

OUR REF: PV/LS

29 August 2012

The Manager  
Company Announcements  
Australian Securities Exchange  
20 Bridge Street  
Sydney NSW 2000

Dear Sir

**MyState Limited (ASX Code: MYS) – Preliminary Final Report  
(Appendix 4E) for the year ended 30 June 2012**

The Directors of MyState Limited (the “Company”) are pleased to announce the audited results of the Company for the year ended 30 June 2012 as follows:

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

MyState Limited successfully completed an acquisition of The Rock Building Society Limited (The Rock) on 1 December 2011. Accordingly the results for the financial year ended 30 June, 2012 include only seven months of operation for The Rock.

<b>Extracted from the Financial Statements for the year ended</b>	<b>\$ 30 June 2012 <sup>(1)</sup></b>	<b>\$ 30 June 2011</b>	<b>% Change</b>
Revenue from operations	117,484,330	103,281,502	13.75%
Profit after tax attributable to members	23,383,844	22,019,846	6.19%
Net profit after tax attributable to members	23,383,844	22,019,846	6.19%

(1) Figures for the period ending 30 June 2012 include 7 months of operation for The Rock.

<b>Dividends for the current year are:</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<b>Interim Dividend 2012 fully franked at 30%</b> Paid 9 December 2011	14.0 cents	14.0 cents
<b>Final Dividend 2012 fully franked at 30%</b> Payable 4 October 2012 Record Date for determining entitlements for final dividend – 6 September 2012	14.0 cents	14.0 cents
<b>Dividends previous year are:</b> Final dividend – 2011, fully franked at 30% Paid 7 October 2011	15.0 cents	15.0 cents
No Dividend reinvestment plans are operational for the final dividend		
Net Tangible Assets per share	<b>2012</b> 233 cents	<b>2011</b> 231 cents

**Details of entities over which control has been gained or lost during the period**

During the financial period the holding company MyState Limited gained control of the following entity:

- The Rock Building Society Limited

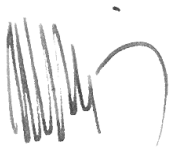
**Subsequent events**

This Appendix 4E: Preliminary Final report should be read in conjunction with the media release dated 29 August 2012 which discloses details of subsequent events.

The remainder of the information requiring disclosure to comply with Listing Rule 4.3A is contained in the attached copy of the Financial Statements and comments on performance of the Company included in the ASX Media Release dated 29 August 2012.

Further information regarding MyState Limited and its business activities can be obtained by visiting the company's website at [www.mystatelimited.com.au](http://www.mystatelimited.com.au).

Yours faithfully

A handwritten signature in black ink, appearing to be 'Paul Viney', with a stylized flourish at the end.

Paul Viney  
Secretary  
Phone (03) 6348 1170

# Directors' Report

Your Directors present their report on MyState Limited ACN 133 623 962  
(the Company) for the financial year ended 30 June 2012.

## 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  
Appointed 8 October 2008.

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

**Nicholas L d'Antoine** MAICD  
Independent non-executive Director  
Appointed 12 February 2009 (Resigned 30 September 2011).

**Peter D Armstrong**  
BEc(Hons), DipED, Dip FP, CPA, FAICD, FAMI  
Independent non-executive Director  
Appointed 12 February 2009.

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

**Tim M Gourlay** Dip Teach TTC, Grad Cert Mgmt, MAICD  
Independent non-executive Director  
Appointed 12 February 2009 (Resigned 25 October 2011).

**Miles L Hampton** B Ec(Hons), FCIS, FCPA, FAICD  
Independent non-executive Director  
Appointed 12 February 2009.

**Colin M Hollingsworth** CPA, MAICD, FAMI  
Independent non-executive Director  
Appointed 12 February 2009.

**Stephen E Lonie** B Com. MBA, FCA, FFin, FAICD, FIMA  
Independent non-executive Director  
Appointed 12 December 2011.

**Ian G Mansbridge** CPA, FCIS, FCIM  
Independent non-executive Director  
Appointed 12 February 2009.

**Sarah Merridew** BEc, FCA, FAICD  
Independent non-executive Director  
Appointed 12 February 2009.

**Anthony B Reidy** FAICD, MFIA, JP  
 Independent non-executive Director  
 Appointed 8 October 2008 ( Resigned 25 October 2011).

**Paul K M Viney** B Bus FCPA, FCSA, FCIS, CFTP, MAICD  
 Company Secretary/Chief Financial Officer  
 Appointed 8 October 2008.

More information is set out in the Annual Report.

## Principal Activities

MyState Limited, a non-operating holding company, is a listed diversified financial services Group, providing a range of financial products and services to existing and new customers through its wholly-owned subsidiaries. The primary operating subsidiaries are MyState Financial and The Rock Building Society, which are authorised deposit-taking institutions and Tasmanian Perpetual Trustees, which is a trustee and wealth management company.

MyState Limited, MyState Financial and The Rock Building Society are regulated by the Australian Prudential Regulation Authority (APRA). 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.

Headquartered in Tasmania, its diverse business operations cover:

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
Personal and business lending		Private Client Services

## Consolidated Results

The consolidated net profit for the year after income tax expense was \$23,383,844 (2011:\$22,019,846).

## Dividends

The amounts paid or declared by way of dividend by the Company since the commencement of the financial year were:

- (a) A final fully franked dividend of 15 cents per share declared for the year ended 30 June 2011, paid on 7 October 2011.
- (b) An interim fully franked dividend of 14 cents per share for the year ended 30 June 2012, paid on 9 December 2011.
- (c) A final fully franked dividend of 14 cents per share declared for the year ended 30 June 2012, to be paid on 4 October 2012.

Further details are set out in Note 11 of the financial statements.

## Review and Results of Operations

Profit after tax for the year ended 30 June 2012 increased by 6.2% to \$23.383 million, compared to the 2011 result of \$22.019 million. This year's result included profit from The Rock Building Society Limited (The Rock) for the 7 month period post its merger with MyState Limited. Earnings per share at 29.91 cents was down 8.4% on the prior period, based on the expanded number of shares.

This result was achieved in a period of intense competition and reflects the continued progress being made in delivering the cost synergies and revenue gains from the merger of MyState Financial (MSF) and Tasmanian Perpetual Trustees (TPT) in September 2009 and the early stages of synergy achievement following the merger with The Rock in December 2011. The results also confirm the strengths of MyState Limited's brands and ability to win business and maintain strong customer loyalty through the delivery of exceptional customer service and highly competitive offerings.

The result contains one-off costs flowing from The Rock merger process and subsequent implementation of cost reduction, associated with restructuring and redevelopment of the business.

The MyState Limited Group has continued to take market share from local competitors, with the MSF home lending portfolio growing by greater than national system growth and the household deposit portfolio also growing by greater than national system growth. Importantly, MSF has managed to achieve this result while still maintaining a healthy average net interest margin within a very competitive environment.

Despite more difficult economic conditions, the MSF 30 day secured loan arrears is still sitting at less than 1% by value. Continuing high credit quality is testimony to the Group's rigorous credit assessment processes, as well as the quality of on-going customer relationship management.

MyState Financial's net interest margin has declined slightly over the past 12 months. The second half year was negatively impacted by higher deposit rates in an aggressive funding market, combined with rapid lending rate re-pricing, following on from Reserve Bank cash rate decreases.

The Rock home lending portfolio grew by slightly more than national system growth levels. The household deposit portfolio has shown encouraging signs of growth as The Rock places greater focus on this important source of funding

Despite more difficult economic conditions, The Rock's 30 day secured loan arrears is less than 1% by value, which is an excellent result considering difficult economic conditions reported in some areas of Queensland. Continuing high credit quality is testimony to the on-going quality of credit assessment processes, for both broker sourced and home market sourced loans.

The Rock's net interest margin has been under pressure over the past 7 months since merger, due to highly competitive wholesale funding markets upon which The Rock has historically been reliant. Higher deposit rates in this aggressive funding market combined with rapid lending rate repricing, following on from Reserve Bank cash rate decreases has presented challenges to the business.

Revenues in Tasmanian Perpetual Trustees are stable, as is the retail managed funds portfolio at approximately \$930 million, whilst wealth management funds under advice remains stable at around \$700 million.

The Group's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained.

The Group's capital management policy is to be conservatively capitalised and to maintain diverse funding sources in order to support business initiatives, whilst maintaining counterparty and client confidence.

The Group is subject to minimum capital requirements required by APRA and, as at 30 June 2012, had a Tier 1 capital ratio above 14%. APRA requires all ADIs to have a minimum ratio of capital to risk weighted assets. In addition, APRA also imposes ADI specific minimum capital ratios which may be higher than these levels. The Group's internal capital policy set by the Board requires capital floors above this APRA regulatory required level. The Group has met all of its capital requirements throughout the year.

## 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 review and results of operations above and in particular the merger with The Rock.

## 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 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 MyState Limited Group is not subject to significant environmental regulation.

## Directors' Meetings

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

### MyState Limited Directors' Meetings 2011/2012

	BOARD MEETINGS		GROUP AUDIT COMMITTEE MEETINGS		GROUP RISK COMMITTEE MEETINGS		GROUP CORPORATE GOVERNANCE & REMUNERATION COMMITTEE MEETINGS		GROUP NOMINATION COMMITTEE MEETINGS		GROUP MERGERS AND ACQUISITIONS COMMITTEE MEETINGS(*)	
	A	B	A	B	A	B	A	B	A	B	A	B
M J Vertigan	12	13	-	-	-	-	-	-	2	2	-	-
P D Armstrong	13	13	7	7	-	-	5	5	-	-	-	-
N d'Antoine*	4	4	-	-	1	1	2	5	-	-	-	-
R L Gordon***	13	13	-	-	-	-	5	5	1	1	2	2
T M Gourlay*	5	5	-	-	1	1	-	-	1	2	-	-
M L Hampton	13	13	6	7	4	4	-	-	-	-	1	2
C M Hollingsworth***	13	13	7	7	4	4	2	2	-	-	2	2
S E Lonie** & ***	5	5	4	4	-	-	1	2	-	-	-	-
I G Mansbridge***	12	13	-	-	4	4	-	-	1	1	2	2
S Merridew***	12	13	3	3	2	2	1	2	1	2	2	2
A B Reidy*	4	5	-	-	-	-	3	3	1	2	-	-
G J Gilbert	13	13	-	-	-	-	-	-	-	-	-	-

\* Denotes retirement of Directors 30/9/11 & 25/10/11

\*\* New Appointment of Director

\*\*\* Change in Committee Membership

(\*) Committee Disbanded following November Board Meeting

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	-	449,661
P D Armstrong	387	774	-	-
N L d'Antoine(1)	29,920	80 ,600	81,644	1,019,926
G J Gilbert	-	-	-	-
R L Gordon	387	-	-	-
T M Gourlay(2)	387	387	-	-
M L Hampton	-	600,000	-	-
C M Hollingsworth	3,000	7,274	-	-
S E Lonie(3)	-	40,000	-	-
I G Mansbridge		170,000	-	-
S Merridew	4,000	20,000	-	-
A B Reidy(2)	387	387	-	-

(1) Resigned as a Director 30/9/2011.

(2) Resigned as a Director 25/10/2011.

(3) Appointed as a Director 12/12/2011.

## 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 43 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.

The non-audit services provided do not undermine the general principles relating to auditor independence as they related to technical disclosure issues.



**Wise Lord & Ferguson**



*advice to advantage*

**Chartered Accountants**

### **Auditor's Independence Declaration to the Directors of MyState Limited**

In relation to our audit of the financial report of MyState Limited for the financial year ended 30 June 2012, 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.

**D J McCARTHY**

Partner

Wise Lord & Ferguson

Date: 28.8.2012



1<sup>st</sup> 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](mailto:email@wlf.com.au) Internet: [www.wlf.com.au](http://www.wlf.com.au)

**Partners:** Peter Beven, Harvey Gibson, Danny McCarthy, Douglas Thomson,  
Joanne Doyle, Stuart Clutterbuck, Ian Wheeler, Dean Johnson, Marg Marshall, Paul Lyons.  
**Managers:** Alicia Leis, Melanie Richardson, Nick Carter, Simon Jones,  
Shaun Evans, Trent Queen, Angela Parisi, Rachel Burns, Megan Smith.

**MyState Limited**  
**Income Statement**  
for the financial year ended 30 June 2012

	Notes	Consolidated		Company	
		30 June 2012	30 June 2011	30 June 2012	30 June 2011
		\$	\$	\$	\$
Interest income	3	202,985,412	151,680,743	114,953	81,858
Interest expense	3	(123,965,569)	(84,074,437)	-	-
<b>Net interest margin</b>		<u>79,019,843</u>	<u>67,606,306</u>	<u>114,953</u>	<u>81,858</u>
Other revenue	4	38,464,487	35,675,196	26,735,595	22,808,779
Other expenses	5	(79,927,858)	(68,366,146)	(9,361,169)	(6,368,038)
<b>Profit before bad and doubtful debts and income tax</b>		<u>37,556,472</u>	<u>34,915,356</u>	<u>17,489,379</u>	<u>16,522,599</u>
Less bad and doubtful debts	18 (b)	(3,395,317)	(3,990,872)	-	-
Profit before income tax expense	6	34,161,155	30,924,484	17,489,379	16,522,599
Income tax expense/(benefit)	8	10,777,311	8,904,638	(84,297)	(428,268)
<b>Net profit after income tax</b>		<u><b>23,383,844</b></u>	<u><b>22,019,846</b></u>	<u><b>17,573,676</b></u>	<u><b>16,950,867</b></u>
Basic earnings per share (cents per share)	13	29.91	32.65		
Diluted earnings per share (cents per share)	13	29.91	32.65		

The accompanying notes form part of these financial statements.

**MyState Limited**  
**Statement of Comprehensive Income**  
**for the financial year ended 30 June 2012**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>Net profit after income tax</b>	23,383,844	22,019,846	17,573,676	16,950,867
Other comprehensive income/(expense):				
Cashflow hedge movements	(2,862,560)	78,273	-	-
Net fair value gains on available for sale financial assets	147,916	428,764	-	-
Fair value revaluation of land and buildings	-	176,321	-	-
Income tax expense/(benefit) on other comprehensive income	814,099	(205,007)	-	-
<b>Total other comprehensive income/ (expenses) for the period</b>	<u>(1,900,545)</u>	<u>478,351</u>	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the period</b>	<u><b>21,483,299</b></u>	<u><b>22,498,197</b></u>	<u><b>17,573,676</b></u>	<u><b>16,950,867</b></u>
Total comprehensive income for the period is attributable to:				
Ordinary equity holders of MyState Limited	21,483,299	22,498,197	17,573,676	16,950,867
<b>Total comprehensive income for the period</b>	<u><b>21,483,299</b></u>	<u><b>22,498,197</b></u>	<u><b>17,573,676</b></u>	<u><b>16,950,867</b></u>

The accompanying notes form part of these financial statements.

**MyState Limited**  
**Statement of Financial Position**  
**as at 30 June 2012**

	Notes	Consolidated		Company	
		30 June 2012	30 June 2011	30 June 2012	30 June 2011
		\$	\$	\$	\$
<b>ASSETS</b>					
Cash and cash equivalents	14	70,003,205	34,970,545	1,392,279	29,422
Available for sale financial assets	16	402,069,712	269,168,902	-	-
Receivables	17	26,634,785	15,145,969	3,215,129	4,672,672
Loans at amortised cost	18	3,056,519,377	1,854,540,236	-	-
Other investments	20	5,020,527	4,520,527	237,511,172	170,527,844
Assets classified as held for sale	21	-	5,625,000	-	-
Property, plant and equipment	22	17,018,854	8,083,636	-	-
Tax assets	9	9,072,072	5,832,281	1,410,098	1,423,141
Other assets	23	36,194	36,194	-	-
Intangible assets and goodwill	24	70,827,736	48,830,553	-	-
<b>TOTAL ASSETS</b>		<b>3,657,202,462</b>	<b>2,246,753,843</b>	<b>243,528,678</b>	<b>176,653,079</b>
<b>LIABILITIES</b>					
Deposits	25	2,236,655,207	1,496,596,212	-	-
Interest bearing loans and borrowings	26	1,079,420,919	507,130,202	-	-
Payables and other liabilities	27	50,172,549	29,829,111	2,254,266	1,555,091
Derivatives	28	7,343,468	-	-	-
Tax liabilities	10	3,545,404	3,707,978	2,154,018	1,527,886
Provisions	29	6,187,666	4,889,348	561,409	377,751
<b>TOTAL LIABILITIES</b>		<b>3,383,325,213</b>	<b>2,042,152,851</b>	<b>4,969,693</b>	<b>3,460,728</b>
<b>NET ASSETS</b>		<b>273,877,249</b>	<b>204,600,992</b>	<b>238,558,985</b>	<b>173,192,351</b>
<b>EQUITY</b>					
Share capital	30	131,785,926	64,701,212	237,714,081	170,629,367
Retained earnings	31	141,094,004	137,274,562	319,218	2,309,944
Asset revaluation reserve	31	2,340,314	2,340,314	-	-
Employee equity benefits reserve	31	525,686	253,040	525,686	253,040
Hedging reserve	31	(2,004,087)	-	-	-
Net unrealised gains reserve	31	135,406	31,864	-	-
<b>TOTAL EQUITY</b>		<b>273,877,249</b>	<b>204,600,992</b>	<b>238,558,985</b>	<b>173,192,351</b>

The accompanying notes form part of these financial statements.

**MyState Limited**  
**Statement of Changes in Equity**  
for the financial year ended 30 June 2012

Consolidated	Attributable to equity holders of the company						Total
	Share Capital	Retained Earnings	Asset Revaluation Reserve	Employee Equity Benefit Reserve	Hedging Reserve	Net Unrealised Gains Reserve	
	\$	\$	\$	\$	\$	\$	
At 1 July 2010	64,623,801	131,777,658	2,216,890	90,226	(54,791)	(268,272)	198,385,512
Net profit after income tax	-	22,019,846	-	-	-	-	22,019,846
Other comprehensive income (net of tax)	-	-	123,424	-	54,791	300,136	478,351
Total comprehensive income for the period	-	22,019,846	123,424	-	54,791	300,136	22,498,197
Equity issued under employee share scheme	77,411	-	-	-	-	-	77,411
Share based payment expense recognised	-	-	-	162,814	-	-	162,814
Dividends paid	-	(16,522,942)	-	-	-	-	(16,522,942)
<b>At 30 June 2011</b>	<b>64,701,212</b>	<b>137,274,562</b>	<b>2,340,314</b>	<b>253,040</b>	<b>-</b>	<b>31,864</b>	<b>204,600,992</b>
At 1 July 2011	64,701,212	137,274,562	2,340,314	253,040	-	31,864	204,600,992
Net profit after income tax	-	23,383,844	-	-	-	-	23,383,844
Other comprehensive income/(expense) (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)
<b>At 30 June 2012</b>	<b>131,785,926</b>	<b>141,094,004</b>	<b>2,340,314</b>	<b>525,686</b>	<b>(2,004,087)</b>	<b>135,406</b>	<b>273,877,249</b>

**MyState Limited**  
**Statement of Changes in Equity (continued)**  
for the financial year ended 30 June 2012

Company	Attributable to equity holders of the company						Total
	Share Capital	Retained Earnings	Asset Revaluation Reserve	Employee Equity Benefit Reserve	Hedging Reserve	Net Unrealised Gains Reserve	
	\$	\$	\$	\$	\$	\$	
At 1 July 2010	170,551,956	1,882,019	-	90,226	-	-	172,524,201
Net profit after income tax	-	16,950,867	-	-	-	-	16,950,867
Total comprehensive income for the period	-	16,950,867	-	-	-	-	16,950,867
Equity issued under employee share scheme	77,411	-	-	-	-	-	77,411
Share based payment expense recognised	-	-	-	162,814	-	-	162,814
Dividends paid	-	(16,522,942)	-	-	-	-	(16,522,942)
<b>At 30 June 2011</b>	<b>170,629,367</b>	<b>2,309,944</b>	<b>-</b>	<b>253,040</b>	<b>-</b>	<b>-</b>	<b>173,192,351</b>
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)
<b>At 30 June 2012</b>	<b>237,714,081</b>	<b>319,218</b>	<b>-</b>	<b>525,686</b>	<b>-</b>	<b>-</b>	<b>238,558,985</b>

**MyState Limited**  
**Statement of Cash Flows**  
for the financial year ended 30 June 2012

	Notes	Consolidated		Company	
		30 June 2012	30 June 2011	30 June 2012	30 June 2011
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Interest received		196,084,411	145,658,347	114,953	81,858
Interest paid		(119,278,758)	(83,121,261)	-	-
Fees and commissions received		33,910,581	33,509,091	7,317,673	10,017,584
Other non-interest income received		949,140	356,841	-	104
Payments to suppliers and employees		(82,072,126)	(62,585,506)	(8,917,503)	(4,569,954)
Dividends received		719,611	1,161,224	-	-
Income tax paid		(8,807,426)	(10,815,851)	(8,615,330)	(13,595,317)
Net income tax contributions received from subsidiaries		-	-	8,171,122	16,007,216
<b>Net cash flows from/(used in) operating activities</b>	32 (c)	<b>21,505,433</b>	<b>24,162,885</b>	<b>(1,929,085)</b>	<b>7,941,491</b>
<b>Cash flows from investing activities</b>					
Cash acquired on the acquisition of					
The Rock Building Society Limited		58,355,363	-	-	-
Dividend paid to the former shareholders of the ROK	44	(1,509,700)	-	-	-
Net (increase) in loans to customers		(177,398,078)	(145,744,180)	-	-
Net movement in amounts due from other financial institutions		(13,801,394)	(42,060,611)	-	-
Dividend received		-	-	19,560,758	16,522,594
Acquisition of investments		(500,000)	-	-	-
Disposals of investments		-	30,000	-	-
Purchase of intangible assets		(688,905)	(847,192)	-	-
Disposal of property, plant and equipment		1,737,619	18,410	-	-
Purchase of property, plant and equipment		(7,204,184)	(214,569)	-	-
<b>Net cash flows from/(used in) investing activities</b>		<b>(141,009,279)</b>	<b>(188,818,142)</b>	<b>19,560,758</b>	<b>16,522,594</b>
<b>Cash flows from financing activities</b>					
Net increase in deposits		151,678,699	9,917,472	-	-
Net (increase)/decrease in loans to related entities		-	-	3,208,606	(7,989,232)
Net increase in amounts due to other financial institutions		22,335,229	169,384,162	-	-
Employee share issue		86,980	77,411	86,980	77,411
Dividends paid	11	(19,564,402)	(16,522,942)	(19,564,402)	(16,522,942)
<b>Net cash flows from/(used in) financing activities</b>		<b>154,536,506</b>	<b>162,856,103</b>	<b>(16,268,816)</b>	<b>(24,434,763)</b>
Net increase/(decrease) in cash held		35,032,660	(1,799,154)	1,362,857	29,322
Cash at beginning of financial year		34,970,545	36,769,699	29,422	100
<b>Closing cash carried forward</b>	32 (a)	<b>70,003,205</b>	<b>34,970,545</b>	<b>1,392,279</b>	<b>29,422</b>

The accompanying notes form part of these financial statements.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012**

**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 2012. 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 2011.

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"	MyState Financial Limited and the entities it controlled at the end of, or during the period;
"TPT"	Tasmanian Perpetual Trustees Limited;
"ROK"	The Rock Building Society Limited and the entities it controlled at the end of, or during the period;
the "Acquisition"	the acquisition of ROK by the Company;
the "period"	the year ended 30 June 2012; and,
the "comparative period"	the year ended 30 June 2011.

During the 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 period include the contributions from ROK since the acquisition date. The Rock Building Society Limited controls a number of entities. The results and cashflows of these entities are included within the contribution from ROK. 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 2012, 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 2013. It was further amended by AASB 2010-7. It provides revised guidance on 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.

AASB 9 must be initially applied in the financial year ending 30 June 2014, 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 has not yet determined the potential effect of the standard.

**AASB 2011-9 Amendments to Australian Accounting Standards -Presentation of Other Comprehensive Income (AASB 101)** was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 July 2012. This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassifiable adjustments). The consolidated entity has determined that the standard will have minimal effect.

**AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)** was issued in July 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It makes amendments to remove individual key management personnel disclosure requirements from AASB 124. The consolidated entity has not yet determined the potential effect of the standard.

**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 entities and subsidiaries with non controlling interests. The consolidated entity has not yet determined the potential effect of the standard.

**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 has not yet determined the potential effect of the standard.

## **1 Summary of significant accounting policies (continued)**

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

### **(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 24); and
- determining the fair value of the assets and liabilities acquired in the acquisition of the ROK (see note 44).

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 36.

#### *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.

**1 Summary of significant accounting policies (continued)**

**(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.

**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 life's are:

Buildings	2.50%	(2011: 2.50%)
Office furniture and fittings	15.00% - 20.00%	(2011: 15.00%)
Building fit-out (owned buildings)	6.67% - 25%	(2011: 25.00%)
Office equipment	25.00%	(2011: 25.00%)
Computer hardware	33.33%	(2011: 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 24.

**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.
- 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.

**1 Summary of significant accounting policies (continued)**

**(t) Revenue recognition (continued)**

**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.

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 and Connect Asset Management Proprietary Limited elected to form a tax consolidated group with effect from 17 September 2009. During the period, The Rock Building Society Limited became a member of this Group as at the date of the acquisition. 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.

## 1 Summary of significant accounting policies (continued)

### (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 profit or loss, 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 profit and loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, 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 profit or loss.

##### *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 profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to profit or loss 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 profit or loss, 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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**2 Change in Accounting Policies**

There have been no changes in accounting policies which have been applied in this period. However, the consolidated entity has revised the methods that it uses to apply the "effective interest rate method" in order to recognise interest income, as detailed below. The change has been applied prospectively from the commencement of the period.

**Loan Origination Costs and Loan Application Fees**

Costs and revenues that are incurred or arise solely and directly as a consequence of recognising a loan asset are now recognised as components in the calculation of the effective interest rate method in relation to originated loans. Such costs and revenues include payments to brokers for sourcing loans, ongoing commission payments to brokers and loan application fee income. They therefore affect the interest recognised in relation to this portfolio of loans. The average life and interest recognition pattern of loans in the relevant loan portfolios is reviewed annually to ensure the amortisation methodology for loan origination costs and fees is appropriate.

The revised method is considered appropriate because of recent changes in the economic circumstances of the consolidated entity. MSF traditionally received loan application fee income, which, to a large extent offset the loan origination costs which were incurred. The resulting balance of net cost was considered to be minor and immaterial. Market pressures have, in recent time, meant that loan application fee income is not generated to the extent that it was. Additionally, the acquisition of the ROK has increased the proportion of loan assets sourced through broker networks and therefore an increase in the level of related costs that are incurred. The ROK has and continues to source a higher proportion of loan assets than MSF through such sources.

The consequence of these economic changes is that the quantum of affected costs in the consolidated entity has risen to the level that it is considered appropriate to revise the methods for accounting for them in order to more fully and correctly apply the existing accounting policy.

The effect of the revised method is to increase/(decrease) the following amounts reported for the period:

	<b>30 June 2012</b>
	<b>\$</b>
Interest Income	(2,030,412)
Other expenses	(3,403,220)
Profit before income tax	1,372,808
Income tax expense	411,842
Profit after income tax	960,966

**MyState Limited**  
Notes to the financial statements for the year ended 30 June 2012 (continued)

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>3 Interest income and interest expense</b>				
<b>Interest income</b>				
Loans, other than commercial	175,043,849	132,413,841	-	-
Cash flow hedges	3,165,640	-	-	-
Commercial loans	4,170,759	3,918,150	-	-
Deposits with other financial institutions	20,605,164	15,348,752	114,953	81,858
<b>Total interest income</b>	<b>202,985,412</b>	<b>151,680,743</b>	<b>114,953</b>	<b>81,858</b>
<b>Interest expense</b>				
Interest on deposits	80,036,769	61,661,072	-	-
Interest due to other financial institutions	42,012,242	22,413,365	-	-
Derivatives - net of interest received	1,916,558	-	-	-
<b>Total interest expense</b>	<b>123,965,569</b>	<b>84,074,437</b>	<b>-</b>	<b>-</b>
<b>4 Other revenue</b>				
<b>Revenue from operating activities</b>				
Bad debts recovered	1,143,131	824,606	-	-
Loan fee income	2,548,606	2,942,057	-	-
Other fees	11,755,216	9,933,283	52,239	-
Management fees	8,659,147	8,732,338	-	-
Commissions	9,463,491	8,672,841	-	-
Estate administration	2,668,145	3,161,446	-	-
Dividends received from subsidiaries	-	-	19,560,758	16,522,594
Intercompany management fees	-	-	7,122,598	6,286,081
Other income	1,507,140	247,401	-	104
<b>Total revenue from operating activities</b>	<b>37,744,876</b>	<b>34,513,972</b>	<b>26,735,595</b>	<b>22,808,779</b>
<b>Revenue from non-operating activities</b>				
Dividends:				
- Other corporations	719,611	1,161,224	-	-
<b>Total revenue from non-operating activities</b>	<b>719,611</b>	<b>1,161,224</b>	<b>-</b>	<b>-</b>
<b>Total other revenue</b>	<b>38,464,487</b>	<b>35,675,196</b>	<b>26,735,595</b>	<b>22,808,779</b>
<b>5 Expenses</b>				
Personnel costs	38,523,351	32,793,804	3,696,124	3,360,040
Marketing costs	3,107,570	2,916,106	14,849	21,404
Governance costs (1)	5,744,244	2,721,093	4,765,484	2,167,137
Technology costs	7,731,597	6,296,634	22,123	2,741
Occupancy costs	5,308,292	4,092,851	43,938	6,369
Administration costs	19,512,804	19,545,658	818,651	810,347
<b>Total expenses</b>	<b>79,927,858</b>	<b>68,366,146</b>	<b>9,361,169</b>	<b>6,368,038</b>

(1) Includes costs incurred for the Acquisition of ROK (see note 6(ii)).

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Note	Consolidated		Company	
		30 June 2012	30 June 2011	30 June 2012	30 June 2011
		\$	\$	\$	\$
<b>6 Profit before income tax expense</b>					
Profit before income tax expense includes the following specific revenues and expenses:					
<b>(i) Revenue</b>					
Special dividend from Cuscal Limited		245,449	712,845	-	-
<b>(ii) Expenses</b>					
Costs incurred for the Acquisition of ROK		2,071,378	-	2,071,378	-
Termination payments		1,091,132	201,593	281,469	342,410
Impairment loss on properties	21	-	359,869	-	-
Loss on disposal of property, plant and equipment		862,497	-	-	-
Operating lease payments		1,328,689	646,110	79,077	6,473
Supervision levy		98,304	78,291	-	-
Auditors' remuneration	43	508,402	387,238	121,224	68,118
Depreciation of property, plant and equipment:					
- Depreciation of plant and equipment	22	1,053,554	901,799	-	-
- Depreciation of buildings	22	675,518	1,260,232	-	-
<b>Total depreciation of property, plant and equipment</b>		<b>1,729,072</b>	<b>2,162,031</b>	<b>-</b>	<b>-</b>
Amortisation of intangible assets:					
- Amortisation of software	24	1,100,269	397,496	-	-
- Amortisation of CUTD licence	24	13,997	157,085	-	-
- Amortisation of RMBS setup costs	24	323,226	157,923	-	-
<b>Total amortisation of intangible assets</b>		<b>1,437,492</b>	<b>712,504</b>	<b>-</b>	<b>-</b>
<b>Total depreciation and amortisation expenses</b>		<b>3,166,564</b>	<b>2,874,535</b>	<b>-</b>	<b>-</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**7 Segment Financial information**

For internal reporting purposes, the consolidated entity is divided into three operating divisions and a corporate cost centre. These segments reflect the recent acquisition of the ROK. 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	ROK	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
<b>Other revenue</b>					
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
<b>Total other revenue</b>	<b>18,022,082</b>	<b>3,365,226</b>	<b>17,353,426</b>	<b>(276,247)</b>	<b>38,464,487</b>
<b>Material expenditures</b>					
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
Bad and doubtful debts	3,414,963	(19,646)	-	-	3,395,317
Operating lease payments	379,042	518,583	351,987	79,077	1,328,689
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
<b>Segment net profit after income tax</b>	<b>20,583,686</b>	<b>3,288,125</b>	<b>1,504,170</b>	<b>(1,992,137)</b>	<b>23,383,844</b>
<b>Segment assets</b>	<b>2,372,175,443</b>	<b>1,206,737,920</b>	<b>30,931,672</b>	<b>47,357,427</b>	<b>3,657,202,462</b>
Capital expenditure	3,714,645	3,444,299	45,240	-	7,204,184
Total liabilities	2,223,805,534	1,154,960,884	4,182,370	376,425	3,383,325,213

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**7 Segment Financial information (continued)**

	MSF	ROK	TPT	Corporate and consolidation adjustment	Consolidated Total
Year ended 30 June 2011	\$	\$	\$	\$	\$
Interest revenue	151,549,907	-	48,978	81,858	151,680,743
Interest expense	84,074,437	-	-	-	84,074,437
<b>Other revenue</b>					
Bad debts recovered	824,606	-	-	-	824,606
Loan fee income	2,543,258	-	398,799	-	2,942,057
Other fees	8,907,839	-	1,025,444	-	9,933,283
Management fees	-	-	8,732,338	-	8,732,338
Commissions	6,150,977	-	2,521,864	-	8,672,841
Estate administration	-	-	3,161,446	-	3,161,446
Other income	355,657	-	1,080	(109,336)	247,401
Dividends and distributions	1,161,224	-	-	-	1,161,224
<b>Total other revenue</b>	<b>19,943,561</b>	<b>-</b>	<b>15,840,971</b>	<b>(109,336)</b>	<b>35,675,196</b>
<b>Material expenditures</b>					
Termination payments	(331,367)	-	190,550	342,410	201,593
Impairment loss on properties	288,761	-	71,108	-	359,869
Contractually committed lease payments	141,127	-	225,000	-	366,127
Bad and doubtful debts	3,990,872	-	-	-	3,990,872
Operating lease payments	484,847	-	154,790	6,473	646,110
Depreciation and amortisation	1,876,948	-	997,587	-	2,874,535
Income Tax	8,935,425	-	619,558	(650,345)	8,904,638
<b>Segment net profit after income tax</b>	<b>19,870,951</b>	<b>-</b>	<b>1,561,655</b>	<b>587,240</b>	<b>22,019,846</b>
<b>Segment assets held for sale</b>	<b>3,655,000</b>	<b>-</b>	<b>1,970,000</b>	<b>-</b>	<b>5,625,000</b>
Segment assets	2,183,800,238	-	31,953,890	30,999,715	2,246,753,843
Capital expenditure	190,176	-	24,393	-	214,569
Total liabilities	2,039,954,639	-	3,310,918	(1,112,706)	2,042,152,851

**MyState Limited**  
Notes to the financial statements for the year ended 30 June 2012 (continued)

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>8 Income tax</b>				
<i>Income tax expense (benefit)</i>				
The major components of income tax expense /(benefit) are:				
Current tax expense	9,071,628	8,819,721	(296,122)	(258,004)
Deferred tax expense				
- decrease/(increase) in deferred tax assets	924,092	305,332	165,903	273,587
- (decrease)/increase in deferred tax liabilities	854,022	(146,828)	13,744	-
Adjustments for current tax of prior years	161,131	(1,210,660)	169,716	(625,035)
Adjustments for deferred tax of prior years	(233,562)	1,137,073	(137,538)	181,184
	<b>10,777,311</b>	<b>8,904,638</b>	<b>(84,297)</b>	<b>(428,268)</b>
<i>Reconciliation of income tax expense to prima facie tax payable</i>				
Accounting profit/ (loss) before tax	34,161,155	30,924,484	17,489,379	16,522,599
Prima facie tax at statutory income tax rate of 30% (2011: 30%)	10,248,347	9,277,345	5,246,814	4,956,780
<i>Tax effect of amounts which are non assessable/(non deductible) in calculating taxable income:</i>				
- Adjustments for current tax of prior years	(72,654)	(473,791)	-	(625,035)
- Non taxable dividends received	(215,884)	(348,367)	(5,868,227)	(4,956,778)
- Non deductible ROK Acquisition costs	480,290	-	480,290	-
- Other adjustments	337,212	95,191	24,648	15,581
- Adjustments for deferred tax of prior years	-	354,260	32,178	181,184
Income tax expense/(benefit)	<b>10,777,311</b>	<b>8,904,638</b>	<b>(84,297)</b>	<b>(428,268)</b>
Weighted average effective tax rates	32%	29%	0%	-3%

**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 between 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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>8 Income tax (continued)</b>				
<b>(ii) Tax effect accounting by members of the tax consolidated group</b>				
<b>Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting</b>				
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.				
<b>Tax consolidation contributions/(distributions)</b>				
MyState Limited has recognised the following amounts as tax consolidation contribution adjustments:				
Total increase to tax payable of the Company			9,367,822	16,007,216
Total increase to intercompany assets of the Company			9,367,822	16,007,216
<b>9 Deferred tax assets</b>				
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in the Income Statement</i>				
Other	1,397,531	11,014	598,735	-
Provision for doubtful debts	1,165,815	870,130	-	-
Depreciation of property, plant & equipment	1,877,179	1,292,136	1,516	-
Employee provisions	2,300,028	1,622,804	168,423	113,325
Creditors & accruals	1,229,757	666,568	398,143	199,912
Carried forward losses	243,283	243,500	243,281	243,500
Capital losses	-	152,515	-	-
Other costs to be amortised for tax purposes	-	973,614	-	866,404
	<b>8,213,593</b>	<b>5,832,281</b>	<b>1,410,098</b>	<b>1,423,141</b>
<i>Amounts recognised directly in equity</i>				
Hedging liability	858,479	-	-	-
	<b>9,072,072</b>	<b>5,832,281</b>	<b>1,410,098</b>	<b>1,423,141</b>
<i>Movements</i>				
Opening balance	5,832,281	6,950,428	1,423,141	1,878,130
Balance transferred in on merger	4,014,418	-	-	-
Reclassification deferred tax	(932,354)	(420,861)	-	-
Credited/(charged) to Income Statement	(924,092)	(305,332)	(165,903)	(273,587)
Credited/(charged) to Equity	858,479	(109,270)	-	(181,402)
Transfers	63	(6,769)	15,321	-
Adjustments for deferred tax of prior years	223,277	(275,915)	137,539	-
Closing balance	<b>9,072,072</b>	<b>5,832,281</b>	<b>1,410,098</b>	<b>1,423,141</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>10 Tax liabilities</b>				
The deferred tax balance comprises temporary differences attributable to:				
<i>Amounts recognised in the Income Statement</i>				
Other	50,892	149,671	-	-
Accrued income	578,713	419,632	-	-
Prepaid expenses	94,814	117,735	13,744	-
Intangible asset	56,386	-	-	-
Investments	-	69,758	-	-
Land and buildings	876,868	898,296	-	-
	<b>1,657,673</b>	<b>1,655,092</b>	<b>13,744</b>	<b>-</b>
<i>Amounts recognised directly in equity</i>				
Land and buildings	44,379	-	-	-
	<b>44,379</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>1,702,052</b>	<b>1,655,092</b>	<b>13,744</b>	<b>-</b>
<i>Movements</i>				
Opening balance	1,655,092	1,393,352	-	-
Balance transferred in on Acquisition	86,300	-	-	-
Reclassification deferred tax asset	(932,354)	(420,861)	-	-
Charged/(credited) to Income Statement	854,022	(146,828)	13,744	-
Credited/(charged) to equity	44,379	51,620	-	-
Adjustments for deferred tax of prior years	(5,387)	777,809	-	-
Deferred tax closing balance	<b>1,702,052</b>	<b>1,655,092</b>	<b>13,744</b>	<b>-</b>
<b>Current tax liabilities</b>				
Current tax payable	<b>1,843,352</b>	<b>2,052,886</b>	<b>2,140,274</b>	<b>1,527,886</b>
<b>Total tax liabilities</b>	<b>3,545,404</b>	<b>3,707,978</b>	<b>2,154,018</b>	<b>1,527,886</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Date of payment	Company		Date of payment
	30 June 2012	30 June 2011		30 June 2012	30 June 2011	
	\$	\$		\$	\$	
<b>11 Dividends</b>						
<b>a) Dividends paid</b>						
2011 Final dividend paid: 15 cents per share (2010: 12.5 cents per share)	10,119,518	8,430,243	7/10/2011	10,119,518	8,430,243	7/10/2011
2012 Interim dividend paid: 14 cents per share (2011: 12 cents per share)	9,444,884	8,092,699	9/12/2011	9,444,884	8,092,699	9/12/2011
Total dividends paid	<u>19,564,402</u>	<u>16,522,942</u>		<u>19,564,402</u>	<u>16,522,942</u>	

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 28th August 2012, Directors resolved that a final dividend for the 2012 financial year of 14 cents per share, fully franked at the 30 per cent corporate tax rate, be paid (2011: 15 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	<u>12,176,860</u>	10,119,518	<u>12,176,860</u>	10,119,518
---------------------	-------------------	------------	-------------------	------------

The payment of the 2012 final dividend reduces the balance of the franking account by:

	<u>5,218,654</u>	4,336,936	<u>5,218,654</u>	4,336,936
--	------------------	-----------	------------------	-----------

**12 Franking credit balance**

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at the end of the period at 30% (2011: 30%)	55,680,626	51,889,637	55,680,626	51,889,637
---	------------	------------	------------	------------

Franking credits that will arise from the payment of income tax payable at the end of the period

	1,843,352	2,043,489	1,843,352	2,043,489
--	-----------	-----------	-----------	-----------

**13 Earnings per share**

	30 June 2012 cents	30 June 2011 cents
Basic earnings per share	29.91	32.65
Diluted earnings per share	29.91	32.65

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

	\$	\$
Net Profit	23,383,844	22,019,846

Weighted average number of ordinary shares used in calculating basic and diluted earnings per share:

	Number	Number
	78,171,402	67,434,769

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>14 Cash and cash equivalents</b>				
Cash on hand	70,003,205	34,970,545	1,392,279	29,422
<b>Total cash and cash equivalents</b>	<u>70,003,205</u>	<u>34,970,545</u>	<u>1,392,279</u>	<u>29,422</u>
<b>15 Securitisation</b>				
During this period, the consolidated entity securitised residential, mortgage insured home loans, amounting to \$93,913,233 (2011: \$283,789,837). 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.				
<b>16 Available for sale financial assets</b>				
Due from banks	156,318,408	142,530,471	-	-
Due from other non-bank financial institutions	245,751,304	126,638,431	-	-
<b>Total due from other financial institutions</b>	<u>402,069,712</u>	<u>269,168,902</u>	<u>-</u>	<u>-</u>
<b>17 Receivables</b>				
Interest receivable	2,847,978	2,314,835	-	-
Related party receivables				
- Controlled entities within the wholly owned consolidated entity	-	-	3,160,618	4,475,325
Other receivables	23,786,807	12,831,134	54,511	197,347
<b>Total receivables</b>	<u>26,634,785</u>	<u>15,145,969</u>	<u>3,215,129</u>	<u>4,672,672</u>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>18 Loans held at amortised cost</b>				
<b>(a) Classification</b>				
Residential	2,804,010,464	1,591,809,360	-	-
Personal	204,512,949	220,915,497	-	-
Commercial	49,545,239	44,715,813	-	-
<b>Total loans</b>	<b>3,058,068,652</b>	<b>1,857,440,670</b>	-	-
Provision for doubtful debts	18 (b) (1,549,275)	(2,900,434)	-	-
<b>Total net loans</b>	<b>3,056,519,377</b>	<b>1,854,540,236</b>	-	-
<b>(b) Provision for doubtful debts</b>				
<b>Specific provision</b>				
Opening balance	2,900,434	3,463,943	-	-
Balance transferred in on Acquisition	10,000	-	-	-
Charge/(credit) against profit	(1,361,159)	(563,509)	-	-
<b>Closing balance</b>	<b>1,549,275</b>	<b>2,900,434</b>	-	-
Charge to profit for bad and doubtful debts comprises:				
- Bad debts written off directly	4,756,476	4,554,381	-	-
- Increase/(decrease) in doubtful debts provisions	(1,361,159)	(563,509)	-	-
<b>Total charge for bad and doubtful debts</b>	<b>3,395,317</b>	<b>3,990,872</b>	-	-

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. Large proportions are also located in New South Wales and Victoria. The majority of loans are advanced to customers in the State of Tasmania.

**MyState Limited**  
Notes to the financial statements for the year ended 30 June 2012 (continued)

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>19 Impaired assets</b>				
<b>Non-accrual loans</b>				
With provisions	4,405,661	5,251,158	-	-
Specific provision for impairment	(1,549,275)	(2,879,377)	-	-
<b>Net non-accrual loans</b>	<b>2,856,386</b>	<b>2,371,781</b>	-	-
<b>Restructured loans</b>				
With provisions	-	52,644	-	-
Specific provision for impairment	-	(21,057)	-	-
<b>Net restructured loans</b>	<b>-</b>	<b>31,587</b>	-	-
<b>Specific provision</b>				
Non-accrual loans	(1,549,275)	(2,879,377)	-	-
Restructured loans	-	(21,057)	-	-
<b>Total specific provision for impairment</b>	<b>(1,549,275)</b>	<b>(2,900,434)</b>	-	-
	18 (b)			
Past due loans	10,561,162	5,175,138	-	-
Interest recognised on impaired assets	90,985	62,098	-	-
Interest income forgone on impaired assets	370,911	457,528	-	-
<b>20 Other investments</b>				
Shares in Cuscal Limited	3,347,304	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	500,000	-	-
Shares in subsidiaries	-	-	237,511,172	170,527,844
<b>Total other investments</b>	<b>5,020,527</b>	<b>4,520,527</b>	<b>237,511,172</b>	<b>170,527,844</b>
<b>21 Assets classified as held for sale</b>				
At 1 July 2011	5,625,000	-	-	-
Initial classification	-	5,984,869	-	-
Impairment loss recognised on initial classification	-	(359,869)	-	-
Disposals	(5,095,212)	-	-	-
Loss on disposal	(529,788)	-	-	-
<b>Net carrying amount</b>	<b>-</b>	<b>5,625,000</b>	<b>-</b>	<b>-</b>

Assets classified as held for sale were two freehold properties, located in Hobart, which the consolidated entity sold during the period.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**22 Property, plant and equipment**

Year ended 30 June 2012	Furniture, fittings and equipment at cost	Leasehold improvements at cost	Buildings at independent valuation (1)	Consolidated Buildings at cost	Land at independent valuation (1)	Land at cost	Total
	\$	\$	\$	\$	\$	\$	\$
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	-	1,960,000	-	1,135,000	6,229,543
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	<b>4,343,098</b>	<b>4,308,668</b>	<b>1,466,472</b>	<b>4,415,616</b>	<b>1,350,000</b>	<b>1,135,000</b>	<b>17,018,854</b>
<b>At 30 June 2012</b>							
Cost or fair value	16,040,611	9,528,029	4,108,047	4,441,627	1,350,000	1,135,000	36,603,314
Accumulated depreciation	(11,697,513)	(5,219,361)	(2,641,575)	(26,011)	-	-	(19,584,460)
Net carrying amount	<b>4,343,098</b>	<b>4,308,668</b>	<b>1,466,472</b>	<b>4,415,616</b>	<b>1,350,000</b>	<b>1,135,000</b>	<b>17,018,854</b>

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.

Year ended 30 June 2011	Furniture, fittings and equipment at cost	Leasehold improvements at cost	Buildings at independent valuation (1)	Consolidated Buildings at cost	Land at independent valuation (1)	Land at cost	Total
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2010, net of accumulated depreciation	1,493,728	2,971,868	6,267,188	-	5,140,000	-	15,872,784
Additions	213,053	1,516	-	-	-	-	214,569
Revaluations	-	-	66,320	-	110,000	-	176,320
Reclassification as assets held for sale	-	-	(3,384,869)	-	(2,600,000)	-	(5,984,869)
Disposals	(33,137)	-	-	-	-	-	(33,137)
Depreciation charge for the year	(901,799)	(1,156,593)	(103,639)	-	-	-	(2,162,031)
At 30 June 2011, net of accumulated depreciation	<b>771,845</b>	<b>1,816,791</b>	<b>2,845,000</b>	<b>-</b>	<b>2,650,000</b>	<b>-</b>	<b>8,083,636</b>
<b>At 30 June 2011</b>							
Cost or fair value	8,461,380	6,113,919	2,845,000	-	2,650,000	-	20,070,299
Accumulated depreciation	(7,689,535)	(4,297,128)	-	-	-	-	(11,986,663)
Net carrying amount	<b>771,845</b>	<b>1,816,791</b>	<b>2,845,000</b>	<b>-</b>	<b>2,650,000</b>	<b>-</b>	<b>8,083,636</b>

(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: \$7,363,506 (2011: \$4,343,477).

**MyState Limited**  
Notes to the financial statements for the year ended 30 June 2012 (continued)

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>23 Other assets</b>				
Other	36,194	36,194	-	-
<b>Total other assets</b>	<b>36,194</b>	<b>36,194</b>	<b>-</b>	<b>-</b>

**24 Intangible assets and goodwill**

			Consolidated		Total
	Goodwill	Licence fees	Software		
	\$	\$	\$		
<b>Year ended 30 June 2012</b>				RMBS setup costs	
At 1 July 2011, net of accumulated amortisation	47,757,894	13,078	698,003	361,578	48,830,553
Goodwill recognised on Acquisition	17,084,626	-	-	-	17,084,626
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 2012, net of accumulated amortisation	<b>64,842,520</b>	<b>79,488</b>	<b>5,491,728</b>	<b>414,000</b>	<b>70,827,736</b>
<b>At 30 June 2012</b>					
Cost (gross carrying amount)	64,842,520	2,673,349	16,242,439	7,516,096	91,274,404
Accumulated amortisation	-	(2,593,861)	(10,750,711)	(7,102,096)	(20,446,668)
Net carrying amount	<b>64,842,520</b>	<b>79,488</b>	<b>5,491,728</b>	<b>414,000</b>	<b>70,827,736</b>
<b>Year ended 30 June 2011</b>					
At 1 July 2010, net of accumulated amortisation	47,757,894	170,163	723,382	44,426	48,695,865
Additions	-	-	372,117	475,075	847,192
Amortisation	-	(157,085)	(397,496)	(157,923)	(712,504)
At 30 June 2011, net of accumulated amortisation	<b>47,757,894</b>	<b>13,078</b>	<b>698,003</b>	<b>361,578</b>	<b>48,830,553</b>
<b>At 30 June 2011</b>					
Cost (gross carrying amount)	47,757,894	2,592,942	8,209,233	930,191	59,490,260
Accumulated amortisation	-	(2,579,864)	(7,511,230)	(568,613)	(10,659,707)
Net carrying amount	<b>47,757,894</b>	<b>13,078</b>	<b>698,003</b>	<b>361,578</b>	<b>48,830,553</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**24 Intangible assets and goodwill (continued)**

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 has recognised goodwill on consolidation arising from the ROK acquisition of \$17,084,626, which was allocated on the basis of the expected synergy benefits to the following CGUs: ROK, \$11,406,047; and, MSF, \$5,678,579.

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

Entity	Consolidated	
	30 June 2012	30 June 2011
	\$	\$
MSF	27,647,341	22,491,617
TPT	25,789,132	25,266,277
ROK	11,406,047	-
	<b>64,842,520</b>	<b>47,757,894</b>

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 Management and the Board. 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.

MSF value in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2013 approved by the Board. Various cost and expense growth rates have been applied from year two and into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's pre-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Management's assessment of goodwill's value-in-use significantly exceeds the value of goodwill allocated to this CGU. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

TPT value in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2013 approved by the Board. Various cost and expense growth rates have been applied from year two and into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's pre-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Management's assessment of goodwill's value-in-use significantly exceeds the value of goodwill allocated to this CGU. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

ROK value in-use was determined using cash flow projections from financial budgets for the year ending 30 June 2013 approved by the Board. Various cost and expense growth rates have been applied from year two and into perpetuity. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 11.0% reflects the consolidated entity's pre-tax nominal weighted average cost of capital, which has been calculated by externally engaged advisers and approved by the Board. Management's assessment of goodwill's value-in-use significantly exceeds the value of goodwill allocated to this CGU. Therefore, any reasonably possible change to assumptions used in Management's assessment will not result in impairment.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>25 Deposits</b>				
Deposits	2,236,655,207	1,496,596,212	-	-
<b>Total deposits</b>	<u>2,236,655,207</u>	<u>1,496,596,212</u>	<u>-</u>	<u>-</u>
<b>Concentration of liabilities</b>				
There are no customers who individually have deposits which represent 10% or more of total liabilities.				
<b>26 Interest bearing loans and borrowings</b>				
Due to other financial institutions	1,079,420,919	507,130,202	-	-
<b>Total interest bearing loans and borrowings</b>	<u>1,079,420,919</u>	<u>507,130,202</u>	<u>-</u>	<u>-</u>
<b>27 Payables and other liabilities</b>				
Accounts payable and other creditors	28,910,705	13,254,078	1,528,047	1,555,091
Related party payables	-	-	726,219	-
Accrued interest payable	21,261,844	16,575,033	-	-
<b>Total payables and other liabilities</b>	<u>50,172,549</u>	<u>29,829,111</u>	<u>2,254,266</u>	<u>1,555,091</u>
<b>28 Derivatives</b>				
Interest rate swap contracts - cash flow hedges	7,343,468	-	-	-
	<u>7,343,468</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>29 Provisions</b>				
Provision for annual leave	2,498,014	2,000,387	259,280	212,567
Provision for long service leave	3,604,652	2,888,961	302,129	165,184
Other provisions	85,000	-	-	-
	<u>6,187,666</u>	<u>4,889,348</u>	<u>561,409</u>	<u>377,751</u>
Current	4,440,710	3,656,788	275,028	219,107
Non- current	1,746,956	1,232,560	286,381	158,644
	<u>6,187,666</u>	<u>4,889,348</u>	<u>561,409</u>	<u>377,751</u>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>30 Share Capital</b>				
<b>Issued and paid up capital</b>				
Ordinary shares fully paid	131,785,926	64,701,212	237,714,081	170,629,367
<b>Movements in share capital</b>				
	<b>Consolidated</b>		<b>Company</b>	
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
	<b>of shares</b>	<b>\$</b>	<b>of shares</b>	<b>\$</b>
<b>Ordinary Shares</b>				
<b>Opening balance</b>	67,439,158	64,701,212	67,411,055	64,623,801
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	24,296	86,980	28,103	77,411
Shares issued under the Executive long term incentive plan	13,711	35,311	-	-
<b>Closing balance</b>	<b>86,977,573</b>	<b>131,785,926</b>	<b>67,439,158</b>	<b>64,701,212</b>
<b>Movements in share capital</b>				
	<b>Consolidated</b>		<b>Company</b>	
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
	<b>of shares</b>	<b>\$</b>	<b>of shares</b>	<b>\$</b>
<b>Opening balance</b>	67,439,158	170,629,367	67,411,055	170,551,956
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	24,296	86,980	28,103	77,411
Shares issued under the Executive long term incentive plan	13,711	35,311	-	-
<b>Closing balance</b>	<b>86,977,573</b>	<b>237,714,081</b>	<b>67,439,158</b>	<b>170,629,367</b>

**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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**31 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.

**32 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.

	<b>Consolidated</b>		<b>Company</b>	
	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>30 June 2012</b>	<b>30 June 2011</b>
	\$	\$	\$	\$
Cash on hand	70,003,205	34,970,545	1,392,279	29,422
<b>Total cash and cash equivalents</b>	<b>70,003,205</b>	<b>34,970,545</b>	<b>1,392,279</b>	<b>29,422</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>32 Statement of Cash Flows (continued)</b>				
(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				
(vi) Customer loans				
(c) Reconciliation from net profit to net cash flows provided by operating activities:				
Net profit	23,383,844	22,019,846	17,573,676	16,950,867
<b>Adjustments for</b>				
Depreciation of non-current assets	1,729,072	2,162,031	-	-
Amortisation of non-current assets	1,437,492	712,504	-	-
Net loss on sale of non current assets	829,497	-	-	-
Dividends received	-	-	(19,560,758)	(16,522,594)
<b>Changes in assets and liabilities</b>				
Increase in accrued interest	(122,016)	(2,292,621)	-	-
Decrease/(increase) in receivables	(1,287,566)	4,024,088	142,836	3,731,539
Decrease in property, plant & equipment	-	14,726	-	-
Increase in other assets	(304,070)	(51,837)	-	-
Decrease in deferred tax assets	1,214,738	1,136,416	13,043	454,989
Increase/(decrease) in payables	(7,568,506)	(1,741,346)	(47,949)	1,523,724
Increase in interest payable	4,686,811	953,176	-	-
Increase in provision for employee benefits	1,000,240	695,658	183,658	112,267
Decrease in provision for doubtful debts	(1,361,159)	(563,509)	-	-
Increase/(decrease) in provision for income tax liabilities	(627,336)	(2,957,295)	(541,548)	1,527,885
Increase/(decrease) in reserves	(1,505,608)	51,048	307,957	162,814
<b>Net cash flows from operating activities</b>	<b>21,505,433</b>	<b>24,162,885</b>	<b>(1,929,085)</b>	<b>7,941,491</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**33 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 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, MSF formed a Credit Committee during the year under review to provide oversight to more significant lending application consideration, approval and review processes.

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						Total
	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)	
<b>2012</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and liquid assets	70,003,205	-	-	-	-	-	70,003,205
Due from other financial institutions	85,488,163	316,581,549	-	-	-	-	402,069,712
<b>Financial assets other than loans and advances</b>	<b>155,491,368</b>	<b>316,581,549</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>472,072,917</b>
Gross loans and advances at amortised cost			2,359,418	777,246,954	28,791,334	2,248,121,671	3,056,519,377
<b>Total financial assets</b>	<b>155,491,368</b>	<b>316,581,549</b>	<b>2,359,418</b>	<b>777,246,954</b>	<b>28,791,334</b>	<b>2,248,121,671</b>	<b>3,528,592,294</b>
	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
<b>2011</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and liquid assets	34,970,545	-	-	-	-	-	34,970,545
Due from other financial institutions	80,525,503	188,643,399	-	-	-	-	269,168,902
<b>Financial assets other than loans and advances</b>	<b>115,496,048</b>	<b>188,643,399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>304,139,447</b>
Gross loans and advances at amortised cost			1,690,272	523,846,518	19,891,656	1,309,111,790	1,854,540,236
<b>Total financial assets</b>	<b>115,496,048</b>	<b>188,643,399</b>	<b>1,690,272</b>	<b>523,846,518</b>	<b>19,891,656</b>	<b>1,309,111,790</b>	<b>2,158,679,683</b>

(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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**33 Financial Risk Management (continued)**

**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.

2012 Class of financial asset	Consolidated						Total	Fair value of collateral held
	Past due but not impaired			Impaired				
	31 to 60 days	61 to 90 days	More than 90 days					
\$M	\$M	\$M	\$M	\$M	\$M	\$M		
Loan assets held at amortised cost								
<b>Total</b>	14.52	5.75	6.46	4.41	31.14	41.47		
	<b>14.52</b>	<b>5.75</b>	<b>6.46</b>	<b>4.41</b>	<b>31.14</b>	<b>41.47</b>		

2011 Class of financial asset	Consolidated						Total	Fair value of collateral held
	Past due but not impaired			Impaired				
	31 to 60 days	61 to 90 days	More than 90 days					
\$M	\$M	\$M	\$M	\$M	\$M	\$M		
Loan assets held at amortised cost								
<b>Total</b>	9.31	1.62	5.19	5.30	21.42	24.76		
	<b>9.31</b>	<b>1.62</b>	<b>5.19</b>	<b>5.30</b>	<b>21.42</b>	<b>24.76</b>		

MSF and ROK holds 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.

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 predominately 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 \$6.5 million and a standby facility of \$41.0 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 2012.

At 30 June 2012, the ConQuest Securities securitisation program had available a number of support facilities provided by Westpac Banking Corporation, including a \$4 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 \$155 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 2012, this facility had not been used since the inception of the program.

A liquidity facility of \$3.4 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.



**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**33 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:

	<b>Net profit after tax higher/(lower)</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$ 000</b>	<b>\$ 000</b>
+ 1.0% (100 basis points)	4,486	3,182
- 0.5% (50 basis points)	(2,243)	(1,591)

**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.

The consolidated entity recognised income of \$1,229,022 (2011: nil) in the Income Statement due to hedge ineffectiveness. At 30 June 2012, the fair value of outstanding derivatives held and designated as cash flow hedges was a liability of \$7,343,468 (2011: \$nil).

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.

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 percent 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.

	<b>MSF</b>		<b>ROK</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Average	1.136	0.768	0.399	-
Maximum	1.590	0.920	0.219	-
Minimum	0.866	0.650	0.652	-

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**33 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 MyState Limited 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 2012 and the corresponding weighted average effective interest rates.

	Consolidated Asset and Liability Repricing					Carrying amount in Statement of Financial Position	Weighted average effective interest rate
	Floating interest rate	1 year or less	Between 1 and 5 years	More than 5 years	Non interest bearing		
2012	\$	\$	\$	\$	\$	\$	%
<b>Assets</b>							
Cash and liquid assets	65,082,803	-	-	-	4,920,402	70,003,205	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	2,385,742,857	257,149,011	413,627,509	-	-	3,056,519,377	6.81%
Other investments	-	1,000,000	-	-	4,020,527	5,020,527	6.10%
<b>Total financial assets</b>	<b>2,498,094,898</b>	<b>612,418,221</b>	<b>413,627,509</b>	<b>-</b>	<b>36,106,978</b>	<b>3,560,247,606</b>	
<b>Liabilities</b>							
Deposits	992,781,164	1,229,852,807	14,021,236	-	-	2,236,655,207	3.92%
Interest bearing liabilities and borrowings	2,624,568	827,719,390	-	249,076,961	-	1,079,420,919	4.87%
Payables and other liabilities	-	-	-	-	50,172,549	50,172,549	0.00%
<b>Total financial liabilities</b>	<b>995,405,732</b>	<b>2,057,572,197</b>	<b>14,021,236</b>	<b>249,076,961</b>	<b>50,172,549</b>	<b>3,366,248,675</b>	
<b>Net mismatch</b>	<b>1,502,689,166</b>	<b>(1,445,153,976)</b>	<b>399,606,273</b>	<b>(249,076,961)</b>	<b>(14,065,571)</b>	<b>193,998,931</b>	
Derivatives	(245,000,000)	110,000,000	135,000,000	-	-	-	
	<b>1,747,689,166</b>	<b>(1,555,153,976)</b>	<b>264,606,273</b>	<b>(249,076,961)</b>	<b>(14,065,571)</b>	<b>193,998,931</b>	

**MyState Limited**  
Notes to the financial statements for the year ended 30 June 2012 (continued)

33 Financial Risk Management (continued)

	Consolidated Asset and Liability Repricing					Carrying amount in Statement of Financial Position	Weighted average effective interest rate
	Floating interest rate	1 year or less	Between 1 and 5 years	More than 5 years	Non interest bearing		
2011	\$	\$	\$	\$	\$	\$	%
<b>Assets</b>							
Cash and liquid assets	26,560,475	-	-	-	8,410,070	34,970,545	1.78%
Available for sale assets	5,092,808	263,574,797	-	-	501,297	269,168,902	5.65%
Receivables	-	-	-	-	15,145,969	15,145,969	0.00%
Loans	1,653,535,434	97,222,452	103,782,350	-	-	1,854,540,236	7.35%
Other investments	-	500,000	-	-	4,020,527	4,520,527	0.67%
<b>Total financial assets</b>	<b>1,685,188,717</b>	<b>361,297,249</b>	<b>103,782,350</b>	<b>-</b>	<b>28,077,863</b>	<b>2,178,346,179</b>	
<b>Liabilities</b>							
Deposits	623,814,323	863,931,484	8,850,405	-	-	1,496,596,212	4.13%
Interest bearing liabilities and borrowings	2,436,616	196,945,428	-	307,748,158	-	507,130,202	4.39%
Payables and other liabilities	-	-	-	-	29,829,111	29,829,111	0.00%
<b>Total financial liabilities</b>	<b>626,250,939</b>	<b>1,060,876,912</b>	<b>8,850,405</b>	<b>307,748,158</b>	<b>29,829,111</b>	<b>2,033,555,525</b>	
<b>Net mismatch</b>	<b>1,058,937,778</b>	<b>(699,579,663)</b>	<b>94,931,945</b>	<b>(307,748,158)</b>	<b>(1,751,248)</b>	<b>144,790,654</b>	
Derivatives	-	-	-	-	-	-	0.00%
	<b>1,058,937,778</b>	<b>(699,579,663)</b>	<b>94,931,945</b>	<b>(307,748,158)</b>	<b>(1,751,248)</b>	<b>144,790,654</b>	

**33 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 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 14.00% (2011: 15.00%), ROK's Level One capital adequacy ratio was 12.46% (2011: 13.35%) and the Group's Level Two ratio was 14.14% (2011: 15.38%).

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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**34 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 2012			Consolidated 2011		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	\$	\$	%	\$	\$	%
<b>Average assets and interest income</b>						
<b>Interest-earning assets</b>						
Cash and liquid assets	79,008,917	1,380,858	1.75%	43,375,163	540,073	1.25%
Due from other financial institutions	418,029,478	19,224,306	4.60%	243,694,973	14,808,679	6.08%
Loans	2,966,392,149	182,380,248	6.15%	1,779,150,232	136,331,991	7.66%
<b>Total average interest-earning assets</b>	<b>3,463,430,544</b>	<b>202,985,412</b>	<b>5.86%</b>	<b>2,066,220,368</b>	<b>151,680,743</b>	<b>7.34%</b>
<b>Non interest earning assets</b>						
Property, plant and equipment	21,229,153	-	-	13,173,196	-	-
Other assets	38,845,845	-	-	13,874,505	-	-
<b>Total average non interest earning assets</b>	<b>60,074,998</b>	<b>-</b>	<b>-</b>	<b>27,047,701</b>	<b>-</b>	<b>-</b>
<b>Total average assets</b>	<b>3,523,505,542</b>	<b>202,985,412</b>	<b>5.76%</b>	<b>2,093,268,069</b>	<b>151,680,743</b>	<b>7.25%</b>
<b>Average liabilities and interest expense</b>						
<b>Interest-bearing liabilities</b>						
Deposits	2,179,341,446	74,572,170	3.42%	1,447,537,529	58,541,643	4.04%
Due to other financial institutions	234,528,941	9,844,970	4.20%	59,579,450	3,293,005	5.74%
ConQuest Notes and bonds on issue	408,862,045	23,114,877	5.65%	402,697,413	22,239,789	5.52%
Securitisation notes on issue	435,420,104	16,433,552	3.77%	-	-	-
<b>Total average interest-bearing liabilities</b>	<b>3,258,152,536</b>	<b>123,965,569</b>	<b>3.80%</b>	<b>1,909,814,392</b>	<b>84,074,437</b>	<b>4.40%</b>
<b>Non interest bearing liabilities</b>						
Other	46,862,901	-	-	33,917,943	-	-
<b>Total average non interest bearing liabilities</b>	<b>46,862,901</b>	<b>-</b>	<b>-</b>	<b>33,917,943</b>	<b>-</b>	<b>-</b>
<b>Total average liabilities</b>	<b>3,305,015,437</b>	<b>123,965,569</b>	<b>3.75%</b>	<b>1,943,732,335</b>	<b>84,074,437</b>	<b>4.33%</b>
Reserves	218,490,105	-	-	149,535,734	-	-
<b>Total average liabilities and reserves</b>	<b>3,523,505,542</b>	<b>123,965,569</b>	<b>3.52%</b>	<b>2,093,268,069</b>	<b>84,074,437</b>	<b>4.02%</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**35 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.

	At call	Overdraft	Consolidated				No maturity specified	Total
			Due within 3 months	Due between 3 months and 12 months	Due between 1 year and 5 years	Due in over 5 years		
	\$	\$	\$	\$	\$	\$	\$	
<b>2012 Assets</b>								
Cash and liquid assets	67,173,270	-	2,829,935	-	-	-	70,003,205	
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	-	106,438,146	17,454,752	62,592,955	156,598,568	2,713,434,956	3,056,519,377	
Other investments	-	-	1,000,000	-	-	-	4,020,527	
<b>Total financial assets</b>	<b>114,973,772</b>	<b>106,438,146</b>	<b>294,709,721</b>	<b>167,644,681</b>	<b>156,598,568</b>	<b>2,715,862,191</b>	<b>3,560,247,606</b>	
<b>Liabilities</b>								
Deposits	992,781,164	-	710,679,481	519,173,326	14,021,236	-	2,236,655,207	
Due to other financial institutions	2,624,568	-	381,345,182	383,453,051	-	311,998,118	1,079,420,919	
Accounts payable and other liabilities	-	-	50,172,549	-	-	-	50,172,549	
<b>Total financial liabilities</b>	<b>995,405,732</b>	<b>-</b>	<b>1,142,197,212</b>	<b>902,626,377</b>	<b>14,021,236</b>	<b>311,998,118</b>	<b>3,366,248,675</b>	
<b>2011 Assets</b>								
Cash and liquid assets	32,219,492	-	2,751,053	-	-	-	34,970,545	
Due from other financial institutions	9,001,685	-	185,989,438	74,177,779	-	-	269,168,902	
Receivables	11,296,157	-	3,849,812	-	-	-	15,145,969	
Loans	-	108,084,728	16,970,797	48,867,555	79,197,113	1,601,420,043	1,854,540,236	
Other investments	-	-	-	500,000	-	-	4,520,527	
<b>Total financial assets</b>	<b>52,517,334</b>	<b>108,084,728</b>	<b>209,561,100</b>	<b>123,545,334</b>	<b>79,197,113</b>	<b>1,601,420,043</b>	<b>2,178,346,179</b>	
<b>Liabilities</b>								
Deposits	623,814,325	-	371,054,122	492,877,362	8,850,403	-	1,496,596,212	
Due to other financial institutions	2,436,615	-	196,945,428	-	-	307,748,159	507,130,202	
Accounts payable and other liabilities	-	-	29,829,111	-	-	-	29,829,111	
<b>Total financial liabilities</b>	<b>626,250,940</b>	<b>-</b>	<b>597,828,661</b>	<b>492,877,362</b>	<b>8,850,403</b>	<b>307,748,159</b>	<b>2,033,555,525</b>	

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**36 Net fair value**

The aggregate net fair values of financial assets and financial liabilities, at balance date, are as follows:

	2012		2011	
	Carrying value \$	Net fair value \$	Carrying value \$	Net fair value \$
<b>Assets</b>				
Cash and liquid assets	70,003,205	70,003,205	34,970,545	34,970,545
Due from other financial institutions	402,069,712	402,069,712	269,168,902	269,176,482
Receivables	26,634,785	26,634,785	15,145,969	15,145,969
Loans	3,056,519,377	3,061,011,285	1,854,540,236	1,854,883,646
Other investments	5,020,527	5,020,527	4,520,527	4,520,527
<b>Total financial assets</b>	<b>3,560,247,606</b>	<b>3,564,739,514</b>	<b>2,178,346,179</b>	<b>2,178,697,169</b>
<b>Liabilities</b>				
Deposits	2,236,655,207	2,242,867,196	1,496,596,212	1,506,199,164
Due to other financial institutions	1,079,420,919	1,079,420,919	507,130,202	507,130,202
Accounts payable	50,172,549	50,172,549	29,829,111	29,829,111
<b>Total financial liabilities</b>	<b>3,366,248,675</b>	<b>3,372,460,664</b>	<b>2,033,555,525</b>	<b>2,043,158,477</b>

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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>37 Contingent liabilities and expenditure commitments</b>				
(a) Lease expenditure commitments				
(i) Operating leases				
- not later than 1 year	4,572,449	3,927,735	6,473	6,473
- later than 1 and not later than 5 years	12,612,183	13,902,631	8,091	15,103
- later than 5 years	21,611,268	24,962,557	-	-
<b>Total lease expenditure contracted for at balance date</b>	<b>38,795,900</b>	<b>42,792,923</b>	<b>14,564</b>	<b>21,576</b>

During the period, MSF commenced leasing its new 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 period, the consolidated entity entered into a lease of a property situated in Launceston which will principally be used to house elements of the TPT business. Occupancy of the property is expected to occur prior to December 2012. 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	49,769,416	29,676,689	-	-
(c) Undrawn continuing lines of credit	93,297,567	90,741,599	-	-
(d) Performance guarantees	3,125,986	3,077,029	-	-

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	500,000	-	-
--------------------	-----------	---------	---	---

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 (2011: \$500,000) as collateral for the guarantee.

(f) Loan Guarantees	179,325	205,860	-	-
---------------------	---------	---------	---	---

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.

(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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**38 Capital and other expenditure commitments**

The consolidated entity has entered into a long term lease for a Launceston property. The consolidated entity has a contractual commitment to pay the lessor a "building levy" of \$500,000 prior to occupying the property. It is expected that costs of \$250,000 will be incurred on fittings, fixtures and furniture at this property. These amounts are not recognised in the financial report.

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

**39 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, 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) First Data International Limited (FDI)**

FDI is the provider of the electronic switching network which transfers transactions and settlement details for the EFT, Visa and Redicard systems of MSF.

**(iii) Tata Consulting Services**

Tata Consulting Services supports the TCS BaNCS system, which provides services and maintains the core banking system for ROK.

**40 Employee benefits**

	Note	Consolidated		Company	
		30 June 2012	30 June 2011	30 June 2012	30 June 2011
		\$	\$	\$	\$
The aggregated employee benefit liability is comprised of the following:					
Bonus		1,328,551	1,123,856	388,140	395,436
Provisions	29	6,102,666	4,889,348	561,409	377,751
<b>Total employee benefits</b>		<b>7,431,217</b>	<b>6,013,204</b>	<b>949,549</b>	<b>773,187</b>

**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 plans are accumulation schemes, the consolidated entity does not guarantee their performance.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**41 Related parties**

**(i) Ultimate Parent Company**

MyState Limited is the ultimate parent company.

**(ii) Significant subsidiaries**

Name	Country of incorporation	Ownership interest	
		30 June 2012 %	30 June 2011 %
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	-

**(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		Company	
	30 June 2012 \$	30 June 2011 \$	30 June 2012 \$	30 June 2011 \$
Management fees received	-	-	7,122,598	6,286,081
Dividends	-	-	19,560,758	16,522,942
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	-	-	(3,160,618)	(6,559,316)
Amounts payable	-	-	726,219	2,083,991
			(2,434,399)	(4,475,325)

**(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:

Management fees received	8,659,147	8,732,338	-	-
Investments in managed funds				
Balance at year end	5,786,236	5,492,855	-	-
Distributions received from managed funds	240,764	229,696	-	-

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:

Balance at year end	3,782,233	-	3,782,233	-
Distributions received from managed funds	52,239	-	52,239	-

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 \$17,500,000 (2011: \$17,750,000); and,
  - loaned money to ConQuest 2010-2 Trust, in the form of Class B RMBS notes, totalling \$10,030,546 (2011: \$9,996,061).
- These deposits are made on the same terms and conditions that apply to all similar transactions.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**41 Related parties (continued)**

**(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 \$17,222 (2011: \$3,243). MSF charges CAM a management fee of \$4,120 per month. This fee covers accounting, payroll, computer and occupancy charges. MSF also charges CAM 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 \$316,296 (2011: \$213,218).

**ConQuest 2007-1 Trust**

MSF charges the ConQuest 2007-1 Trust a loan servicing fee based on the outstanding monthly balance of the loans sold to ConQuest 2007-1 Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was \$218,981 (2011: \$271,568).

**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 \$238,077 (2011: \$253,302).

**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 \$412,910 (2011: \$504,277).

**(vi) ROK**

ROK has a controlling interest in The Rockhampton Custodian and Management Company Limited, RBS2005-1 Trust, RBS2007-1 Trust, RBS 2009R Trust, and RBS Warehouse Trust #2, 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:

**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 \$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 \$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 \$53,165.

**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 \$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 \$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 2009R Trust at an interest rate of 0.25% per annum. For the period, the total of the servicing fee was \$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 \$867,740.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**42 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 comprise the non Executive Directors, Managing Director and Executives.

**b) Key management personnel compensation**

The key management personnel compensation comprised:

	<b>Consolidated</b>		<b>Company</b>	
	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>30 June 2012</b>	<b>30 June 2011</b>
Short-term employee benefits	2,628,889	2,489,945	2,628,889	2,489,945
Post employment benefits	341,256	420,183	341,256	420,183
Share-Based payment (1)	294,763	176,010	294,763	176,010
Termination benefits	363,809	315,183	363,809	315,183
	<b><u>3,628,717</u></b>	<b><u>3,401,321</u></b>	<b><u>3,628,717</u></b>	<b><u>3,401,321</u></b>

(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 42 (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).

**42 Key Management Personnel disclosure (continued)**

**(c) Executive Long Term Incentive Plan**

The Executive long term incentive plan (ELTIP) was established by the Board to encourage the executive management team, comprising the Managing Director, General Managers and Chief Financial Officer/Company Secretary, 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 General Managers and Chief Financial Officer/Company Secretary. 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.

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 determined that Total Shareholder Return (TSR) over the relevant performance period would be the sole performance criteria for the offer made in the period (the "2011" offer). 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 will be measured against the performance of the companies sized by market capitalisation 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 misstatement.

Any reward payable to any member of the Executive Team under the three ELTIP offers made (the "2009", "2010" and "2011" offers) will be calculated as follows:

- For the "2009" and "2010" offers, 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:

- o Below the mid-point percentage EPS growth – 0% reward;
- o At the 50th percentile – 50% of the applicable reward;
- o Between the 50th percentile and the 75th percentile EPS growth – 2% for every 1 percentile above the 50th percentile;
- o Above the 75th percentile – 100% of the applicable reward; and,
- o 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" offer, 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:

- o Below the mid-point percentage TSR growth – 0% reward;
- o At the 50th percentile – 50% of the applicable reward;
- o Between the 50th percentile and the 75th percentile TSR growth – 2% for every 1 percentile above the 50th percentile;
- o Above the 75th percentile – 100% of the applicable reward; and,
- o 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, i.e. to, 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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**42 Key Management Personnel disclosure (continued)**

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 (eg 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 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.

(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.

Details of offers made under the ELTIP are as follows:

	<b>"2011" Offer</b>		<b>"2010" Offer</b>		<b>"2009" Offer</b>	
	<b>Managing Director</b>	<b>Other Executives</b>	<b>Managing Director</b>	<b>Other Executives</b>	<b>Managing Director</b>	<b>Other Executives</b>
Date of offer ("Grant" date)	2 November 2011	6 September 2011	29 March 2011	29 March 2011	30 June 2010	30 June 2010
Performance period	1/7/2011 to 30/6/2014	1/7/2011 to 30/6/2014	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 be allocated under the offer	65,677	88,403	59,840	104,731	71,884	56,581
Value of the offer	235,125	316,482	225,000	393,789	225,000	177,098
Share price used in the calculations of the offer	\$3.58	\$3.58	\$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	\$3.55	\$3.55	\$3.12	\$3.12	\$2.70	\$2.70

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**42 Key Management Personnel disclosure (continued)**

**(d) Shareholdings of Directors and Executives**

<b>2012</b>	Balance	Granted as	Net Change	Balance
Ordinary Shares held in the Company	1 July 2011	compensation	Other	30 June 2012
		<b>(4)</b>	<b>(3)</b>	
<b>Directors</b>				
M J Vertigan AC	20,000	-	5,000	25,000
G J Gilbert	-	-	-	-
N L d'Antoine	110,520	-	-	110,520
P D Armstrong	1,161	-	-	1,161
R L Gordon	387	-	-	387
T M Gourlay	774	-	-	774
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
A B Reidy	774	-	-	774
<b>Executives</b>				
D E Benbow	35,612	-	(35,612)	-
T M Rutherford	-	-	-	-
D W Turner	387	-	-	387
P K M Viney	31,905	-	(31,905)	-
N Whish-Wilson (6)	1,491	279	-	1,770
<b>Total</b>	<b>907,285</b>	<b>279</b>	<b>77,483</b>	<b>985,047</b>

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**42 Key Management Personnel disclosure (continued)**

2011 Ordinary Shares held in the Company	Balance 1 July 2010	Granted as compensation (4)	Net Change Other (3)	Balance 30 June 2011
<b>Directors</b>				
M J Vertigan AC	20,000	-	-	20,000
G J Gilbert	-	-	-	-
N L d'Antoine	110,520	-	-	110,520
P D Armstrong	1,161	-	-	1,161
R L Gordon	387	-	-	387
T M Gourlay	774	-	-	774
M L Hampton	376,312	-	123,688	500,000
C M Hollingsworth	2,274	-	8,000	10,274
I G Mansbridge	170,000	-	-	170,000
S Merridew	19,328	-	4,672	24,000
A B Reidy	774	-	-	774
<b>Executives</b>				
D E Benbow	35,612	-	-	35,612
T M Rutherford	-	-	-	-
D W Turner	387	-	-	387
P K M Viney	31,905	-	-	31,905
<b>Total</b>	<b>769,434</b>	<b>-</b>	<b>136,360</b>	<b>905,794</b>

(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 amounts disclosed are an estimate of compensation and include a portion that will only vest to the Director or Executive when certain performance criteria are met or a "Capital Event" occurs, refer note 42.

(5) 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.

(6) 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.

(7) 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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

**42 Key Management Personnel disclosure (continued)**

**(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 as follows. Details regarding loans outstanding with individual KMP and their related parties are disclosed where the individual's aggregate loan balance exceeded \$100,000 at any time in the period:

**2012**

Key Personnel	Balance at start of year	Interest charged	Interest not charged	Write off	Balance at end of year	Highest balance in period
	\$	\$	\$	\$	\$	\$
D W Turner	240,194	12,898	-	-	-	240,194
N Whish-Wilson (6)	662,529	26,872	-	-	27,071	664,535
Total for key management personnel (7)	902,723	39,770	-	-	27,071	
Number of KMP included in the total					1	

**2011**

Key Personnel	Balance at start of year	Interest charged	Interest not charged	Write off	Balance at end of year	Highest balance in period
	\$	\$	\$	\$	\$	\$
D W Turner	265,901	14,640	-	-	240,194	265,901
Total for key management personnel	669,640	22,006	-	-	602,460	
Number of KMP included in the total					2	

(6) 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.

(7) 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.

**MyState Limited**  
**Notes to the financial statements for the year ended 30 June 2012 (continued)**

	Consolidated		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	\$	\$	\$	\$
<b>43 Auditors' remuneration</b>				
Amounts received or due and receivable by the external auditors Wise, Lord & Ferguson for:				
- Audit of the financial statements of the consolidated entities	443,012	287,634	88,224	54,015
- Other non-external audit services				
Tax compliance services	-	33,933	-	-
Assurance related services	46,500	17,262	33,000	14,103
Audit of loans sold into the securitisation program	18,890	44,330	-	-
Other services	-	4,079	-	-
	<u>65,390</u>	<u>99,604</u>	<u>33,000</u>	<u>14,103</u>
<b>Total</b>	<b><u>508,402</u></b>	<b><u>387,238</u></b>	<b><u>121,224</u></b>	<b><u>68,118</u></b>

**44 Acquisition of The Rock Building Society Limited**

During the 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 the ROK. The date of acquisition, being the date when effective control was achieved, was 1 December 2011.

ROK is a broad based financial institution. It is an authorised deposit taking institution (ADI) operating predominantly in Queensland. The acquisition gives rise to a stronger diversified financial services group and realises the ambitions of both MyState and ROK to expand operations geographically, to secure growth opportunities. The consolidated entity has the additional strength and scale to compete in the financial services sector and continue to provide the standard of products and services which have previously been provided. Operational synergies are expected to deliver cost savings to the consolidated entity over time. Following the acquisition ROK maintains a separate operational structure focused on the needs of regional Queensland and continues the proud traditions of The Rock brand to service the local community and benefit from the substantially increased operational capability and financial stability of the consolidated entity.

Consideration for the acquisition was the issued share capital of the Company. The fair value of these shares was determined by reference to the volume weighted average price of trades executed on the Australian Securities Exchange (ASX) for the Company.

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.

MyState Limited

Notes to the financial statements for the year ended 30 June 2012 (continued)

44 Acquisition of The Rock Building Society Limited (continued)

Fair Value of assets and liabilities assumed (1):

Cash and liquid assets	58,355,363
Available for sale financial assets	118,995,874
Receivables	1,784,006
Loans at amortised cost	1,021,847,025
Property, plant and equipment	6,229,543
Tax assets	4,014,419
Tax receivable	61,648
Other assets	388,182
Intangible assets and goodwill	5,661,144
<b>Total assets</b>	<b>1,217,337,204</b>
<b>Liabilities</b>	
Deposits	588,380,296
Interest bearing loans and borrowings	560,231,310
Payables and other liabilities	10,794,980
Derivatives	7,647,538
Tax liabilities	86,300
Provisions	298,078
<b>Total Liabilities</b>	<b>1,167,438,502</b>
<b>Net assets</b>	<b>49,898,702</b>
Goodwill recognised on the transaction	17,084,626
<b>Purchase Consideration</b>	<b>66,983,328</b>
<b>Net cash inflow</b>	
Cash and cash equivalents acquired	58,355,363

The amounts of revenue and profit of the ROK since the acquisition date included in the consolidated statement of comprehensive income for the period are:

Revenue	47,153,353
Net profit after tax	3,288,125
Profit - Total comprehensive income	1,284,038

Accounting Standard AASB 3 Business Combinations requires the disclosure of the amounts of revenue and profit of the consolidated entity for the period as though all acquisitions that have occurred during the period had occurred at the beginning of the period. These are notional figures as they include revenues and profits that were earned by acquired entities prior to control being achieved. They have been calculated by combining the full year results of each entity that forms part of the consolidated entity during the period. These amounts are:

Revenue	268,352,439
Net profit after tax	16,784,805
Profit - Total comprehensive income	13,857,612

(1) The fair values have been determined on a provisional basis, pending the resolution of certain matters. No material changes are expected.

45 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.

**MyState Limited**

**Directors' Declaration  
for the financial year ended 30 June 2012**

In accordance with a resolution of the Directors of MyState Limited, we state that:

1. In the opinion of the Directors:

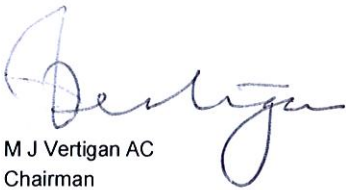
- (a) the financial statements and notes of the consolidated entity set out on pages 1 to 53 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on 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 2012.

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 28 August 2012.



**Wise Lord & Ferguson**



*advice to advantage*

**Chartered Accountants**

## **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 2012, the income statements, statements of comprehensive income, statements of changes in equity and 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.

1<sup>st</sup> 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](mailto:email@wlf.com.au) Internet: [www.wlf.com.au](http://www.wlf.com.au)

**Partners:** Peter Beven, Harvey Gibson, Danny McCarthy, Douglas Thomson,  
Joanne Doyle, Stuart Clutterbuck, Ian Wheeler, Dean Johnson, Marg Marshall, Paul Lyons.

**Managers:** Alicia Leis, Melanie Richardson, Nick Carter, Simon Jones,  
Shaun Evans, Trent Queen, Angela Parisi, Rachel Burns, Megan Smith.



### 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:

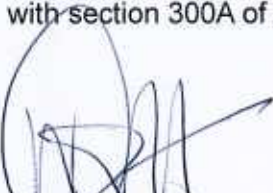
- a. the financial report of MyState Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2012 and of their performance for the year ended on that date; and
  - ii complying 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 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.



**D J McCARTHY**

Partner

Wise Lord & Ferguson

Date: 28.18.2012