;
  - Between the 50th percentile and the 75th percentile EPS growth – 2% for every 1 percentile above the 50th percentile;
  - Above the 75th percentile – 100% of the applicable reward; and
  - No reward will be payable if EPS growth is negative irrespective of the benchmark group performance.
- For the "2009" and "2010" offers, 50%, and, for the "2011" and "2012" offers, 100%, of the ELTIP reward for the performance period is based upon the comparison of the actual MyState Limited TSR growth compared to the benchmark group and will be payable on the following basis:
  - Below the mid-point percentage TSR growth – 0% reward;
  - At the 50th percentile – 50% of the applicable reward;
  - Between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile;
  - Above the 75th percentile – 100% of the applicable reward; and
  - No reward will be payable if TSR is negative irrespective of the benchmark group performance.

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

Vesting of shares to the Managing Director or Executives is at the complete discretion of the Board and can be adjusted downwards, to zero if necessary, to protect the financial soundness of the Company, such as, at a minimum ensure that no breach of capital adequacy or liquidity policy thresholds occurs.

The Trustee will allocate any shares to each member of the Executive Management Team in accordance with their entitlement under the ELTIP. Any shares to be allocated to the Managing Director under this Plan require shareholder prior approval in accordance with ASX Listing Rules. The Trustee will hold the shares which have been allocated on behalf of the Executive Management Team member.

The Executive Management Team member cannot transfer or dispose of shares which have been allocated to them until the earlier of the seventh anniversary of the original offer date of the grant, leaving the employment of the Company, the Board giving permission for a transfer or sale to occur, or a specified event occurring such as change in control of the Company. Upon request, the Board will release vested shares to an Executive to the extent required to meet a taxation assessment directly related to the award of those shares.

40 Key Management Personnel disclosure (continued)

On separation from the Company, shares will be allocated only if the separation is due to a Qualifying Reason(2) or is at the initiation of the Company without cause. If either of these events occurs within the three year performance period, shares will be allocated on a pro-rata basis by bringing the qualifying date forward to the date of separation.

During the period that allocated shares are held by the Trustee, the Executive Management Team member is entitled to receive the income arising from dividend payments on those shares and to have the Trustee exercise the voting rights on those shares in accordance with their instructions.

On accepting an ELTIP offer made by the Company, Executives are required to agree not to hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and, as such, will involve disciplinary action and the risk of dismissal under the terms of the Executive's contract.

The fair value of shares offered is calculated at the date of grant and is allocated to each reporting period over the period from grant date to vesting date. For shares offered subject to EPS comparison, fair value is determined by discounting the market value of the Company's shares for the present value of expected dividends that will not be received during the performance period. For shares offered subject to TSR comparison, fair value is determined utilising a "Monte Carlo" simulation, which seeks to predict the performance of the Company, against the benchmark group, and the proportion of shares offered which will actually vest. This predicted value is discounted back to its present value at grant date and excludes the value of dividends which are not received during the performance period.

Details of offers made under the ELTIP are as follows:

		"2010" Offer		"2009" Offer	
		Managing Director	**Other Executives**	**Managing Director**	**Other Executives**
Date of offer ("Grant" date)		29 March 2011	29 March 2011	30 June 2010	30 June 2010
Performance period		1/7/2010 to 30/6/2013	1/7/2010 to 30/6/2013	1/7/2009 to 30/6/2012	11/1/2010 to 30/6/2012
Maximum number of shares that may vest under the offer		59,840	104,731	71,884	56,581
Value of the offer		$225,000	$393,789	$225,000	$177,098
Share price used in the calculation of the offer		$3.76	$3.76	$3.13	$3.13
EPS baseline used in the offer (cents per share)		27.46cps	27.46cps	23.32cps	23.32cps
MyState Limited share price baseline for TSR calculation		$3.12	$3.12	$2.70	$2.70
Fair value of shares at grant date:	EPS shares	$3.11	$3.11	$2.55	$2.55
	TSR shares	$2.43	$2.43	$2.20	$2.20
Number of shares that have vested		–	43,247	58,226	29,613
Number of shares that have been forfeited		–	40,923	13,658	26,968
Number of shares for which assessment against performance criteria has yet to be undertaken		59,840	20,561	–	–

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

40 Key Management Personnel disclosure (continued)

	"2012" Offer		"2011" Offer	
	Managing Director	Other Executives	Managing Director	Other Executives
Date of offer ("Grant" date)	14 November 2012	9 October 2012	2 November 2011	6 September 2011
Performance period	1/7/2012 to 30/6/2015	1/7/2012 to 30/6/2015	1/7/2011 to 30/6/2014	11/1/2011 to 30/6/2014
Maximum number of shares that may vest under the offer	89,532	77,003	65,677	88,403
Value of the offer	$325,000	$259,500	$235,125	$316,482
Share price used in the calculation of the offer	$3.63	$3.37	$3.58	$3.58
MyState Limited share price baseline	$3.00	$3.00	$3.55	$3.55
Fair value of shares at grant date – TSR shares	$2.15	$1.66	$2.14	$1.93
Number of shares that have vested	–	–	–	23,009
Number of shares that have been forfeited	–	28,487	–	43,799
Number of shares for which assessment against performance criteria has yet to be undertaken	89,532	48,516	65,677	21,595

40 Key Management Personnel disclosure (continued)

(d) Shareholdings of Directors and Executives

	Balance 1 July 2012	Granted as compensation	Net Change Other[3]	Balance 30 June 2013[4]	Balance 30 June 2013 Held by ELTIP Trustee
2013					
Ordinary shares held in the Company					
Directors					
M J Vertigan AC	25,000	–	–	25,000	–
G J Gilbert	–	58,226	–	58,226	58,226
P D Armstrong	1,161	–	–	1,161	–
R L Gordon	387	–	–	387	–
M L Hampton	600,000	–	–	600,000	–
C M Hollingsworth	10,274	–	–	10,274	–
S E Lonie	40,000	–	10,000	50,000	–
I G Mansbridge	170,000	–	–	170,000	–
S Merridew	24,000	–	–	24,000	–
Executives					
D E Benbow[5]	–	30,983	(30,983)	–	–
D Mills[6]	1,332	298	–	1,630	–
A R Paynter[6]	996	298	–	1,294	–
S O Pender[6]	774	–	–	774	–
A Pidgeon[6]	–	–	–	–	–
T M Rutherford	–	7,404	–	7,404	7,404
T V Taylor[7]	10,000	–	–	10,000	–
P K M Viney[5]	–	43,771	(43,771)	–	–
N Whish–Wilson	1,770	–	–	1,770	–
Total[9]	**885,694**	**140,980**	**(64,754)**	**961,920**	**65,630**

40 Key Management Personnel disclosure (continued)

	Balance 1 July 2011	Granted as compensation	Net Change Other[3]	Balance 30 June 2012[4]
2012				
Ordinary shares held in the Company				
Directors				
M J Vertigan AC	20,000	–	5,000	25,000
G J Gilbert	–	–	–	–
P D Armstrong	1,161	–	–	1,161
R L Gordon	387	–	–	387
M L Hampton	500,000	–	100,000	600,000
C M Hollingsworth	10,274	–	–	10,274
S E Lonie	–	–	40,000	40,000
I G Mansbridge	170,000	–	–	170,000
S Merridew	24,000	–	–	24,000
Executives				
D E Benbow	35,612	–	(35,612)	–
T M Rutherford	–	–	–	–
P K M Viney	31,905	–	(31,905)	–
N Whish–Wilson[8]	1,491	279	–	1,770
Total[9]	**794,830**	**279**	**77,483**	**872,592**

(3) No equity transactions with Directors and Executives, other than those arising as payment for compensation, have been entered into with the Company.

(4) The shareholdings disclosed for each Director and Executive may include holdings held by related parties. Related parties include close members of the family of the Director or Executive. It also includes entities under joint or several control or significant influence of the Director or Executive and their close family members.

(5) D E Benbow ceased to be a KMP on his resignation from the Company, effective 7 September 2012. P K M Viney ceased to be a KMP on his resignation from the Company, effective 30 April 2013.

(6) Due to management restructures, A R Paynter became a KMP on 6 July 2012 and D Mills, S O Pender and A Pidgeon became KMP on 10 September 2012. The amount disclosed for the balance at the start of the year is as at 1 July 2012. The number of shares granted as compensation were received pursuant to the general employee share plan.

(7) T V Taylor became a KMP on 11 April 2013, when he was appointed to the position of Chief Financial Officer. The amount disclosed for the balance at the start of the year is as at 1 July 2012.

(8) N Whish-Wilson became a KMP on 27 October 2011, when she was promoted to the position of Chief Risk Officer. The amount disclosed for the balance at the start of the year is as at 1 July 2011. The number of shares granted as compensation were received pursuant to the general employee share plan.

(9) The aggregate balance of shares held disclosed at the start of the period differs to the balance at the end of the year disclosed for the comparative period as different individuals were identified as KMP in these periods.

(e) Loans to key management personnel and their related parties

The following loans were made to KMP during the period. Loans are provided by the consolidated entity through MSF. Terms and conditions of the MSF loans are either on normal commercial terms, applicable to other staff and customers, or at the fringe benefits tax rate designated by the Australian Tax Office annually and are in accordance with approved Board policy.

No write-down of loan receivables or provisioning for doubtful receivables has been made or is required to be made in respect of these loans. Related parties includes close members of the family of the Director or Executive. It also includes entities under joint or several control or significant influence of the Director or Executive and their close family members.

Details regarding the aggregate of loans made, guaranteed or secured by the consolidated entity to KMP and their related parties are set out in the following table. Details regarding loans outstanding with individual KMP and their related parties are also disclosed where the individual's aggregate loan balance exceeded $100,000 at any time in the period:

40 Key Management Personnel disclosure (continued)

2013

	Balance at start of year $	Interest charged $	Interest not charged $	Write off $	Balance at end of year $	Highest balance in period $
Key Personnel						
A R Paynter[10]	273,996	16,760	–	–	273,213	273,996
Total for key management personnel[12]	301,067	17,535	–	–	273,213	
Number of KMP included in the total					1	

2012

	Balance at start of year $	Interest charged $	Interest not charged $	Write off $	Balance at end of year $	Highest balance in period $
Key Personnel						
N Whish-Wilson[11]	662,529	26,872	–	–	27,071	664,535
Total for key management personnel[12]	662,529	26,872	–	–	27,071	
Number of KMP included in the total					1	

(10) Due to management restructures, A R Paynter became a KMP on 6 July 2012. The amount disclosed for the balance at the start of the year is as at 1 July 2012 and the amount disclosed for interest charged is for the period 1 July 2012 to 30 June 2013.

(11) N Whish-Wilson became a KMP on 27 October 2011, when she was promoted to the position of Chief Risk Officer. The amount disclosed for the balance at the start of the year is as at 1 July 2011 and the amount disclosed for interest charged is for the period 1 July 2011 to 30 June 2012.

(12) The aggregate balance of loans disclosed at the start of the period differs to the balance at the end of the year disclosed for the comparative period as different individuals were identified as KMP in these periods.

41 Auditors' remuneration

	Consolidated		Company	
	30 June 2013 $	30 June 2012 $	30 June 2013 $	30 June 2012 $
Amounts received or due and receivable by the external auditors Wise, Lord & Ferguson for:				
– Audit of the financial statements of the consolidated entities	**415,456**	443,012	**167,397**	88,224
– Other non–external audit services				
Tax compliance services	**8,141**	–	**–**	**–**
Assurance related services	**80,627**	46,500	**–**	33,000
Audit of loans sold into the securitisation program	**123,920**	18,890	**–**	–
Other services	**3,048**	–	**3,048**	–
	215,736	65,390	**3,048**	33,000
Total	**631,192**	508,402	**170,445**	121,224

42 Acquisition of The Rock Building Society Limited

During the comparative period, the Company acquired all of the issued capital of ROK. After obtaining all required regulatory approvals, the consent of the shareholders of ROK and approval by the Supreme Court of Queensland, a scheme of arrangement was implemented. Pursuant to the scheme, the Company issued its share capital to shareholders of ROK as consideration for their interests in ROK. The date of acquisition, being the date when effective control was achieved, was 1 December 2011.

Pursuant to the scheme of arrangement, both the Company and ROK declared interim dividends, payable to their pre-existing shareholders, prior to the acquisition date. These dividends were paid after the date of acquisition. The dividend paid by the ROK is recognised in the value of the liabilities assumed in the Acquisition.

Fair value of assets and liabilities assumed were initially determined on a provisional basis. These provisional amounts were disclosed in the financial report for the year ended 30 June 2012 and the interim financial report for the half-year ended 31 December 2011. Determination of the final fair values occurred during the period. The consolidated entity has recognised the adjustments to the provisional amounts as if the accounting for the ROK acquisition had been completed at the date of acquisition. In order to give effect to this position, comparative information for prior periods presented is revised, as needed, to reflect the adjustments.

Details of the adjusted accounts follows:

	Provisional $	Adjustments $	Final $
Cash and liquid assets	58,355,363	–	58,355,363
Available for sale financial assets	118,995,874	–	118,995,874
Receivables	1,784,006	–	1,784,006
Loans at amortised cost	1,021,847,025	–	1,021,847,025
Property, plant and equipment	6,229,543	(330,000)	5,899,543
Tax assets	4,014,419	(327,926)	3,686,493
Tax receivable	61,648	(61,648)	–
Other assets	388,182	–	388,182
Intangible assets and goodwill	5,661,144	–	5,661,144
Total assets	1,217,337,204	(719,574)	1,216,617,630
Liabilities			
Deposits	588,380,296	–	588,380,296
Interest bearing loans and borrowings	560,231,310	–	560,231,310
Payables and other liabilities	10,794,980	289,160	11,084,140
Derivatives	7,647,538	–	7,647,538
Tax liabilities	86,300	126,843	213,143
Provisions	298,078	–	298,078
Total Liabilities	**1,167,438,502**	**416,003**	**1,167,854,505**
Net assets	**49,898,702**	**(1,135,577)**	**48,763,125**
Goodwill recognised on the transaction	17,084,626	1,135,577	18,220,203
Purchase Consideration	66,983,328	–	66,983,328
Net cash inflow			
Cash and cash equivalents acquired	**58,355,363**	**–**	**58,355,363**

43 Events subsequent to balance date

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

Directors' Declaration

for the financial year ended 30 June 2013

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 consolidated entity set out on pages 59 to 115 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 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 2013.

3. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(c) .

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

On behalf of the Board

M J Vertigan AC Chairman	C M Hollingsworth Director

Hobart
Dated this 27 August 2013.

Independent Auditor's Report

for the financial year ended 30 June 2013

Wise Lord & Ferguson
Chartered Accountants
advice to advantage

Independent auditor's report to the members of MyState Limited

Report on the financial report

We have audited the accompanying financial report of MyState Limited which comprises the statements of financial position as at 30 June 2013, the income statements and statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

1st floor 160 Collins Street Hobart 7000, PO Box 1083 Hobart TAS 7001
Tel: (03) 6223 6155 Fax: (03) 6223 8993 Email: email@wlf.com.au Internet: www.wlf.com.au

Partners: Harvey Gibson, Danny McCarthy, Douglas Thomson, Joanne Doyle, Stuart Clutterbuck, Ian Wheeler, Dean Johnson, Marg Marshall, Paul Lyons, Alicia Leis, Nick Carter.
Managers: Melanie Richardson, Simon Jones, Trent Queen, Rachel Burns, Donna Powell, Nathan Brereton, Melissa Johnson.
Consultant: Peter Beven.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of MyState Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2013 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

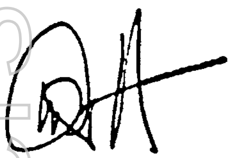
b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of MyState Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.



D J McCARTHY
Partner
Wise Lord & Ferguson

Date: 27 August 2013

Information relating to Shareholders

As of 31 August 2013

Range of Units Snapshot

Range	Total holders	Units	% of Issued Capital
1 – 1,000	64,764	25,350,646	29.09
1,001 – 5,000	2,303	6,400,039	7.34
5,001 – 10,000	853	6,276,848	7.20
10,001 – 100,000	688	16,390,016	18.81
100,001 – 9,999,999,999	46	32,735,498	37.56
Rounding			**0.00**
Total	**68,654**	**87,153,047**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $4.65 per unit	108	204	8,013

Top Holders Snapshot – Ungrouped

Rank	Name	Address	Units	% of Units
1.	RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	GPO Box 5430, Sydney NSW, 2001	4,384,455	5.03
2.	Mecu Limited	222 High Street, Kew VIC, 3101	4,339,593	4.98
3.	Australian United Investment Company Limited	Level 18, 8 Exhibition Street, Melbourne VIC, 3000	2,600,000	2.98
4.	Diversified United Investment Limited	Level 18, 8 Exhibition Street, Melbourne VIC, 3000	2,600,000	2.98
5.	National Nominees Limited	GPO Box 1406, Melbourne VIC, 3001	2,006,022	2.30
6.	The Ian Potter Foundation Ltd <No 1 A/C>	Level 3, 111 Collins Street, Melbourne VIC, 3000	1,800,000	2.07
7.	J P Morgan Nominees Australia Limited	Locked Bag 7, Royal Exchange NSW, 1225	1,597,364	1.83
8.	BNP Paribas Noms Pty Ltd <DRP>	PO Box R209, Royal Exchange NSW, 1225	1,589,730	1.82
9.	Select Managed Funds Ltd	GPO Box 529, Hobart TAS, 7001	1,225,960	1.41
10.	HSBC Custody Nominees (Australia) Limited	GPO Box 5302, Sydney NSW, 2001	1,030,447	1.18
11.	UBS Wealth Management Australia Nominees Pty Ltd	GPO Box 1257, Melbourne VIC, 3001	852,210	0.98
12.	Mr Brian David Faulkner	36 Armidale Street, Launceston TAS, 7250	741,000	0.85
13.	Sandhurst Trustees Ltd <Harper Bernays Ltd A/C>	Level 5, 120 Harbour Esplanade, Docklands VIC, 3008	700,050	0.80,
14.	Citicorp Nominees Pty Limited	GPO Box 764G, Melbourne VIC, 3001	475,896	0.55
15.	Milton Corporation Limited	PO Box R1836, Royal Exchange NSW, 1225	444,992	0.51
16.	Mrs Wendy Jean Faulkner	36 Armidale Street, Launceston TAS, 7250	405,000	0.46
17.	National Reliance Underwriting & Investment Company Pty Ltd <Edgecumbe Inv Group S/F A/C>	GPO Box 1216, Adelaide SA, 5001	392,253	0.45
18.	Beechworth Holdings Pty Ltd <Beechworth Super Fund A/C>	14 Beechworth Road, Sandy Bay TAS, 7005	350,000	0.40
19.	Laravon Pty Ltd <Lotus Super Fund A/C>	101 High Street, North Rockhampton QLD, 4701	328,579	0.38
20.	Prestige Furniture Pty Ltd	PO Box 1967, Launceston TAS, 7250	315,600	0.36
Totals: Top 20 holders of Ordinary Fully Paid Shares (Total)			**28,179,151**	**32.33**
Total Remaining Holders Balance			**58,973,896**	**67.67**

Corporate Directory

Registered Office: 113 Cimitiere Street, Launceston 7250

Corporate Office: 137 Harrington Street, Hobart 7000
Email: info@mystatelimited.com.au
mystatelimited.com.au

MyState Financial Limited

mystate.com.au
Phone: 138 001

Burnie

87 Wilson Street
Burnie, 7320

Devonport

53 Best Street
Devonport, 7310

Glenorchy

366 Main Road
Glenorchy, 7010

Hobart

144 Collins Street
Hobart, 7000

Kings Meadows

Shop 27, Centro Meadow Mews Shopping Centre
Kings Meadows, 7249

Kingston

Shop 1, Kingston Plaza
Kingston, 7050

Launceston

67 St John Street
Launceston, 7250

New Norfolk

45 High Street
New Norfolk, 7140

New Town

Shop 9, Centro New Town Shopping Centre
New Town, 7008

Rosny

11 Bayfield Street
Rosny, 7018

Tasmanian Perpetual Trustees Limited

tasmanianperpetual.com.au
Phone: 1300 138 044

Burnie

87 Wilson Street
Burnie, 7320

Devonport

53 Best Street
Devonport, 7310

Glenorchy

366 Main Road
Glenorchy, 7010

Hobart

137 Harrington Street
Hobart, 7000

Kings Meadows

Shop 27, Centro Meadow Mews Shopping Centre
Kings Meadows, 7249

Kingston

Shop 1, Kingston Plaza
Kingston, 7050

Launceston

113 Cimitiere Street
Launceston, 7250

Rosny

11 Bayfield Street
Rosny, 7018

The Rock Building Society

therock.com.au
Phone: 1800 806 645

Biloela

5 Kariboe Court
Biloela, 4715

Emerald

Shop 14, Village Shopping Centre
Emerald, 4720

Gladstone

Shop 4, Gladstone Valley Shopping Centre
Gladstone, 4680

Gracemere

Gracemere Shoppingworld
Gracemere, 4702

Yeppoon

Keppel Bay Plaza
Yeppoon, 4703

Rockhampton

Cnr Archer & Bolsover Street
Rockhampton, 4700

Stockland

Stockland Rockhampton
North Rockhampton, 4701

The Rock also operates from 15 mini branches; their locations are listed on therock.com.au

MyState Limited (MYS), a non-operating holding Company, is a diversified financial services group listed on the ASX and provides a broad range of financial services through three wholly-owned subsidiaries, MyState Financial and The Rock Building Society Limited authorised deposit-taking institution’s, and Tasmanian Perpetual Trustees a trustee and wealth management company.

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