THE ROCK SCHEME BOOKLET

For a Scheme of Arrangement between The Rock Building Society Limited ACN 067 765 717 and the holders of shares in The Rock in relation to the proposed acquisition by MyState Limited.

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU

VOTE IN FAVOUR

OF THE RESOLUTION TO APPROVE THE SCHEME, IN THE ABSENCE OF A SUPERIOR PROPOSAL.

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding whether or not to vote in favour of the Scheme. If you are in any doubt as to how to deal with this document, please consult your legal, financial or other professional adviser immediately. If you have recently sold all of your shares in The Rock, please ignore this document.

SHAREHOLDER INFORMATION LINE
INSIDE AUSTRALIA (TOLLFREE) 1800 806 645
OUTSIDE AUSTRALIA +61 7 4931 5500

Financial Adviser

Pottinger

Legal Adviser

CLAYTON UTZ

The Rock
BUILDING SOCIETY LIMITED

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Important notices

General

Shareholders in The Rock should read this document in its entirety before making a decision as to how to vote on the resolution to be considered at the Scheme Meeting. If you are in any doubt as to how to deal with this document, please consult your legal, financial or other professional adviser immediately.

Purpose of this document

The purpose of this document is to explain the terms of the Proposal for MyState to acquire all of the shares in The Rock by way of a Scheme and the manner in which the Scheme will be considered and implemented, if approved, and to provide such information as is prescribed or otherwise material to the decision of Shareholders in The Rock whether or not to approve the Scheme. This document includes the Explanatory Statement required by section 412(1) of the Corporations Act in relation to the Scheme.

Responsibility statement

Except as outlined specifically in this document, the information contained in this document has been provided by The Rock and is the responsibility of The Rock. Neither MyState nor its officers, employees or advisers assume any responsibility for the accuracy or completeness of such information.

The information contained in the letter from the Chairman of MyState and Sections 5, 6 and 7 of this document (**MyState Information**) has been provided by MyState and is the responsibility of MyState. The Rock has not verified the MyState Information and neither The Rock nor its officers, employees or advisers assume any responsibility for the accuracy or completeness of the MyState Information.

The report in Annexure A of this document has been provided by the Independent Expert and is the responsibility of the Independent Expert and sets out the extent to which the Independent Expert has relied on financial and other factual information provided by The Rock and MyState. Otherwise, none of The Rock, MyState nor their respective officers, employees or advisers assume any responsibility for the accuracy or completeness of the information in the report. The Independent Expert does not assume any responsibility for the accuracy or completeness of any information contained in this document, other than the information contained in Annexure A.

ASIC, ASX and the Court

A copy of this document has been provided to ASIC for the purpose of section 411(2) of the Corporations Act and registered by ASIC for the purpose of section 412(6) of the Corporations Act.

ASIC has reviewed a copy of this document. The Rock has asked ASIC to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. ASIC's policy in relation to statements under section 411(17)(b) of the Corporations Act is that it will not provide such a statement until the Second Court Date. This is because ASIC will not be in a position to advise the Court until it has had an opportunity to observe the entire Scheme process. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor its officers take any responsibility for the contents of this document.

A copy of this document has been lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this document.

The fact that under section 411(1) of the Corporations Act the Court has ordered the Scheme Meeting to be convened and has approved the explanatory statement in this Booklet required to accompany the notice of meeting does not mean that the Court has formed any view as to the merits of the Scheme or as to how Shareholders of The Rock should vote (on this matter shareholders must reach their own decision) or has prepared, or is responsible for the content of, this document.

No investment advice

The information contained in this document does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. The information in this document should not be relied upon as the sole basis for any investment decision in relation to the Scheme or your shares in The Rock. Before making any investment decision in relation to the Scheme or your shares in The Rock, including any decision to vote in favour or against the Scheme, you should consider, whether that decision is appropriate in light of your particular needs, objectives and financial circumstances. If you are in any doubt about what you should do, please consult your legal, financial or other professional adviser immediately.

No offer

This Scheme Booklet does not constitute an offer to sell you, or a solicitation of an offer to buy from you, any securities in The Rock or MyState in any jurisdiction in which such an offer or solicitation would be illegal.

Forward looking statements

Certain statements in this document relate to the future. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of The Rock or MyState to be materially different from future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties, assumptions and other important factors include, among other things, general Australian and world economic conditions, exchange rates, interest rates, the regulatory environment, competitive pressures, selling price and market demand. The forward looking statements in this document reflect views held only at the date of this document.

The historical financial performance of The Rock and MyState is no assurance of future financial performance of The Rock, MyState and/or the Merged Entity (whether or not the Proposal proceeds).

Other than as required by law, none of The Rock, MyState or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this document will actually occur.

In particular, none of The Rock, MyState or any of their respective officers and advisers is responsible for any forward looking statements in the Independent Expert's report in Annexure A, unless expressly stated otherwise.

Subject to any continuing obligations under law or the ASX Listing Rules or as contemplated by Section 9.17, The Rock, MyState and their respective directors disclaim any obligation or undertaking to disseminate, after the date of this document, any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Defined terms and interpretation

Capitalised terms and certain abbreviations used in this document have the defined meanings set out in Annexure G of this document and are incorporated in this document.

All references to "$", "dollar" and "cent" are references to Australian currency, unless stated otherwise.

Effect of rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet, including those in respect of the consideration under the Scheme (**Figures**), are subject to the effect of rounding. Accordingly, the actual calculation of these Figures may differ from the Figures set out in this Scheme Booklet. In particular, all entitlements to New MyState Shares will be rounded up or down to the nearest whole number of New MyState Shares (with any fractional entitlement of 0.5 or more being rounded up) in order to avoid fractions of New MyState Shares.

References to time

Unless otherwise stated, all references to time in this Scheme Booklet are to the time in Queensland, Australia.

Privacy and personal information

The Rock, MyState and their respective share registries may collect personal information in the process of implementing the Proposal. The personal information may include the names, addresses, other contact details and details of the shareholdings of shareholders, and the names of individuals appointed by shareholders as proxies, corporate representatives or attorneys at the Scheme Meeting.

Shareholders who are individuals and the other individuals in respect of whom personal information is collected, as outlined previously, have certain rights to access the personal information collected in relation to them. Such individuals should contact Link Market Services Limited on 1300 554 474 (within Australia only) or +61 2 8280 7111 (International) in the first instance if they wish to request access to that personal information.

The personal information is collected for the primary purpose of implementing the Proposal. The personal information may be disclosed to The Rock's and MyState's share registries/transfer agents and advisers, to securities brokers, print and mail service providers and to ASX and other regulatory authorities and in any case, where disclosure is required or allowed by law or where the individual Shareholder in The Rock has consented.

The main consequence of not collecting the personal information outlined above would be that The Rock may be hindered in, or prevented from, conducting the Scheme Meeting and implementing the Proposal.

Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting should inform such an individual of the privacy matters outlined in this Scheme Booklet.

No internet site is part of this document

The Rock and the MyState Group maintain several internet websites. Any references in this document to a website is a textual reference for information only and the website does not form part of this document.

Notice to overseas shareholders

Shareholders in The Rock with a registered address in a jurisdiction other than Australia and its external territories and New Zealand may not be eligible to receive New MyState Shares that would otherwise form part of the Scheme Consideration. Shareholders in The Rock with a registered address outside of Australia and its external territories and New Zealand should refer to Section 8.9.

This document complies with Australian disclosure requirements and Australian accounting standards, which may be different to disclosure requirements and accounting standards in other countries.

Information line

If you have any questions about your shares in The Rock or any other matter in this document, please call The Rock shareholder information line on 1800 806 645 (within Australia) or +61 7 4931 5500 (International).

Date of document

This document is dated 18 October 2011.

Summary of Reasons to Vote For or Against the Scheme

Why your Directors recommend you vote FOR the Scheme to merge The Rock with MyState (in the absence of a Superior Proposal)

- You will receive 7.75 New MyState Shares for every 10 shares in The Rock you own, which represents total consideration of $2.71 per share in The Rock based on the last sale price of MyState Shares ($3.50 per share) on 30 August 2011, before announcement of the Proposal. This represents a 47.4% premium over the last sale price of The Rock shares, before the merger was announced, of $1.84.
- The Independent Expert has concluded that the Scheme is fair provided The Rock's interim dividend for FY12 is at least 6 cents per share, and is reasonable and in the best interests of Shareholders in The Rock in the absence of a superior proposal.
- The merger creates one of Australia's leading listed community-focused financial services groups with potential to benefit from:
  - Enhanced revenue opportunities through a larger and more diversified distribution footprint and expanded and more competitive products and services;
  - Treasury benefits expected through funding synergies;
  - A stronger funding and capital position which will support future growth strategies;
  - Information technology, operations and head office benefits via cost savings and efficiencies; and
  - Mitigation of operational risks associated with lack of geographic diversification.
- The Merged Entity offers diversity of distribution channels, with direct branch-based distribution by MyState and The Rock in Tasmania and Queensland respectively, as well as The Rock's well-established presence in the national mortgage broker channel.
- The Rock's brand will be retained and its operational headquarters will remain in Rockhampton.

For further details of why you may decide to vote for the Scheme see Section 3.2 of this Scheme Booklet.

Reasons you may decide to vote against the Scheme

- You may disagree with the Directors' recommendation and the conclusion of the Independent Expert.
- You may consider that the synergy benefits anticipated to be realised through the merger will not be realised.
- As a shareholder in MyState after implementation of the Scheme, you will be exposed to some risks that are not faced by you as a Shareholder in The Rock, such as increased exposure to the Tasmanian financial services market.
- The merger may have capital gains tax consequences for you.
- You may believe that a more attractive proposal could emerge.

For further details of why you may decide to vote against the Scheme see Section 3.3 of this Scheme Booklet.

You should read this document in its entirety before deciding whether or not to vote in favour of the Scheme.

To vote on the Scheme, you should follow the procedure outlined on page 6 of this document.

Letter from The Rock Chairman

Dear Shareholders in The Rock,

On 31 August 2011, The Rock Building Society Limited (The Rock) and MyState Limited (MyState) announced that they had entered into a Scheme Implementation Deed to progress a Proposal under which MyState acquires all of the shares outstanding in The Rock.

Under the terms of the Proposal, Shareholders in The Rock will receive 7.75 New MyState Shares for every 10 shares in The Rock they own, which represents total consideration of $2.71 per share in The Rock based on the last sale price of MyState Shares ($3.50 per share) on 30 August 2011, before announcement of the Proposal.

This price represents a 47.4% premium over the last sale price of shares in The Rock (recorded on 29 August 2011) before the announcement of the Proposal of $1.84 per share and values The Rock's fully diluted share capital at approximately $68.3 million.

To facilitate both The Rock and MyState shareholders retaining any benefits produced from the performance of the respective entities in the period leading up to the implementation of the Scheme, the boards of The Rock and MyState propose to bring forward the record dates for their respective 2012 financial year interim dividends. The Rock interim dividend is proposed to be paid shortly following implementation of the Scheme and must not exceed 12 cents per share.

The Board's decision to declare the proposed interim dividend will be contingent on the capacity of The Rock to pay a dividend, which depends on trading conditions and The Rock's trading performance and capital adequacy position in the period up to the date of implementation of the Scheme. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

Shareholders in The Rock should note that current trading conditions are challenging and there is no certainty that, at the Scheme Implementation Date, The Rock will have the capacity to pay an interim dividend or as to the amount of any interim dividend that may be paid. As at the date of this document, your Directors have no reason to consider that this dividend will be less than 6 cents per share, consistent with the interim dividend for FY11, and the Board currently intends to pay the dividend at the upper end of a 6 to 12 cents per share range.

The Rock understands that the payment of the proposed MyState interim dividend will not be contingent on the successful implementation of the Scheme.

As foreshadowed in the 2010 Annual Report, in order to protect shareholder value, the Directors have explored a number of strategic options for The Rock's business since the release of that report and consider the Scheme is likely to deliver greater value to Shareholders in The Rock than other available alternative options, including continuing as a stand-alone entity.

Your Board unanimously recommends that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme at the Scheme Meeting. Each Director who holds shares in The Rock, or on whose behalf shares in The Rock are held, intends to vote in favour of the Scheme and approve the Scheme, in the absence of a Superior Proposal.

In order for the Scheme to proceed, the Scheme requires the approval of Shareholders in The Rock. The Scheme Meeting will be convened for this purpose, with the Scheme Meeting commencing at 10.30 am on Monday, 28 November 2011 at Travelodge Hotel, 86 Victoria Parade, Rockhampton.

If you wish for the Scheme to proceed, it is important you vote in favour of the Scheme and approve the Scheme. **To vote on the Scheme either do so in person by attending the Scheme Meeting. Alternatively, to vote by proxy, complete the Proxy Form included with this document.**

Your Board's recommendation is that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme, based on a number of important considerations which are further explained in this document, including in Section 3.2, and, in summary, are that:

- The implied value of the Scheme Consideration based on the last sale price of MyState Shares of $3.50 on 30 August 2011 represents a 40.2% premium to The Rock's one month volume weighted average share price (VWAP) to 30 August 2011 of $1.94 per share and a 30.2% premium to The Rock's three month VWAP of $2.09 per share and a 47.4% premium over the last sale price of The Rock shares before the merger was announced of $1.84 per share;
- Substantial synergies are expected to be available to the combined organisations including those synergies expected to be realised as a result of:
  - Revenue opportunities through expansion of The Rock's existing product offering using existing MyState products and services;
  - Treasury benefits through funding synergies;
  - Information technology related cost savings; and
  - Efficiencies in head office and other central administration costs.
- The merging of two organisations with aligned cultural values that are similarly focused on the provision of a superior level of customer service to rural and regional customers;
- The opportunity to blend the strong retailing capabilities of MyState with the mortgage broker management capabilities of The Rock, to provide a regionally focused organisation with national reach;
- An ability to manage increased ongoing compliance requirements more efficiently across a larger organisation, thus improving the risk profile of the Merged Entity compared to the standalone entities;
- MyState's strong multi-brand management capabilities will mean that the local identity of The Rock will remain substantially unchanged for the customers and communities with whom The Rock interacts; and
- **The Independent Expert has concluded that the Scheme is fair provided The Rock's interim dividend for FY12 is at least 6 cents per share, and is reasonable, and that the Scheme is in the best interests of Shareholders in The Rock in the absence of a superior proposal. The Independent Expert has valued The Rock at between $2.62 per share and $2.94 per share in The Rock.**

It should be noted that, in the unlikely event that the FY12 interim dividend is less than 6 cents per share, your Directors will ask the Independent Expert to update its opinion on the Scheme and we will make a further recommendation to shareholders.

Your Board also appreciates that there are reasons why you may decide to vote against the Scheme, which are further explained in this document, including in Section 3.3, and, in summary, include that:

- You may disagree with the Directors' recommendation and the conclusion of the Independent Expert;
- You may consider that the synergy benefits anticipated to be realised through the merger will not be realised;
- As a shareholder in MyState after implementation of the Scheme, you will be exposed to some risks that are not faced by you as a Shareholder in The Rock, such as increased exposure to the Tasmanian financial services market;
- The merger may have capital gains tax consequences for you; and
- You may anticipate that a more attractive proposal could emerge.

This document sets out important information regarding the Scheme, including the reasons for your Directors' recommendation and the opinion of the Independent Expert, Lonergan Edwards & Associates Limited. Please read this document in its entirety before making your decision and voting at the Scheme Meeting. I would also encourage you to seek independent legal financial and other professional advice before making any investment decision in relation to your shares in The Rock.

I encourage you to vote at the Scheme Meeting. If you wish for the Scheme to proceed, it is important that you vote in favour of the Scheme to approve the Scheme.

If you have any questions in relation to the Scheme or this document, please contact The Rock shareholder information line on 1800 806 645 (within Australia) or +61 7 4931 5500 (International).

Yours sincerely

Stephen Lonie
Chairman

The Rock Building Society Limited

Letter from the Chairman of MyState

Dear Shareholders in The Rock,

On 31 August 2011, The Rock and MyState announced that they had agreed to merge to create one of Australia's leading listed community-focused financial services groups.

In recent years, there has been considerable consolidation in the financial services industry in Australia. This consolidation has been brought about by the need of industry participants to build and maintain sufficient financial strength and scale in order to ensure that they can continue to provide their customers with the competitive range of products and services that they expect, particularly in this highly regulated and technologically driven age.

The boards of both MyState and The Rock unanimously recommend the merger. We encourage you to vote in favour of the merger at the Scheme Meeting on 28 November 2011 to realise the anticipated benefits of the merger for Shareholders in The Rock.

Benefits of the merger

The MyState board considers that this merger is a natural partnership between two organisations with complementary businesses and similar business models and cultures. The Rock and MyState each have distinct brands and strong links with local communities. The boards of both companies consider that as a result of the merger, both organisations will be better able to maintain their competitiveness against key peers and achieve on-going growth.

Shareholders in The Rock are expected to benefit from owning a 22.4% interest in the Merged Entity which will have:

- Enhanced revenue opportunities through a larger and more diversified distribution footprint;
- Expanded range of products and services, including wealth management and trustee services as well as business banking and agribusiness offerings;
- Increased financial strength and scale efficiency;
- Balance sheet diversification, with the potential for further benefits such as reduced funding costs;
- Improved operational efficiency as a result of anticipated synergies; and
- A strengthened competitive position.

In addition, with an anticipated increase in market capitalisation and improvement in ASX ranking, the Merged Entity is more likely to be attractive to analysts and institutional investors. In time, capital and liquidity management benefits are expected.

MyState is Tasmania's largest locally-based financial services group. Two business brands – MyState Financial and Tasmanian Perpetual Trustees – serve approximately 200,000 customers. It has a strong history of successful mergers, including the merger of MyState Financial and Tasmanian Perpetual Trustees in 2009.

The MyState Group is in a strong financial position and for the year ended 30 June 2011, reported a profit returning 11% on equity, revenue growth of 20% compared to the previous year and held net tangible assets of over $155 million. Total MyState Group assets were $2.2 billion at 30 June 2011.

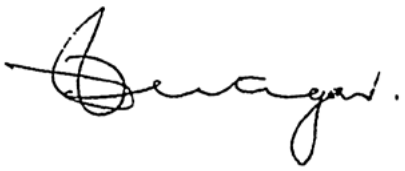
It also has a solid record of revenue and profit growth as a listed company and announced a record full-year profit of $22 million for the 2011 financial year, an increase of 27% compared to the previous year. The full-year dividend for the year was 27 cents per share, fully franked.

The merger of The Rock and MyState will create a merged entity with enhanced long-term prospects, greater scale and diversification, and a stronger balance sheet. The Shareholders in The Rock will have the opportunity to benefit from this enhanced value created through the merger.

The Independent Expert, Lonergan Edwards & Associates Limited, has concluded that the Scheme is fair[1] and reasonable and in the best interests of Shareholders in The Rock in the absence of a superior proposal.

I invite and encourage you to vote in favour of the Scheme and look forward to welcoming you as a shareholder of the larger organisation.

Yours sincerely,



Dr Michael Vertigan, AC
Chairman

MyState Limited

1. Provided The Rock's interim dividend for FY12 is at least 6 cents per share.

Timetable and key dates

Event	Time and Date
Last time and date by which Proxy Form can be lodged	10.30 am on Saturday, 26 November 2011
Time and date for determining eligibility to vote at Scheme Meeting	10.30 am on Saturday, 26 November 2011
Scheme Meeting	10.30 am on Monday, 28 November 2011
If the resolution to approve the Scheme is passed by Shareholders of The Rock:	
Court hearing for approval of the Scheme	1 December 2011
Effective Date	1 December 2011
Suspension of trading in shares in The Rock on the ASX	Close of trading on 1 December 2011
Trading in New MyState Shares commences on deferred settlement basis	2 December 2011
Record Date – time and date for determining entitlements to Scheme Consideration under the Scheme	7.00 pm (Sydney time) on 8 December 2011
Implementation Date – transfer of shares in The Rock to MyState	12 December 2011
Despatch of holding statements for New MyState Shares commences	14 December 2011
Trading in New MyState Shares commences on normal settlement basis	15 December 2011

This timetable is indicative only. The actual timetable will depend upon the time at which the conditions precedent to the Scheme are satisfied or, if applicable, waived. Those conditions are summarised in Section 8.12 of this document. The Rock has the right to vary this timetable, subject to the approval of such variation by MyState, the Court and the ASX where required. Any variation to this timetable will be announced to the ASX and published online at www.therock.com.au.

Your vote

Scheme Meeting

The Scheme Meeting will be held at 10.30 am on Monday, 28 November 2011 at Travelodge Hotel, 86 Victoria Parade, Rockhampton.

For the Scheme to proceed, it must be approved by a majority in number of Shareholders in The Rock present and voting at the Scheme Meeting (in person, by attorney, by proxy or, in the case of corporations, by authorised representative) and at least 75% of votes cast by Shareholders in The Rock entitled to vote at the Scheme Meeting. Shareholders in The Rock will be eligible to vote at the Scheme Meeting if they are registered as a shareholder on the Register at 10.30 am on Saturday, 26 November 2011.

What should you do?

You need to read this document and the accompanying notice of Scheme Meeting carefully.

If you have any questions, please consult your legal, financial or other professional adviser or call The Rock shareholder information line on 1800 806 645 (within Australia) or +61 7 4931 5500 (International).

Your Directors consider that the Scheme is a matter of importance for all Shareholders in The Rock and therefore urge you to consider and vote on the Scheme.

Entitlement to vote

Shareholders in The Rock who are registered on the Register at 10.30 am on Saturday, 26 November 2011 may vote at the Scheme Meeting in person, by attorney, by proxy or, in the case of corporate shareholders, by corporate representative.

How to vote in person

If you are entitled to vote and wish to do so in person, you should attend the Scheme Meeting to be held at 10.30 am on Monday, 28 November 2011 at Travelodge Hotel, 86 Victoria Parade, Rockhampton.

If you intend to attend the meeting, please remember to bring your meeting registration forms with you to facilitate admission to the meeting. The meeting registration form for the Scheme Meeting is the Proxy Form included with this document.

A body corporate which is a Shareholder in The Rock, may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act. If you are attending as a corporate representative, please remember to bring evidence of your authority.

How to vote by proxy

A Proxy Form is included with this document. If you wish to appoint a proxy to attend and vote at the Scheme Meeting, please complete Step 1 of the Proxy Form.

Your Proxy Form must be received by no later than 10.30 am on Saturday, 26 November 2011, by either being:

- Sent by mail to The Rock Share Registry (using the reply envelope included with the document), addressed,
  The Rock Building Society Limited,
  C/- Link Market Services Limited,
  Locked Bag A14,
  Sydney South,
  NSW, 1235,
  Australia;
- Faxed to (02) 9287 0309, from within Australia or +61 2 9287 0309 from overseas;
- Lodged online at www.linkmarketservices.com.au;
- Delivered by hand to Link Market Services Limited, Level 12, 680 George Street, Sydney, NSW, 2000; or
- Sent to The Rock's registered office at
  102 Bolsover Street,
  Rockhampton,
  QLD, 4700.

If an attorney signs a Proxy Form on your behalf, a copy of the authority under which the Proxy Form was signed must be received by The Rock Share Registry at the same time as the Proxy Form, unless you have already provided a copy of the authority to The Rock.

If you complete and return a Proxy Form, you may still attend the meeting in person, revoke the proxy and vote at the meeting.

1 Frequently asked questions

This document contains detailed information regarding the Scheme. The following Section provides summary answers to some questions you may have and will assist you to locate further detailed information in this document.

THE SCHEME AT A GLANCE	
What is the Scheme?	The Scheme involves MyState acquiring all of The Rock's issued shares by way of a "scheme of arrangement". Under the terms of the Scheme, Shareholders in The Rock will receive 7.75 New MyState Shares for every 10 shares in The Rock they own. On 31 August 2011, The Rock and MyState announced that they had entered into the Scheme Implementation Deed governing how the Scheme will proceed. A copy of the Scheme Implementation Deed is included in Annexure C of this document.
What is a "scheme of arrangement" and when does it become Effective?	A "scheme of arrangement" is a means of implementing an acquisition of shares under the Corporations Act. It requires a vote in favour of the Scheme by certain majorities of shareholders at a meeting of shareholders and also requires Court approval. Once Court approval is obtained and the orders of the Court are lodged with ASIC, the Scheme becomes Effective. This is currently scheduled for 1 December 2011. A detailed description of the Scheme is set out in Section 8 of this document. The terms of the Scheme are set out in full in Annexure E of this document.
What do the Directors recommend?	The Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme at the Scheme Meeting. The Directors unanimously consider that the Scheme is in the best interests of Shareholders in The Rock. The reasons for this recommendation and other matters that you may wish to take into consideration are set out in Section 3 of this document.
What are the intentions of the Directors?	In the absence of a Superior Proposal, each of the Directors intends to vote in favour of the Scheme at the Scheme Meeting in relation to shares in The Rock held by them or on their behalf. The Directors hold 389,512 shares in The Rock, representing 1.55% of outstanding shares in The Rock as detailed in Section 9.9 of this document.
What are the reasons to vote in favour of the Scheme?	The reasons to vote in favour of the Scheme are set out in Section 3.2 of this document.

What are the possible reasons not to vote in favour of the Scheme?	The possible reasons not to vote in favour of the Scheme are set out in Section 3.3 of this document.
What is the Independent Expert's conclusion?	The Directors engaged Lonergan Edwards & Associates Limited (LEA) as the Independent Expert to provide a report. The Independent Expert has concluded that the Scheme is fair provided The Rock's interim dividend for FY12 is at least 6 cents per share, and is reasonable, and that the Scheme is in the best interests of Shareholders in The Rock in the absence of a superior proposal. The Independent Expert's report is included in Annexure A of this document.
What other factors should I consider in deciding whether or not to vote in favour of the Scheme?	Some other relevant considerations that you may wish to take into account in deciding whether or not to vote in favour of the Scheme are set out in Section 3.4.
What are the prospects of receiving a Superior Proposal?	Since the Scheme was announced, no Superior Proposal has emerged. The Directors have no current basis for believing that a Superior Proposal will be forthcoming. Shareholders in The Rock should note that The Rock has agreed to certain exclusivity and reimbursement fee provisions in favour of MyState, which are summarised in Section 8.12 of this document.
What should I do?	You should read this document carefully in its entirety and then vote by attending the Scheme Meeting, or by appointing a proxy to vote on your behalf. Full details of who is eligible to vote and how to vote are set out on page 6 of this document.
WHAT YOU WILL RECEIVE UNDER THE SCHEME	
What will I receive if the Scheme proceeds?	If the Scheme proceeds, Shareholders in The Rock will receive 7.75 New MyState Shares for every 10 shares in The Rock they own.
When will the Scheme Consideration be paid?	The Scheme Consideration, being New MyState Shares, will be issued on the Implementation Date and a holding statement for your Scheme Consideration will be despatched within 2 Business Days after the Implementation Date. If the Scheme is not approved by the required majorities at the Scheme Meeting and by the Court, the Scheme Consideration will not be paid.
How will joint Shareholders in The Rock be paid for their shares in The Rock?	In the case of joint holders of Scheme Shares, the New MyState Shares making up the Scheme Consideration will be issued in the names of those joint holders.
How will fractional entitlements to New MyState Shares be dealt with?	Any fractional entitlement to New MyState Shares will be rounded up or down to the nearest whole number of New MyState Shares. Fractional entitlements of less than 0.5 will be rounded down and fractional entitlements of 0.5 or more will be rounded up.

What are the tax consequences of the Scheme for me?	Section 10 of this document provides a general outline of the expected Australian income tax, capital gains tax (CGT), GST and stamp duty consequences for Shareholders in The Rock who dispose of their shares in The Rock to MyState in accordance with the Scheme. Scrip for scrip CGT rollover relief may be available to Shareholders in The Rock such that no CGT is payable on the exchange of shares in The Rock for New MyState Shares. The Rock has applied to the ATO for a class ruling to confirm this. Further details are in Section 10. You should consult with your own financial/tax adviser regarding the consequences of disposing of your shares in The Rock to MyState in accordance with the Scheme in light of current tax laws and your particular investment circumstances.
Will I have to pay brokerage fees or stamp duty?	No, you will not have to pay any brokerage or stamp duty in connection with the Scheme.
Will Shareholders in The Rock receive a 2011 final dividend?	Yes. If you held shares in The Rock on the record date for the 2011 final dividend of 9 September 2011, you would have received that dividend. It was paid on 30 September 2011.
Will Shareholders in The Rock receive The Rock's proposed interim 2012 dividend?	Yes, if the proposed 2012 interim dividend is declared and you hold shares in The Rock on the record date for that interim dividend. The amount of and the record date for The Rock's proposed interim dividend will be announced to the ASX approximately one week before the Scheme Meeting. The present intention is to make it the same date as the Record Date for the Scheme, expected to be 8 December 2011, with payment within 7 days of the Implementation Date. To facilitate both The Rock and MyState shareholders retaining any benefits produced from the performance of the respective entities in the period leading up to the implementation of the Scheme, the boards of The Rock and MyState propose to bring forward the record dates for their respective 2012 financial year interim dividends. The Rock interim dividend is proposed to be paid shortly following implementation of the Scheme and must not exceed 12 cents per share. The Board's decision to declare the proposed interim dividend will be contingent on the capacity of The Rock to pay a dividend, which depends on trading conditions and The Rock's trading performance and capital adequacy position in the period up to the date of implementation of the Scheme. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court. The Scheme Implementation Deed requires, that should the dividend be paid, after the dividend The Rock will maintain its Capital Adequacy Ratio at not less than 12% and that the dividend be paid from profits for the period from 1 July 2011 to the earlier of the Implementation Date and 31 December 2011 or, subject to APRA approval, from retained profits, after deducting certain transaction costs. See Section 8.12. Shareholders in The Rock should note that current trading conditions are challenging and there is no certainty that, at the Scheme Implementation Date, The Rock will have the capacity to pay an interim dividend or as to the amount of any interim dividend that may be paid. As at the date of this document, the Directors have no reason to consider that this dividend will be less than 6 cents per share, consistent with the interim dividend for FY11, and the Board currently intends to pay the dividend at the upper end of a 6 to 12 cents per share range. It should be noted that, in the unlikely event that the FY12 interim dividend is less than 6 cents per share, the Directors will ask the Independent Expert to update its opinion on the Scheme and the Directors will make a further recommendation to shareholders. In accordance with the Scheme Implementation Deed, The Rock has suspended its dividend reinvestment plan until the Implementation Date.

How will dividends related to New MyState Shares differ from those currently paid by The Rock?	As a MyState shareholder, you will be entitled to receive MyState dividends for as long as you hold your New MyState Shares and MyState continues to pay dividends. For your information, MyState has paid out an average of approximately 84.8% of its reported EPS in dividends over the last 2 years. There is no guarantee that dividends will be paid by MyState in the future at this level or at all and no guarantee of the level of franking of any dividends. New MyState Shares issued to Shareholders in The Rock do not participate in the MyState final 2011 dividend or in the MyState interim 2012 dividend.
What if I am an overseas Shareholder in The Rock?	Shareholders in The Rock with a registered address in any jurisdiction other than Australia, including its external territories, or New Zealand may not be eligible to receive New MyState Shares that would otherwise form part of the Scheme Consideration. Instead, New MyState Shares which would otherwise be issued to Ineligible Overseas Shareholders will be issued to the Nominee, who will use its best endeavours to sell those New MyState Shares and return the proceeds of their sale, less any brokerage costs and other applicable costs, taxes or charges, in cash to the Ineligible Overseas Shareholders. Shareholders in The Rock with a registered address outside of Australia and its external territories and New Zealand should refer to Section 8.9 for further information in relation to the treatment of Ineligible Overseas Shareholders.
What if I do not want New MyState Shares?	You may sell your New MyState Shares on market after you receive them. Alternatively, you may elect to sell your shares in The Rock before the Effective Date.
VOTING TO APPROVE THE SCHEME	
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held at 10.30 am on Monday, 28 November 2011 at Travelodge Hotel, 86 Victoria Parade, Rockhampton.
Am I entitled to vote at the Scheme Meeting?	The Court has determined that the time for determining eligibility to vote at the Scheme Meeting is 10.30 am on Saturday, 26 November 2011. Only those Shareholders in The Rock entered on the Register at that time will be entitled to attend and vote at the Scheme Meeting.
What vote is required to approve the Scheme?	For the Scheme to proceed, votes "in favour" must be received: ▸ From a majority in number of Shareholders in The Rock who vote at the Scheme Meeting (in person or by proxy); and ▸ In respect of at least 75% of the total number of shares in The Rock voted on the resolution to approve the Scheme. It is also necessary for the Court to approve the Scheme before it can become Effective.
What choices do I have as a Shareholder in The Rock?	As a Shareholder in The Rock, you have the following choices: ▸ You can vote in person, by attorney, by proxy or, in the case of corporate shareholders, by corporate representative; ▸ You can elect not to vote at the Scheme Meeting; or ▸ You can sell your shares in The Rock on the ASX. If you sell your shares in The Rock on the ASX you will receive cash and may incur brokerage costs. If the Scheme becomes Effective, shares in The Rock will cease trading on the ASX at close of trading on the Effective Date. Accordingly, you can sell your shares in The Rock on market at any time before the close of trading on the day that the Scheme becomes Effective.

Should I vote?	Voting is not compulsory. However, the Directors consider that the Scheme is important to all Shareholders in The Rock and the Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme at the Scheme Meeting.
How do I vote?	You may vote in person by attending the Scheme Meeting to be held at 10.30 am on Monday, 28 November 2011 at Travelodge Hotel, 86 Victoria Parade, Rockhampton. Alternatively, you may vote by completing and lodging the Proxy Form that is enclosed with this document. The Proxy Form can be lodged in person, by mail or by fax – see the "Your Vote" Section commencing on page 6. You can also vote by appointing a body corporate representative (if you are a body corporate) or an attorney. Details of how to vote and how to lodge the Proxy Form, body corporate representative appointment or power of attorney are set out in the "Your Vote" Section commencing on page 6.
What happens if I do not vote, or I vote against the Scheme?	The Scheme may not be approved at the Scheme Meeting by the requisite majorities. If the Scheme is not approved, it will not proceed, you will not receive the Scheme Consideration, and you will remain a Shareholder in The Rock. However, if the Scheme is approved and implemented, your shares in The Rock will be transferred to MyState under the Scheme and you will receive 7.75 New MyState Shares as the Scheme Consideration for every 10 shares in The Rock you hold on the Record Date even if you did not vote at all or you voted against the Scheme.
What happens if the Scheme is not approved at the Scheme Meeting?	If the Scheme does not proceed, Shareholders in The Rock will retain their shares in The Rock, The Rock will continue to operate as a stand-alone entity listed on the ASX and Shareholders in The Rock will not receive the Scheme Consideration. The Rock will continue to focus on its current business plan and strategy.
What happens if the Scheme is approved at the Scheme Meeting, but it is not approved by the Court?	If the Scheme is approved at the Scheme Meeting, but is not approved by the Court, Shareholders in The Rock will retain their shares in The Rock, The Rock will continue to operate as a stand-alone entity listed on the ASX and Shareholders in The Rock will not receive the Scheme Consideration. The Rock will continue to focus on its current business plan and strategy.
If the Scheme is not approved at the Scheme Meeting or by the Court, will The Rock pay the proposed 2012 interim dividend?	If the Scheme is not approved at the Scheme Meeting or by the Court, it will not be implemented and The Rock will not bring forward and pay the proposed 2012 interim dividend. Any half year interim dividend for FY12 will be considered at the time of announcement of half year results in February 2012.
When will the results of the Scheme Meeting be available?	The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to the ASX once available.
OTHER QUESTIONS	
Following implementation of the Scheme, how will ownership of the Merged Entity be split between current shareholders in The Rock and MyState shareholders?	Shareholders in The Rock will own approximately 22% of MyState following implementation of the Scheme.

Who will manage The Rock and the Merged Entity following completion of the Scheme?	Dr Michael Vertigan AC will continue as Chairman of the Merged Entity and Stephen Lonie, currently Chairman of The Rock, will be invited to join the board of the Merged Entity as a non-executive director. It is intended that the rest of the MyState board will remain unchanged. The Merged Entity's executive team will continue to be led by the current Managing Director of MyState, John Gilbert. The Rock's Managing Director, Stuart McDonald, will not continue in a role as part of the Merged Entity.
What will happen to The Rock business?	As a result of the Scheme The Rock will become a wholly owned subsidiary of MyState and will no longer be listed on ASX in its own right. MyState's intentions for The Rock business are outlined in detail in Section 6.
What will be the effect of the Proposal on The Rock customers?	The Rock customers will not be entitled to participate in the Scheme or receive the Scheme Consideration unless they are also a Shareholder in The Rock as at the Record Date. However, all The Rock customers should benefit from the Proposal through access to a wider product portfolio and more comprehensive service offering, from the development of a more efficient business and through ongoing investment in The Rock's branch network and brand. Recent research has shown MyState to have a high overall customer satisfaction rating (see Section 5.2).
Can I keep my shares in The Rock?	If the Scheme is implemented, shares in The Rock will be transferred to MyState. This is so even if you did not vote at all or you voted against the Scheme.
Who is MyState?	MyState is the listed non-operating holding company of a Tasmanian based diversified financial group. It was formed in September 2009 to effect the merger of MyState Financial, an Authorised Deposit-taking Institution, and Tasmanian Perpetual Trustees, a licensed trustee company and wealth management company. Further information on MyState is set out in Section 5 of this document.
Can I acquire shares in MyState?	MyState is listed on the ASX (ASX: MYS). The Rock makes no recommendation as to whether you should purchase shares in MyState. You should seek independent financial and taxation advice before making any investment decision.
Are there limits on shareholdings in MyState?	There are limits on shareholdings in MyState under the statutory limits in the Financial Sector (Shareholdings) Act (FSSA), which apply to all holding companies of ADIs, and in Part 5D.5 of the Corporations Act which apply to all holding companies of licensed trustee companies in Australia. These limits prevent a person, together with their associates, holding more than 15% of the MyState Shares without relevant ministerial approvals. Under the MyState constitution, no person may, together with their associates, hold more than 10% of the MyState Shares.
What are the risks of the merger of MyState and The Rock and acquiring New MyState Shares?	Shareholders in The Rock will receive New MyState Shares as their Scheme Consideration. The financial performance and operations of MyState's business, the value of MyState Shares and the amount and timing of any dividends that MyState pays will be influenced by a range of factors. Many of these factors will remain beyond the control of MyState. A discussion of some of these risks is in Section 7.

Are any other approvals required?	The Scheme must be approved by the Court in addition to being approved by the requisite majorities of Shareholders in The Rock. If the Scheme is approved by the requisite majorities of Shareholders in The Rock at the Scheme Meeting, The Rock will apply to the Court for approval of the Scheme. The Court hearing for approval of the Scheme is expected to be held on 1 December 2011 although this date may change. Further details of the approval process are set out in Section 8 of this document. The approval of the Commonwealth Treasurer is required for MyState to acquire all the shares in The Rock. At the date of this document, The Rock is not aware of any other regulatory approvals that are required.
Is the Scheme subject to any conditions?	Implementation of the Scheme is subject to a number of conditions. These conditions are summarised in Section 8.12 of this document and set out in full in the Scheme Implementation Deed, a copy of which forms Annexure C of this document.
What happens if a Superior Proposal emerges?	If a Superior Proposal emerges, the Directors will reconsider their recommendation in respect of the Scheme and advise Shareholders in The Rock of any details of the Superior Proposal. The Directors will also advise Shareholders in The Rock of their recommendation accordingly.
When will shares in The Rock cease trading on the ASX?	Provided the Scheme becomes Effective, shares in The Rock are expected to cease trading on the ASX at close of trading on the Effective Date, which is currently scheduled to be 1 December 2011.
When can I start trading New MyState Shares	If the Scheme is implemented, deferred settlement trading in New MyState Shares is intended to commence on the Business Day after the Scheme becomes Effective (currently scheduled to be 2 December 2011).
What if I have other questions?	If you have any further questions concerning the Proposal, please do not hesitate to consult your legal, financial or other professional adviser or call The Rock shareholder information line on 1800 806 645 (within Australia) or +61 7 4931 5500 (International).

2 Key features of the Scheme

2.1 Overview

On 31 August 2011, The Rock and MyState announced that they had entered into a Scheme Implementation Deed to progress a merger proposal under which MyState acquires all of the shares outstanding in The Rock.

If the Scheme is implemented, The Rock will become a wholly owned subsidiary of MyState and will be delisted from the ASX.

A copy of the Scheme is set out in Annexure E of this document.

2.2 What you will receive if the Scheme is implemented

If the Scheme proceeds, Shareholders in The Rock will receive 7.75 New MyState Shares for every 10 shares in The Rock held as at the Record Date.

The Scheme Consideration, being New MyState Shares, will be issued on the Implementation Date, which is expected to occur on 12 December 2011. A holding statement for your Scheme Consideration will be despatched within 2 Business Days after the Implementation Date.

Any fractional entitlement to New MyState Shares will be rounded up or down to the nearest whole number of New MyState Shares. Fractional entitlements of less than 0.5 will be rounded down and fractional entitlements of 0.5 or more will be rounded up.

2.3 Directors' recommendation

The Directors unanimously recommend, in the absence of a Superior Proposal, that you vote in favour of the Scheme at the Scheme Meeting.

The reasons for this recommendation, and other matters that you may wish to take into consideration, are set out in Section 3 of this document.

2.4 Independent Expert's opinion

The Rock appointed Lonergan Edwards & Associates Limited as an Independent Expert to prepare a report on the Proposal. That report concludes that the Scheme is fair provided The Rock's interim dividend for FY12 is at least 6 cents per share, and is reasonable, and that the Scheme is in the best interests of Shareholders in The Rock in the absence of a superior proposal.

The Independent Expert's report is set out in full in Annexure A of this document.

2.5 Key steps to implement the Proposal and approvals required

The key steps to implement the Proposal are as follows:

- Shareholders in The Rock will vote on whether to approve the Scheme at the Scheme Meeting;
- If the required majorities of Shareholders in The Rock approve the Scheme, then The Rock will apply to the Court to approve the Scheme at the Second Court Hearing, expected to be held on 1 December 2011;
- If all conditions to the Scheme have been satisfied or waived, and the Court approves the Scheme, The Rock will lodge an office copy of the Court order approving the Scheme with ASIC. The Rock intends to lodge this Court order with ASIC on the same date as the Second Court Date, expected to be 1 December 2011;
- With effect from the Business Day following the day on which the office copy of the Court order is lodged with ASIC, shares in The Rock will be suspended from trading on the ASX;
- On the Implementation Date, MyState will issue the New MyState Shares which make up all the Scheme Consideration in respect of, and acquire, all existing shares in The Rock;

- Within 2 Business Days of the Implementation Date, the MyState Share Registry will commence despatch of holding statements in respect of the New MyState Shares, expected to occur on 14 December 2011; and
- On a date to be determined by MyState, The Rock will apply for termination of the official quotation of shares in The Rock on the ASX and to have itself removed from the Official List of the ASX.

Section 8 of this document contains further details of the Scheme, including the approvals required in order for the Scheme to proceed.

2.6 Conditions precedent

Implementation of the Scheme is subject to a number of conditions precedent which are summarised in Section 8.12 of this document and set out in full in clause 3.1 of the Scheme Implementation Deed, a copy of which forms Annexure C of this document. A key condition is the approval of the Commonwealth Treasurer for the acquisition by MyState of all of the shares in The Rock under the FSSA.

2.7 Exclusivity arrangements

In the Scheme Implementation Deed, The Rock has agreed that it will comply with certain restrictions in relation to soliciting alternative proposals or competing transactions with third parties and responding to approaches by third parties in relation to The Rock.

Further details about these arrangements are set out in Section 8.12 of this document and are also set out in full in clause 11 of the Scheme Implementation Deed.

2.8 Reimbursement Amount

In the Scheme Implementation Deed, The Rock and MyState have agreed to pay the other party a Reimbursement Amount of $500,000 (plus GST) in certain circumstances.

Further details about the Reimbursement Amount are set out in Section 8.12 of this document and the relevant provisions are set out in full in clause 12 of the Scheme Implementation Deed.

2.9 Taxation implications

A general guide to the taxation implications of the Proposal is set out in Section 10 of this document. This guide is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any Shareholder in The Rock.

2.10 If the Scheme does not proceed

If the Scheme does not proceed, Shareholders in The Rock will retain their shares in The Rock, The Rock will continue to operate as a stand-alone entity listed on the ASX and Shareholders in The Rock will not receive the Scheme Consideration. The Rock will continue to focus on its current business plan and strategy.

2.11 Action to be taken by Shareholders in The Rock

You should read this document in its entirety. If you are in any doubt as to how to deal with this document, please do not hesitate to consult your legal, financial or other professional adviser.

Details of your entitlement to vote at the Scheme Meeting and instructions on how to vote are set out on page 6 and in the notice of meeting, which is set out at Annexure F of this document.

2.12 Shareholders in The Rock may sell their shares in The Rock on the ASX at any time before the suspension of shares in The Rock from trading

Shareholders in The Rock should take into account that they may sell their shares in The Rock on the ASX at any time before the suspension of shares in The Rock from trading if they do not wish to hold them and participate in the Scheme, although normal brokerage and other expenses on sale may be incurred. It is expected that suspension of trading in shares in The Rock on the ASX will occur from close of trading on the Effective Date, this is expected to occur on 1 December 2011.

2.13 Further information for Shareholders in The Rock

If you have any further questions concerning the Proposal, please do not hesitate to consult your legal, financial or other professional adviser or call The Rock shareholder information line on 1800 806 645 (within Australia) or +61 7 4931 5500 (International).

3 Recommendations and matters relevant to your vote

3.1 Directors' recommendation

The Directors of The Rock unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme at the Scheme Meeting. The Directors unanimously consider that, for the reasons set out in this Scheme Booklet, the Scheme is in the best interests of Shareholders in The Rock.

In the absence of a Superior Proposal, each of the Directors intends to vote in favour of the Scheme at the Scheme Meeting in relation to shares in The Rock held by them or on their behalf. The interests of Directors in shares in The Rock and their other interests are set out in Sections 9.9 and 9.10 of this document.

The Directors consider that the reasons for Shareholders in The Rock to vote in favour of the Scheme outweigh the reasons to vote against the Scheme, in the absence of a Superior Proposal. These reasons and other relevant considerations are set out in this Section 3. You should also read the Independent Expert's report which is set out in full in Annexure A of this document.

3.2 Reasons to vote in favour of the Scheme

The key reasons for the Directors' recommendation that, in the absence of a Superior Proposal, you vote in favour of the Scheme include the following:

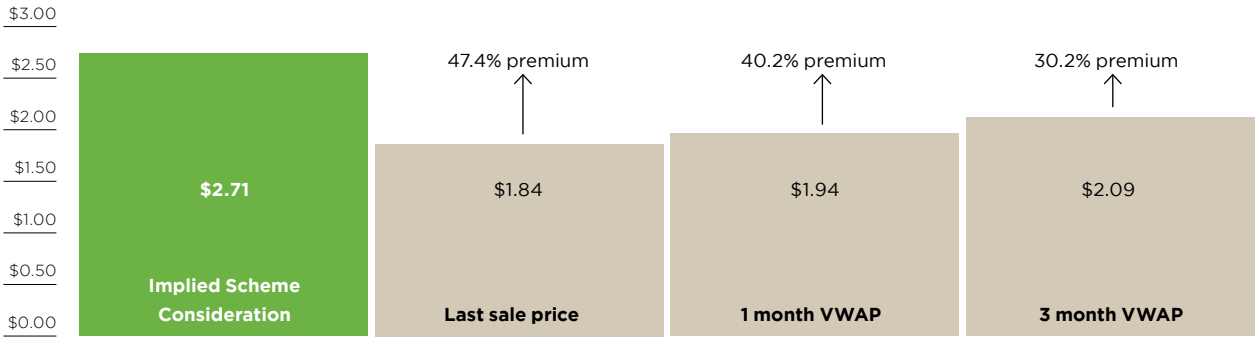
(a) The Scheme Consideration represents a significant premium to historical prices of shares in The Rock

The value of the consideration you are being offered represents a significant premium to recent market prices for shares in The Rock. Based on the last sale price of MyState Shares of $3.50 on 30 August 2011, the Scheme Consideration represents a premium of 47.4% to the last sale price of shares in The Rock (recorded on 29 August 2011) before the announcement of the Proposal of $1.84.

(b) The Scheme is in the best interests of Shareholders in The Rock and is within the Independent Expert's valuation range

The Independent Expert has concluded that the Scheme is fair provided The Rock's interim dividend for FY12 is at least 6 cents per share, and

Figure 3.1: Implied premium to recent market prices for shares in The Rock



Implied Scheme Consideration is calculated with reference to the last sale price of MyState Shares on 30 August 2011 and considering the exchange ratio for shares in The Rock agreed under the Scheme Implementation Deed. The last sale price recorded for shares in The Rock prior to the announcement of the Proposal was $1.84 on 29 August 2011. 1 month VWAP and 3 month VWAP are calculated with respect to the one and three calendar month periods to and including 30 August 2011.

is reasonable, and that the Scheme is in the best interests of Shareholders in The Rock, in the absence of a superior proposal.

The valuation analysis of the Independent Expert concluded that the fair market value of shares in The Rock is between $2.62 and $2.94 per share in The Rock.

(c) Opportunity to own shares in the Merged Entity and benefit from any synergies achieved

If the Scheme Proposal is implemented, Shareholders in The Rock will become shareholders of the Merged Entity and will have the opportunity to participate in the growth of one of Australia's leading listed community-focused financial services groups. The Merged Entity will have a combined bank branch network of 41 branches located in Tasmania and Queensland, including 18 mini branches located across Central Queensland. The Merged Entity will also benefit from the combined strength of the ATM reach of both organisations. Trustee and financial planning services will also be available to the customers of both entities, initially servicing customers from 10 locations in Tasmania.

MyState anticipates that shareholders in the Merged Entity will benefit from revenue opportunities, cost synergies and other benefits associated with the Proposal as detailed in Section 6. In particular, the boards of MyState and The Rock anticipate that the combination of cost and revenue synergies will, on an annualised basis, result in potential pre-tax synergies for the Merged Entity of between $7.5 and $8.5 million per annum, within a three-year timeframe[1]. MyState expects that the majority of these synergies will be realised from year two onwards post merger: The synergy components include:

- Revenue benefits, through expansion of The Rock's existing product offering using existing MyState products and services, and through branch upgrades;
- Treasury benefits expected through:
  - Funding synergies, through improved geographic diversification on the asset and Loan Portfolio which is expected to improve pricing for the Merged Entity; and
  - Cost savings derived from a proposed ADI licence consolidation.
- IT, operations and head office benefits, via consolidation of existing IT networks and platforms, elimination of duplicate roles and functions, board cost reductions and efficiencies in other corporate overheads.

In addition, the Merged Entity will benefit from greater diversity, including:

- Mitigation of operational risks associated with lack of geographic diversification;
- Stronger funding and capital position of the Merged Entity which will support future growth strategies;
- An expanded product range, with customers of The Rock gaining access to an expanded product and service offering; and
- Distribution channels, with the enlarged organisation benefiting from direct branch-based distribution by MyState and The Rock in Tasmania and Queensland respectively, as well as The Rock's well-established presence in the national mortgage broker channel.

(d) Benefit of increased market capitalisation

Based on last sale prices as at 30 August 2011, the combined market capitalisation of MyState and The Rock is $282.3m. The Directors consider that the larger size of the Merged Entity may provide enhanced liquidity in trading of shares in the Merged Entity compared to MyState and The Rock as standalone entities. In addition, increased scale may enhance the Merged Entity's prospects of achieving their shared vision to become a leading multi-regional financial institution including through additional merger opportunities in the future.

(e) Appointment of Rock Director to the board of MyState

The current Chairman of The Rock, Stephen Lonie, will be appointed to the board of MyState. Mr Lonie brings knowledge of The Rock's business and significant financial services experience, to the Merged Entity.

(f) No Superior Proposal has emerged

Since The Rock announced the Proposal on 31 August 2011, no Superior Proposal to acquire The Rock has emerged. The Directors have no basis for believing that a Superior Proposal will be forthcoming.

(g) If the Scheme is not approved, it is likely that the price of shares in The Rock will fall

If the Scheme does not proceed, the Directors intend that The Rock will continue to operate as an independent company and that it will remain listed on the ASX. As there are many factors which affect the price of shares in The Rock, the Directors are unable to predict the price at which shares in The Rock will trade in the future. However, the Directors consider that, in the absence of the implementation of the Scheme, and in the absence of a Superior Proposal, or speculation regarding an alternative proposal, the price of shares in The Rock may fall below the value of the Scheme Consideration offered by MyState.

In addition, there are costs associated with the Proposal that must be paid by both The Rock and MyState whether or not the Scheme is implemented. It is anticipated that the direct and consequential costs associated with the Proposal will significantly adversely impact on The Rock's financial performance in FY12 should the Scheme not proceed.

1. In order to achieve the synergies referred to, the Merged Entity is expected to incur approximately $3.5m of one-off pre-tax integration costs over the first three years. See Section 6.1.

(h) No transfer costs

No brokerage or stamp duty will be payable on the transfer of your shares in The Rock or the issue of your New MyState Shares under this Proposal.

3.3 Possible reasons not to vote in favour of the Scheme

Although the Scheme is recommended by your Directors, in the absence of a Superior Proposal, and the Independent Expert has concluded that the Scheme is in the best interests of Shareholders in The Rock, factors which may lead you to consider voting against the Scheme include the following:

(a) Scheme Consideration

You may hold a different view to the Directors and the Independent Expert and consider that the Scheme Consideration is inadequate. Based on the last sale price of MyState Shares of $3.50 on 30 August 2011, the Scheme Consideration represents a 47.4% premium to the last sale price of shares in The Rock (recorded on 29 August 2011) before the announcement of the Proposal of $1.84.

The Scheme Consideration that you will receive under the Scheme is fixed. This ratio will not change even if the value of MyState Shares decreases or the value of shares in The Rock increases before implementation of the Scheme. The value of New MyState Shares to be issued on the Implementation Date may vary between the date of this Scheme Booklet and the Implementation Date.

(b) Exposure to integration risks

The success of the Proposal, and in particular the ability of the Merged Entity to realise the synergy benefits as detailed in Section 6, is dependent on the successful implementation of the proposed operating model. Integration risks associated with the Proposal include:

- Unexpected costs or delays relating to implementation of plans to achieve cost synergies via the consolidation of certain duplicate functions including those associated with duplicate ADI licences and technology;
- An inability or unexpected delay in the realisation of certain anticipated revenue synergies as a result of changes in customer preferences or an inability to drive greater sales volumes through the branch network of the Merged Entity;
- Customer attrition arising as a result of the merger of the two entities;
- Potential damage to the reputation of the brands of The Rock and/or MyState due to potential actions from competitors, media and lobby groups in relation to the Proposal; and
- Possible conflict between the cultures of the two organisations arising from the Proposal.

(c) The price of MyState Shares may fluctuate following the implementation of the Proposal

If the Scheme is implemented, Shareholders in The Rock will be issued with New MyState Shares. Following implementation of the Proposal, the market price of MyState Shares will be subject to upward and downward fluctuations, and there is no guarantee that the price of MyState Shares will increase in the future.

(d) MyState is exposed to some risks that do not impact The Rock as a standalone entity

The Rock currently operates nationally in Australia with a focus on the Queensland financial services market and Shareholders in The Rock are therefore exposed to impacts associated with its operation in these markets. MyState currently operates in the Tasmanian financial services market. The Merged Entity will therefore be subject to risks associated with any adverse impacts resulting from operations in both the Tasmanian and Queensland markets.

(e) Loss of influence over the direction of The Rock

If the Scheme is approved and implemented, you will have a lower voting percentage in MyState than you have in The Rock and therefore have lesser influence over the future direction of The Rock through your voting rights as a Shareholder in The Rock. MyState will have the right to determine the future direction of The Rock following implementation of the Scheme.

(f) Future dividends

If the Scheme is implemented, Shareholders in The Rock will not have the opportunity to receive future dividends from The Rock but will be entitled to receive future declared dividends from MyState. New MyState Shares issued to Shareholders in The Rock do not participate in either MyState's final 2011 dividend or its proposed interim 2012 dividend which will be paid before the implementation of the Scheme.

(g) Tax consequences

Implementation of the Scheme may have tax consequences for Shareholders in The Rock. A general guide to the taxation implications of the Proposal is set out in Section 10 of this document. This guide is expressed in general terms and individual Shareholders in The Rock should seek professional advice regarding the tax consequences applicable to their own circumstances.

Scrip for scrip CGT rollover relief may be available to Shareholders in The Rock such that no CGT is payable on the exchange of shares in The Rock for MyState Shares. The Rock has applied to the ATO for a class ruling to confirm this. Further details are in Section 10.

(h) A Superior Proposal could potentially emerge

It is possible that a more attractive proposal for Shareholders in The Rock could materialise in the future, such as a takeover bid with a higher offer price than the Scheme Consideration. However, as at the date of this document, your Directors have not received or become aware of any alternative proposal and have no basis for believing that an alternative proposal will be received.

3.4 Other relevant considerations

(a) Continued commitment to regional Queensland

The merger will enable expansion of MyState to include The Rock, which will retain a separate company structure. The key advantages of this structure, and of The Rock retaining its identity, is the ability of The Rock to:

- Maintain a separate operational structure focused on the needs of its customers, particularly in regional Queensland;
- Continue the proud traditions of The Rock brand and service to the local community; and
- Benefit from the increased operational capability and financial stability of the Merged Entity.

MyState intends that The Rock's Rockhampton head office will be maintained after implementation of the Scheme.

Stephen Lonie, currently Chairman of The Rock, will join the MyState board as a non-executive director.

(b) Risks of investing in MyState

There are both general and specific risks associated with investing in MyState and the Merged Entity and holding MyState Shares. Section 7 summarises the key risks.

(c) Prospects for The Rock as a standalone entity

The Rock has had a successful track record as a standalone entity since its listing on the ASX in 1992. Ongoing high levels of competition for home loans and for retail and wholesale deposits in retail banking will potentially restrict The Rock's future profitability and make it challenging for The Rock to maintain scale relative to its peers through organic growth alone, particularly post the Global Financial Crisis in 2009.

(d) Implications of a failure to approve the Scheme

If the Scheme is not approved by Shareholders in The Rock or the Court, Shareholders in The Rock will retain their shares in The Rock. Under this scenario, and in the absence of an alternative proposal, the market price for shares in The Rock may fall. In addition, there are costs associated with the Proposal that must be paid whether or not the Scheme is implemented. It is anticipated that the direct and consequential costs associated with the Proposal will materially adversely impact on The Rock's financial performance in FY12 should the Scheme not proceed.

(e) The Scheme may be implemented even if you vote against it

You should be aware that even if you do not vote, or vote against the Scheme, the Scheme may still be implemented if it is approved by the requisite majorities of Shareholders in The Rock and the Court. If this outcome occurs, your shares in The Rock will be transferred to MyState and you will receive 7.75 New MyState Shares for every 10 shares in The Rock even though you did not vote on, or voted against, the Scheme.

(f) Conditionality of the Scheme

The implementation of the Scheme is subject to a number of conditions, including:

- Approval of the Treasurer under the FSSA and the Banking Act;
- Shareholder and Court approvals of the Scheme; and
- No material adverse change or prescribed occurrence occurring in relation to The Rock or MyState.

These conditions are summarised in Section 8.12 of this document and set out in full in clause 3.1 of the Scheme Implementation Deed (a copy of which forms Annexure C of this document).

4 Information about The Rock

4.1 Introduction

The Rock is a customer-focused financial institution based in Central Queensland. Founded in Rockhampton in 1967, The Rock is an ADI regulated by APRA. The Rock listed on the ASX in 1992.

The Rock 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 Rock maintains strong links with the communities in which it operates, supporting community events, organisations and charities through its highly-regarded and award-winning Community Support Program.

The Rock has nine branches, 18 mini-branches and 32 ATMs across regional Queensland. The Rock has a national reach via its broker distribution channel.

As at 31 August 2011, The Rock directly employed 118 staff.

4.2 Corporate and governance structure

The Rock has one wholly owned subsidiary, Rockhampton Custodian and Management Company Limited, and controls a number of securitisation special purpose vehicles in the form of trusts.

The Rock is overseen by the Board of Directors which comprises four non-executive Directors and the Managing Director.

Operational management of the organisation is executed by the Managing Director and the Executive Committee comprising four executives, responsible for Customer Development, Sales and Service, Finance and Risk, and Corporate Services.

4.3 The Rock's business

A strategic review of the business in the second half of the 2010 calendar year resulted in The Rock adopting a revised business strategy focusing on its core business of being an ADI. The Rock is committed to delivering competitive products in its core retail markets across regional Queensland and nationally through its broker channels, while ensuring overall profitability and strengthened financial performance.

Home Loans

The Rock offers residential mortgage products funded by retail and wholesale deposits and securitisation funding. These lending solutions comprise fixed and variable rate mortgage options.

Deposit Accounts

The Rock's deposit products include everyday transaction and savings accounts, and investment facilities including term deposits.

Insurance

The Rock provides insurance brokerage services under the brand RockSure Insurance Broking Services (RockSure). RockSure provides insurance broking services with respect to a range of home and contents, rental properties, motor vehicles, life risk products, income protection, total and permanent disability and other personal lines insurance products. In June 2001, The Rock obtained its licence as a registered general insurance broker trading under the RockSure name and since then has provided access to most major insurers, including QBE, CGU, Allianz, Lumley General, AMP General and Ansvar Insurance.

The Rock is in the process of transitioning its insurance broking activities to an agency arrangement following the sale of its rural and commercial insurance broking assets in June 2011, an arrangement which is expected to be functioning later this calendar year.

Community

Building and maintaining strong links with the communities in which the business operates is one of The Rock's major priorities, supporting a significant number of community events, organisations and charities through its highly-regarded and award-winning Community Support Program.

This program aims to improve the lives and wellbeing of a wide cross-section of these communities by providing sponsorship and donation monies, supporting joint fundraising initiatives, providing in-kind support and forming corporate partnerships. In a bid to make a tangible difference, The Rock typically seeks long-term partnerships and provides ongoing support, enabling it to become part of the solution to community issues.

4.4 Key statistics

The following table sets out the key ratios and statistics from The Rock's audited financial statements for FY11.

Key indicator	Year ended 30 June 2010	Year ended 30 June 2011
Market capitalisation	$62,891,338	$55,355,522
Average Net Interest Margin	1.44%	1.70%
Net profit after tax	$5.1 million	$4.9 million
Cost to Income Ratio	75.7%	77.3%
Capital Adequacy Ratio	13.1%	13.4%
High Quality Liquid Assets (HQLA)	17.0%	12.7%
Loan Portfolio	$938 million	$996 million
Deposit Portfolio	$572 million	$739 million
Dividend Payout Ratio	75%	72%
Weighted Average earnings per share	21.4 cents	19.4 cents

4.5 Business drivers

Loans Portfolio

The Rock's Loan Portfolio comprises residential loans. As at 30 June 2011, the value of the loan book was $996 million. More than 85% of The Rock's loans were sourced through mortgage brokers, while the remaining 15% were originated through The Rock's direct branch and mini-branch channels.

The Rock's Loan Portfolio is geographically diverse. The geographic distribution of loans settled during FY11 was 42% in Queensland, 30% in New South Wales and 14% in Victoria, with the remaining 14% being shared between South Australia, Western Australia and the Northern Territory.

Deposits

The Rock's deposit products comprise savings and transaction accounts, term deposits and negotiable certificates of deposit (NCDs). During FY11, deposits increased by $166 million, or 29%, to $739 million.

The Rock attracted in FY11 retail deposits beyond Central Queensland through its online cash management account. Offered in partnership with select, metropolitan-based financial planning and investment groups, this product attracted $70 million in new retail deposits in the 12 months to 30 June 2011.

Asset quality

As at 30 June 2011, loan arrears over 30 days were 1.99% of the loan book, while loan arrears greater than 90 days comprised 0.2% of the portfolio. The Rock's mortgage loans (92%), including all loans with an LVR greater than 80%, continue to be 100% individually mortgage insured.

Figure 4.1: Loan portfolio balance as at June 2010 and June 2011

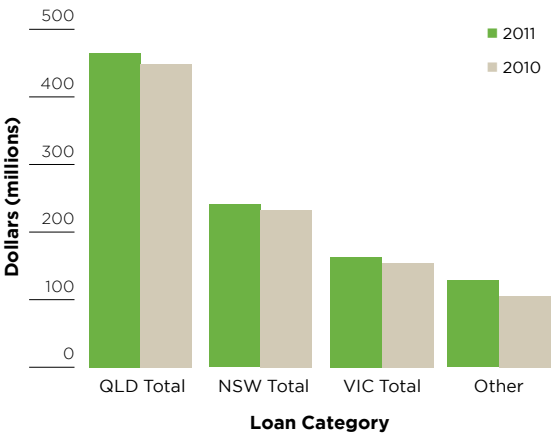
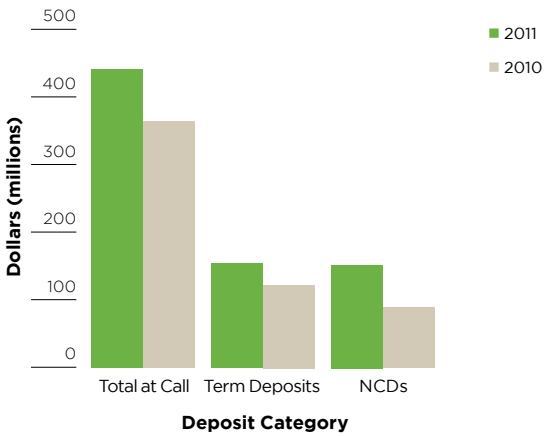


Figure 4.2: Deposit portfolio balance as at June 2010 and June 2011



Regulatory capital

The Rock's capital adequacy increased to 13.4% at 30 June 2011 (13.1% at 30 June 2010). In FY11, The Rock increased its regulatory capital by approximately $1.4 million of capital through the sale of the RockSure commercial insurance broking business, and raised approximately $0.5 million of Tier 1 capital through its Dividend Reinvestment Plan.

4.6 Directors

The Directors of The Rock are:

Stephen E Lonie (Chairman), BCom MBA CA FFin FAICD FIMCA
Independent non-executive director since 24 April 2010

Mr Lonie is a Chartered Accountant and a former partner of the international accounting and consulting firm KPMG. He now practices as an independent management consultant. He is also currently Chairman of Central Queensland mining group, Jellinbah Resources Pty Ltd, and a non-executive director of Corporate Travel Management Ltd.

Bradford V R Beasley, LL.B (Hons)
Non-executive director since 17 August 1999

Mr Beasley is a partner of the Rockhampton firm of Solicitors, South and Geldard, which has acted as Solicitor to The Rock for over 20 years. Mr Beasley is also Chairman of the Board of Trustees of the Rockhampton Grammar School.

Ross A Illingworth, GAICD CFP BBus HR Deakin (Victoria College)
Independent non-executive director since 15 January 2009

Mr Illingworth is Chief Investment Officer of Carnbrea & Co Limited. He is a non-executive director of The Sir Robert Menzies Memorial Foundation Ltd and a member of its Investment Committee. He is also a non-executive director of Arthritis Victoria and a member of its Audit and Investment Committee.

Rod Davies, FFin MAICD
Independent non-executive director since 1 March 2010

Mr Davies held various executive management positions at Suncorp-Metway Limited during more than 21 years of service. Mr Davies has extensive business experience in the banking sector. During his time at Suncorp-Metway Limited, he was a director of Suncorp Financial Planning Pty Ltd, Metway Star Limited, Graham & Company Limited, and LJ Hooker Corporate Limited.

Stuart J McDonald, B.Comm, M. App. Fin. (Macq.), FAICD
Managing Director – appointed 25 October 2010

Mr McDonald joined the Board on 25 October 2010 as Interim Chief Executive Officer and Managing Director. Mr McDonald commenced his career at National Australia Bank in 1985 and has spent the majority of his career with Suncorp-Metway Limited in a range of senior executive roles. He has a demonstrated track record in running a large financial services business unit as well as leading and managing group wide strategy, acquisition, integration and operations programmes. Mr McDonald has previously held the position of Chairman of L.J. Hooker Pty. Ltd., director of RACQ Insurance Ltd and Visiting Fellow at Macquarie University's Centre for Money Banking and Finance. He has recently completed the Advanced Management Programme at Harvard Business School.

4.7 Recent share price of The Rock

The closing price for shares in The Rock on ASX on 29 September 2011, the last trading day before the finalisation of this Scheme Booklet, was $2.48.

During the three months ended 30 August 2011 (the last trading day before announcement of the Proposal):

- The lowest recorded sale price for shares in The Rock on ASX was $1.81 on 26 August 2011; and
- The highest recorded sale price for shares in The Rock on ASX was $2.25 on 7 July 2011.

The last recorded sale price for shares in The Rock on ASX before the public announcement of the Proposal was $1.84 on 29 August 2011.

There can be no guarantee as to the performance of the price of shares in The Rock in the future. If the Scheme is approved, eligible Shareholders in The Rock will receive New MyState Shares in return for their shares in The Rock. Similarly, there can be no guarantee as to the performance of the price of MyState Shares in the future. For a description of the risks with respect to the financial performance of MyState and the Merged Entity, including risks related to the MyState Share price, refer to Section 7.

4.8 Historical financial overview

The following summary historical financial information has been extracted from The Rock's audited FY11 financial statements and does not take into account the effects of the Proposal.

The Rock's full annual results, from which this financial information was extracted, can be found on The Rock's website www.therock.com.au under the Shareholder Centre section; and on the ASX website www.asx.com.au under the code 'ROK'.

Summary financial statements

Statement of Financial Position as at 30 June 2011

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000
Assets				
Cash and cash equivalents	39,680	56,888	21,213	30,363
Trade and other receivables	5,319	4,103	9,437	7,715
Financial assets available for sale	3,546	25,339	150,280	194,468
Financial assets held-to-maturity	187,767	183,693	187,767	183,693
Loans and advances	995,974	938,480	427,548	349,845
Derivatives	–	–	1,704	2,373
Property, plant and equipment	5,324	5,954	5,324	5,954
Other assets	388	419	388	419
Deferred tax assets	1,475	1,692	1,467	1,684
Intangible assets	7,255	8,682	7,255	8,682
Total assets	**1,246,728**	**1,225,250**	**812,383**	**785,196**
Liabilities				
Deposits	738,560	572,095	738,560	572,095
Trade and other payables	6,661	10,439	5,860	7,570
Derivatives	2,978	3,320	2,978	3,320
Borrowings	435,240	578,286	–	138,736
Income tax payable	839	965	369	952
Deferred tax liability	1,565	1,092	2,076	1,804
Provisions	327	303	327	303
Total liabilities	**1,186,170**	**1,166,500**	**750,170**	**724,780**
Net assets	**60,558**	**58,750**	**62,213**	**60,416**
Equity				
Issued capital	34,821	34,363	34,821	34,363
Retained earnings	25,499	24,387	25,069	23,730
Reserves	238	–	2,323	2,323
Controlling interest	60,558	58,750	62,213	60,416
Non-controlling interests	–	–	–	–
Total equity	**60,558**	**58,750**	**62,213**	**60,416**

The Rock Building Society Limited Statement of Comprehensive Income for the year ended 30 June 2011

	ECONOMIC ENTITY		THE ROCK	
	2011 $000	2010 $000	2011 $000	2010 $000
Interest income	78,776	69,045	50,767	38,464
Interest expense	(57,002)	(49,967)	(35,814)	(26,206)
Net interest income	21,774	19,078	14,953	12,258
Other revenue and income	8,807	8,150	15,219	16,938
Impairment losses on loans and advances	(38)	(101)	(38)	(101)
Employee benefits expense	(8,385)	(7,366)	(8,385)	(7,366)
Occupancy expense	(754)	(778)	(754)	(778)
Depreciation and amortisation expense	(2,453)	(2,201)	(2,453)	(2,201)
Other expenses	(12,001)	(10,157)	(11,921)	(9,630)
Profit before income tax	6,950	6,625	6,621	9,120
Income tax expense	(2,094)	(1,550)	(1,538)	(2,298)
Profit for the year	**4,856**	**5,075**	**5,083**	**6,822**
Other comprehensive income, net of income tax				
Net changes on revaluation of Land and Buildings	–	(747)	–	(747)
Net changes in cash flow hedges	340	7,939	–	–
Income tax (expense)/benefit on items of other comprehensive income	(102)	(2,157)	–	224
Total Other Comprehensive Income for the year, net of income tax	**238**	**5,035**	**–**	**(523)**
Total Comprehensive Income for the year	**5,094**	**10,110**	**5,083**	**6,299**
Profit attributable to:				
Non-controlling interest	–	–	–	–
Controlling Interest	4,856	5,075	5,083	6,822
Profit for the year	**4,856**	**5,075**	**5,083**	**6,822**
Total Comprehensive income attributable to:				
Non-controlling interest	–	–	–	–
Controlling Interest	5,094	10,110	5,083	6,299
Total Comprehensive Income for the year	**5,094**	**10,110**	**5,083**	**6,299**

Discussion of financial information

The Rock's net profit after tax for FY11 was $4.9 million, being 4% below the previous financial year ($5.1 million). This result includes a number of significant one-off transactions including expenditure of $1.3 million, before tax, in legal and consulting costs in relation to an ASIC regulatory inquiry and a comprehensive strategic review and restructuring of the business, including the resignation of the former Managing Director and some of the senior personnel.

The regulatory inquiry related to concerns raised by ASIC in July 2010 regarding The Rock's calculation of fees and interest on some customer accounts. ASIC has indicated that it considers the issues the subject of that inquiry have, on the information currently available, been resolved in an appropriate manner.

The FY11 statutory result was also bolstered by the profit from the sale of The Rock's rural and commercial insurance broking assets which contributed a profit on sale of $1.0 million after tax.

Net interest income increased by $1.9 million over FY10 income and other income increased by $0.5 million, including the profit on sale from the rural and commercial insurance broking assets.

The net interest margin contracted during FY11 from 1.83% for the month of June 2010 to 1.64% for the month of June 2011. However, the average interest margin for FY11 was 1.70% compared to 1.44% for FY10. The interest margin improved during the latter months of FY10 as interest rates rose and fixed rate loans and the swaps hedging those loans matured, resulting in a reduced swap interest expense.

4.9 Material change in The Rock's financial position since the last published accounts (30 June 2011)

Except as set out elsewhere in this Scheme Booklet, there has been no material change in The Rock's financial position since 30 June 2011, the date of The Rock's last published financial statement.

4.10 Publicly available information

The Rock is listed on the ASX. As such, The Rock is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations. As a company listed on the ASX, The Rock is subject to the ASX Listing Rules which require immediate disclosure to the market of any information of which The Rock is aware and which a reasonable person might expect to have a material effect on the price or value of its securities.

ASIC also maintains a record of documents lodged with it by The Rock, and these may be obtained from or inspected at any office of ASIC. Information is also available on The Rock's website at www.therock.com.au

5 Information about MyState

5.1 Introduction

MyState Limited is listed on the Australian Securities Exchange (ASX) and is the parent company of two wholly-owned subsidiaries, MyState Financial Limited (MSF), an ADI, and Tasmanian Perpetual Trustees Limited (TPT), a trustee and wealth management company. MyState was formed in September 2009 to effect the merger of MSF and TPT.

MyState's two separately branded businesses, MSF and TPT, constitute a major Tasmanian-based financial group which offers a range of financial products and services to around 200,000 customers.

For the year ended 30 June 2011 MyState reported profits returning 11% on equity, with revenue growth of 20% compared to the year ended 30 June 2010. As at 30 June 2011, the MyState Group held net tangible assets of over $155 million. Total assets of the MyState Group were $2.2 billion at the end of June 2011.

Both MyState and MSF are regulated by APRA. TPT is a trustee company licensed under the Corporations Act. TPT is regulated by APRA as a Registered Superannuation Entity (RSE). Both MSF and TPT hold Australian Financial Services Licences (AFSL) issued by ASIC.

Further information on MyState can be found on its website at www.mystatelimited.com.au.

5.2 Overview of MyState's business

MyState Financial

MSF operates predominately in Tasmania, with 12 main branches across the State and 298 staff. Established on 1 July 2007, it is the largest Tasmanian-based financial institution and is the result of 28 credit union consolidations over almost 50 years.

MSF provides financial services to approximately 120,000 customers. It offers:

- Savings and term deposits
- Home loans
- Cash management accounts
- Business loans – small to medium-sized businesses
- Internet banking
- Foreign currency – (via Travelex)
- Personal loans
- General insurance – (via partnership with CGU)
- Credit cards – (via partnership with Citibank)
- Health insurance – (via partnership with St Luke's Health)
- Overdrafts
- Financial planning and advice[1]

1. Transferred to TPT on 1 July 2011 to create one Wealth Management business unit for the MyState Group.

MSF competes with the major banks in Tasmania, where it continues to increase its share of the Tasmanian residential lending and household deposit sectors at the expense of the competition. In the year ended 30 June 2011, MSF's residential lending portfolio grew by 10.60% compared to national system growth of 6.30%[2] and its household deposit portfolio grew by 7.93% compared to national system growth of 7.35%[3] (see 'Key business drivers' in Section 5.3 for further information). It also outperformed the major financial institutions in terms of customer satisfaction. Independent qualitative research undertaken in July 2011 by a leading research firm, MillwardBrown, showed overall MSF customer satisfaction ratings of 95%. The MSF group also includes Connect Asset Management Pty Ltd, which manages four securitisation programmes under the ConQuest name, and The Gourmet Club Pty Ltd, a loyalty card programme manager.

2. System data source: RBA, Lending and Credit aggregates, published on 29 July 2011.
3. System data source: APRA – Monthly Banking Statistics data, published 29th July 2011.

The strength of the MSF brand is enhanced by the tangible support it gives to the Tasmanian community. Major promotional events sponsored by MSF include the MyState Australian Wooden Boat Festival and the MyState Financial Student Film Festival. MSF has also established and supports a separate charitable foundation – the MyState Financial Community Foundation Limited – which provides annual grants to charities to educate and nurture the young people of Tasmania.

Further information on MSF can be found on its website at www.mystate.com.au.

Tasmanian Perpetual Trustees

TPT was established in 1887 and is a major Tasmanian-based provider of financial products and services. TPT has four main branches across Tasmania, approximately 80,000 customers and 72 staff. As at 30 June 2011 TPT had $930 million funds under management on behalf of personal, business and wholesale investors in Tasmania and approximately $740 million of funds under advice.

TPT offers:

- Managed investment funds
- Management of trusts
- Rural and commercial loans
- Taxation services
- Estate planning
- Portfolio administration services
- Wills and power of attorney
- Financial planning and advice, including private client services
- Estate administration
- Corporate and custodial trustee services

TPT was established to be a professional executor and trustee for Tasmanians and this remains a core part of its service and reputation. This area is underpinned by a long tradition of estate planning and will preparation. With regard to managed investment funds, TPT is the product issuer for a range of Managed Investment Schemes (MIS), specialising in cash and mortgage funds. The mortgage funds enable TPT to provide traditional trustee style first mortgage finance for rural, commercial and business purposes.

Further information on TPT can be found on its website at www.tasmanianperpetual.com.au

5.3 Results highlights for the year ended 30 June 2011 and key business drivers

Results

For the year ended 30 June 2011 MyState announced the following results:

Result	Year ended 30 June 2011	Highlight[1]
Net Profit after Tax (NPAT)	$22.02 million	Up 27% on prior year
Return on Equity (ROE)	11%	Up 23 % on prior year
EPS	32.65 cents	Up 19 % on prior year
Full year dividends per share	27.0 cents, fully franked	Up 20% on prior year
Revenues	$187.36 million	Up 20 % on prior year
MyState Group expense to income ratio	70.06%	Down 4% on prior year
Net Interest Margin (NIM) (MSF)	3.23%	Up on prior year
Capital adequacy – Tier 1 (MSF)	15.00%	Up 1.17% on prior year

1. Prior year refers to the full year ended 30 June 2010, noting that this prior period included only 10 months contribution from TPT following the merger in September 2009.

MyState's results for the year ending 30 June 2011 were achieved in a period of intense competition and subdued economic activity. The results reflect the continued progress being made in delivering the cost synergies and revenue gains from the merger of MSF and TPT in September 2009.

Key business drivers

MyState derives its interest income from its banking and lending operations and derives its fee income from operations including managed investment scheme operations, insurance sales and other commissions, trustee services, wills and estates, financial planning and wealth management. The key drivers of this income include deposits, loans under management, funds under management and funds under advice or administration.

(a) Deposits

Deposits with MyState are held by MSF. MSF's deposits are primarily household deposits. At 30 June 2011, MSF held deposits of $1.58 billion, representing an increase of 0.42% from $1.57 billion as at 30 June 2010.

Figure 5.1: MSF interest-bearing liability Household portfolio as at 30 June 2010 and 30 June 2011

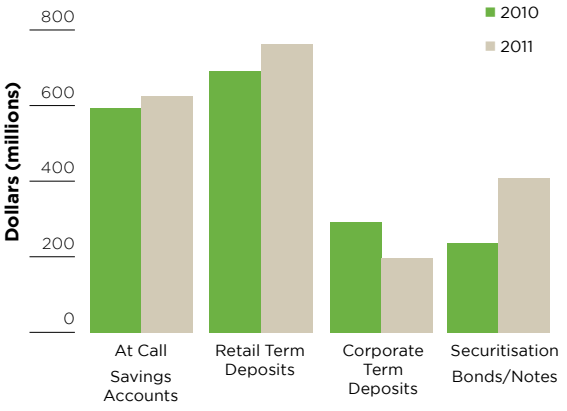
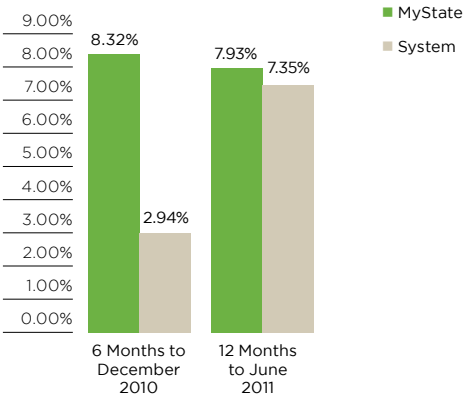


Figure 5.2: Analysis of growth in MSF Deposits during the year ended 30 June 2011



System data source: APRA – Monthly Banking Statistics data, published 29th July 2011

Over the year ended 30 June 2011, MSF's household Deposit Portfolio growth exceeded national system growth, increasing by $102 million or 7.93% compared to national system growth of 7.35%.

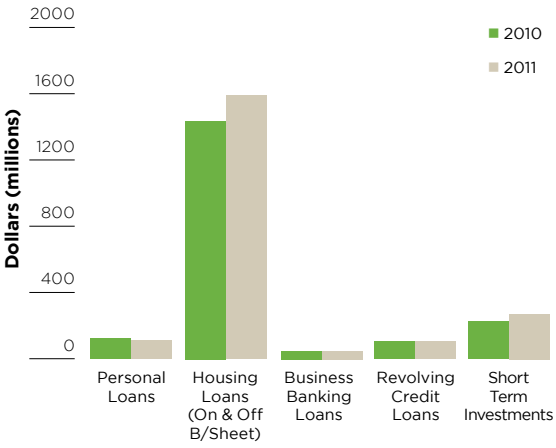
A breakdown of MSF's total deposits, by deposit type, is presented above.

(b) Loans under management

MyState's loans under management are also derived from its MSF banking operations. These loans are largely residential and personal loans, with commercial loans comprising a significantly smaller portion of MSF's Loan Portfolio. As at 30 June 2011, MSF held loans under management of $1.85 billion, representing an increase of 8.5% from $1.71 billion as at 30 June 2010.

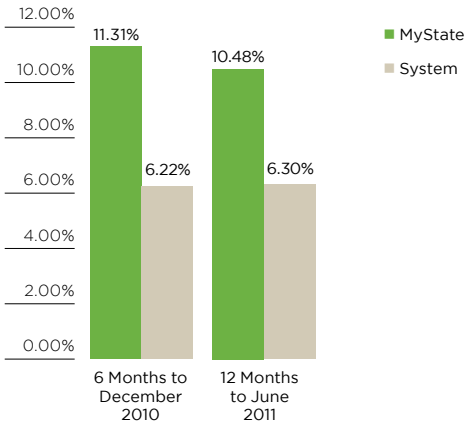
MSF achieved a residential lending portfolio growth rate greater than the national system growth rate for the year ending 30 June 2011. MSF's residential lending portfolio grew by 10.60% for the year compared to national system growth of 6.30%. This was achieved while maintaining 30-day secured loan arrears at 0.89% by value, despite challenging economic conditions and seven increases in the official Reserve Bank of Australia cash rate. This loan arrears percentage was less than that reported by the major and second tier banks.

Figure 5.3: Breakdown of MSF loans under management by value, as at 30 June 2010 and 30 June 2011



System data source: RBA, Lending and Credit aggregates, published on 29th July 2011

Figure 5.4: MSF Residential Lending growth rates to 30 June 2011



(c) Funds under management/Funds under advice or administration

As at 30 June 2011, MyState's holding of funds under management was $930 million. These funds under management relate to assets held in TPT's MIS on behalf of personal, business and wholesale investors in Tasmania.

MyState's funds under advice or administration are funds sourced via both its TPT and MSF businesses and at 30 June 2011 totalled $737 million, inclusive of the balances transferred from MSF on 1 July 2011.

TPT's business has been affected by economic uncertainty, falling asset values and corresponding asset-based revenues during the last few years. Notwithstanding the current conditions of lower investor confidence and volatile asset markets, TPT has substantially maintained its funds under management and funds under advice or administration levels since the year ending 30 June 2010. TPT's managed investment portfolio has remained stable at approximately $930 million. Funds under administration or advice via the MSF and TPT wealth management practices also remained fairly stable at approximately $740 million. TPT's MIS management fees have also stabilised after the Global Financial Crisis. TPT's capital and income commissions are stable but with continuing lower value of estates and reduced value of dividend, interest and rental receipts. TPT saw a 26% increase in new and revised wills written in the year ending 30 June 2011, largely as a result of cross-referral within the MyState Group.

5.4 MyState's historical financial information

This Section outlines the consolidated summary historical financial information of MyState. The information contained within this Section has been sourced from the audited financial statements of MyState for the financial year ended 30 June 2011 (MyState's last annual report), MyState's interim financial report for the half year ended 31 December 2010 and its annual report for the financial year ended 30 June 2010. The information includes the following:

- Summary balance sheets as at 30 June 2011 and 30 June 2010; and
- Summary income statements for the years ended 30 June 2011 and 30 June 2010.

The accounting policies used to prepare the financial information below are based on the accounting policies of MyState contained in its audited financial statements for the year ended 30 June 2011 unless otherwise noted.

For further financial information, refer to MyState's annual and interim financial reports. Copies of the annual reports, interim financial reports and related announcements from which the information in this Section has been extracted may be found on MyState's website, www.mystatelimited.com.au. MyState's annual reports contain details of MyState's accounting policies and a detailed management discussion and analysis of the financial results for each period.

(a) MyState's historical financial statements

(i) MyState's consolidated historical balance sheets ($)

The table below outlines MyState's consolidated summary historical balance sheets as at 30 June 2011 and 30 June 2010.

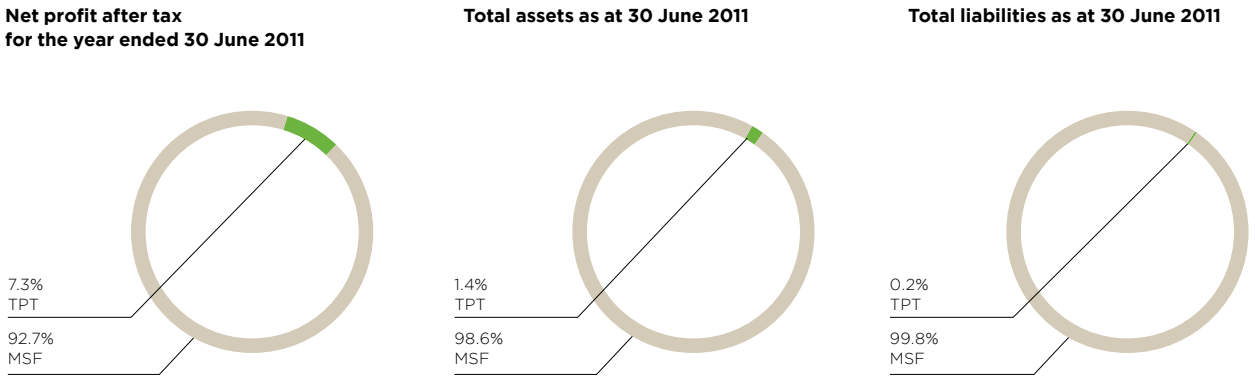
Consolidate balance sheet as at:	30 JUNE 2011	30 JUNE 2010
ASSETS		
Cash and cash equivalents	34,970,545	36,769,699
Available for sale financial assets	269,168,902	226,800,495
Receivables	15,145,969	10,801,752
Loans at amortised cost	1,854,540,236	1,708,232,546
Other investments	4,520,527	4,550,527
Assets classified as held for sale	5,625,000	–
Property, plant and equipment	8,083,636	15,872,784
Tax assets	5,832,281	6,950,428
Other assets	36,194	36,194
Intangible assets and goodwill	48,830,553	48,695,865
TOTAL ASSETS	**2,246,753,843**	**2,058,710,290**
LIABILITIES		
Deposits	1,496,596,212	1,486,678,739
Interest bearing loans and borrowings	507,130,202	328,625,262
Payable and other liabilities	29,829,111	34,185,065
Tax liabilities	3,707,978	6,642,028
Provisions	4,889,348	4,193,684
TOTAL LIABILITIES	**2,042,152,851**	**1,860,324,778**
NET ASSETS	**204,600,992**	**198,385,512**
EQUITY		
Share Capital	64,701,212	64,623,801
Retained earnings	137,274,562	131,777,658
Asset revaluation reserve	2,340,314	2,216,890
Employee equity benefits reserve	253,040	90,226
Hedging reserve	-	(54,791)
Net unrealised gains reserve	31,864	(268,272)
TOTAL EQUITY	**204,600,992**	**198,385,512**

(ii) MyState's consolidated historical income statements ($)

The table below outlines MyState's consolidated summary historical income statements for the financial years ended 30 June 2011 and 30 June 2010.

Consolidated income statement for the year ended:	30 JUNE 2011	30 JUNE 2010
Interest Income	151,680,743	120,998,943
Interest Expense	(84,074,437)	(60,982,881)
Net interest margin	67,606,306	60,016,062
Other revenue	35,675,196	34,583,389
Other expenses	(68,366,146)	(66,319,736)
Profit/(loss) before bad and doubtful debts and income tax	34,915,356	28,279,715
Bad and doubtful debts	(3,990,872)	(3,621,951)
Profit/(loss) before income tax expense	30,924,484	24,657,764
Income tax (expense)/benefit	8,904,638	7,316,441
Net profit/(loss) after income tax	**22,019,846**	**17,341,323**

Figure 5.5: Segment financial information



(iii) Segment financial information

MyState's segments for internal reporting purposes consist of its two operating divisions, MSF and TPT and a corporate cost centre. The charts below illustrate MyState's segment information in relation to segment net profit after income tax, total assets and total liabilities. Corporate cost centre adjustments have been excluded from the charts. This segment information is based on the historical financial and operational structure as at 30 June 2011.

(b) Management discussion and analysis of historical financial information

(i) Overview

Comparison of the full years ended 30 June 2011 and 30 June 2010

Net interest margin in 2011 was $67.6 million, an increase of 12.6% from 2010 net interest margin of $60.0 million. This result was achieved via an 8.6% increase in loans and a 7.9% increase in deposits. 2011 revenue of $187.4 million represented a 20.4% increase from 2010 revenue of $155.6 million.

MyState achieved NPAT of $22.0 million in 2011, a 27.0% increase from 2010 NPAT of $17.3 million. The 2011 NPAT result over that of 2010 was driven by ongoing progress in delivering cost synergies and revenue gains from the merger of MSF and TPT in September 2009, despite intense market competition and slower economic activity.

(ii) Net interest margin

MyState's interest income consists of housing and personal loans, commercial loans and deposits with other financial institutions. In the year ended 30 June 2011, MyState earned interest income of $151.7 million, an increase of 25.4% from $121.0 million in the preceding year. This result comprised interest income from housing and personal loans of $132.4 million, commercial loans of $3.9 million and deposits with other financial institutions of $15.3 million.

Interest expense in the year ended 30 June 2011 was $84.1 million, an increase of 37.9% from $61.0 million in the preceding year. Interest expense comprises interest on deposits and interest due to other financial institutions.

As stated above, net interest margin for the year ended 30 June 2011 was $67.6 million, an increase of 12.6% from $60.0 million in the year ended 30 June 2010.

(iii) Non-interest revenue

MyState's non-interest revenue comprises of revenue from operating activities and revenue from non-operating activities.

Total other revenue from operating activities in the year ended 30 June 2011 was $34.5 million, an increase of 4.3% from $33.1 million in the year ended 30 June 2010. Items classified as other revenue from operating activities include bad debts recovered, loan fee income, management and other fees, commissions, estate administration and other income.

Total other revenue from non-operating activities consists of profit on sale of investments and dividends/distributions receipts from other corporations. Total other revenue from non-operating activities in the year ended 30 June 2011 was $1.2 million, a decrease of 22.0% from $1.5 million in the year ended 30 June 2010.

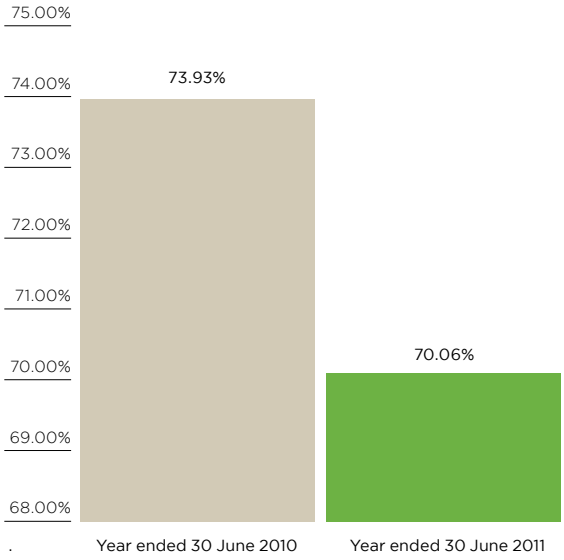
(iv) Operating expenses

Operating expenses consist of salaries and associated costs; marketing and promotion; governance and compliance costs; IT costs; office occupancy and associated costs; and general administrative expenditure.

Operating expenses for the year ended 30 June 2011 were $68.4 million, representing an increase of 3.1% from $66.3 million in the year ended 30 June 2010.

Despite this increase in total operating expenses, MyState's cost to income ratio (a key measure of efficiency in the financial services sector) improved from 73.93% for the year ended 30 June 2010 to 70.06% for the year ended 30 June 2011. This improvement in the efficiency of MyState's operations was largely a result of the continued realisation of synergy benefits from the merger of MSF and TPT and is illustrated on page 33.

Figure 5.6: Cost to Income Ratio June 2010 to June 2011



(c) Historical financial information – assumptions, adjustments etc

Due to the merger of MSF and TPT during the financial year ended 30 June 2010, the 2010 income statement results comprised 12 months of trading for MSF and 10 months of trading for TPT. MyState's balance sheets from 31 December 2009 onwards reflect the fully consolidated position of both MSF and TPT within the MyState non-operating holding company. As at 31 December 2009, MyState's balance sheet reflected the pre-merger carrying amount of MSF assets and liabilities and the fair value of assets and liabilities of TPT at the date that control was obtained.

In the year ended 30 June 2010, MyState's income statement results contained significant one-off items, including share sale facility costs of $1.2 million, redundancy costs related to the merger of $3.2 million, stamp duty costs of $0.4 million related to the merger into MSF of two credit unions, connectfinancial and Island State, and executive recruitment costs of $0.2 million.

5.5 Material change in MyState's financial position since the last published accounts (30 June 2011)

Except as set out elsewhere in this Scheme Booklet, there has been no material change in MyState's financial position since 30 June 2011, the date of MyState's last published financial statement.

5.6 Recent MyState Share price performance

Over the 12 month period to 30 June 2011, MyState's share price has outperformed both the ASX All Ordinaries Index, as well as relevant Financial Services sector market indices.

The last recorded closing price for MyState Shares on the ASX on 30 August 2011, the last trading day before public announcement of the Proposal, was $3.50.

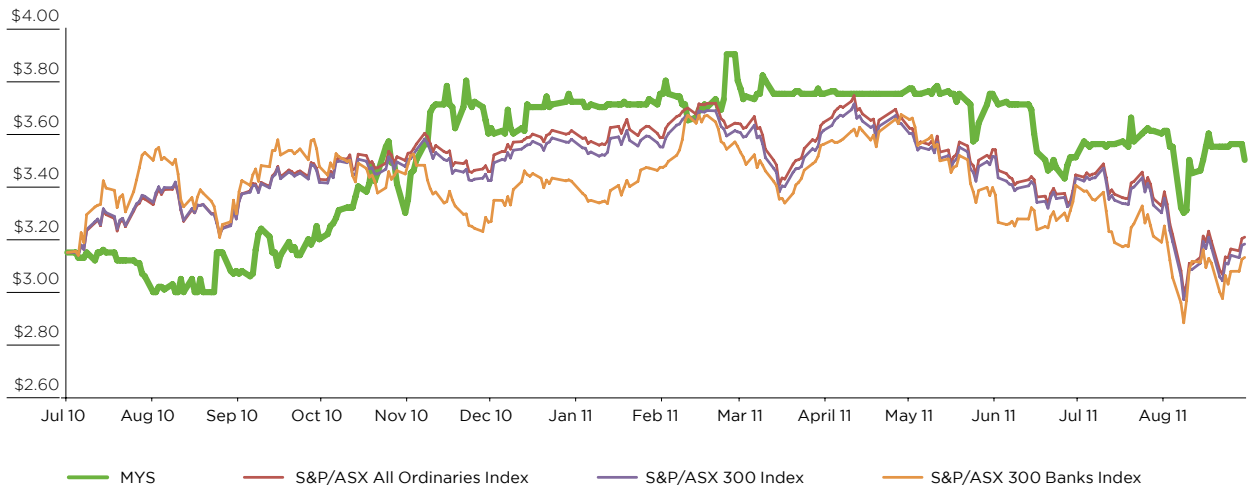
The last recorded sale price for MyState Shares on ASX on 17 October 2011, the last trading day before this Scheme Booklet was lodged for registration, was $3.70.

During the three months ended 17 October 2011:

- The highest recorded sale price for MyState Shares was $3.79 on 11 October 2011;
- The lowest recorded sale price for MyState Shares was $3.30 on 8 August 2011; and
- The volume weighted average price for MyState Shares was $3.51.

There can be no guarantee as to the performance of the price of MyState Shares in the future. For a description of the risks with respect to the financial performance of the Merged Entity, including risks relating to the MyState Share price, refer to Section 7.

Figure 5.7 : MyState Limited relative share price performance 1 July 2010 to 30 August 2011



5.7 MyState's board of directors and executives

(a) Board of directors

The board of directors of MyState is currently comprised of the following members:

Michael J Vertigan AC
BEc(Hons), PhD, Hon LLD, FAICD

Chairman and independent non-executive director
Appointed 8 October 2008

Dr Vertigan is currently Chair of the Australian Government Solar Flagships Council, a director of Aurora Energy, a member of the Advisory Board of Australian Government Education Investment Fund and Chairman of the Independent Review of the Finances of the State of Victoria. He was formerly Secretary of the Department of Treasury and Finance in both Tasmania and Victoria. For the past decade, he has had extensive involvement in the finance, investment, energy and utilities sectors. Director of TPT since July 2004 and Chairman since October 2004. Dr Vertigan also serves as Chairman of MyState board's Group Corporate Governance and Nomination Committee.

G John Gilbert B Com, FAICD

Managing Director – Executive director
Appointed 10 December 2009

Mr Gilbert was appointed Chief Executive Officer of MSF and subsidiary companies on 27 May 2009 and appointed a director of TPT on 22 December 2009. He was formerly Chief Executive Officer of Cuscal Limited, a leading provider of wholesale and transactional banking services to specialist retail financial institutions. Mr Gilbert is a director of QBE Lenders Mortgage Insurance and CUNA Mutual Life and has extensive experience in the financial services sector.

Nicholas L d'Antoine MAICD

Independent non-executive director
Appointed 12 February 2009

Mr d'Antoine is a former grazier with extensive experience in agriculture. He holds various private company directorships and has been a director of TPT since 1983. He was also a director of Tasmanian Banking Services Limited from June 2004 until August 2009. Mr d'Antoine was also Chairman of Tasmanian Banking Services Limited from August 2005 until August 2009. He is a member of MyState board's Group Risk and Group Human Resources and Remuneration Committees. Mr d'Antoine was appointed as a director of MSF and subsidiary companies on 22 September 2009.

Peter D Armstrong BEc(Hons), Dip Ed, Dip FP, CPA, FAICD, FAMI

Independent non-executive director
Appointed 12 February 2009

Mr Armstrong is Chairman of the MyState board's Group Human Resources and Remuneration Committee and is a member of the Group Audit Committee. Mr Armstrong is a former Chairman of connectfinancial and Teachers, Police and Nurses Credit Union. He was appointed a director of MSF and subsidiary companies on 1 July 1998 and is a director of the Gourmet Club Pty Ltd. He was appointed a director of TPT on 22 September 2009. Mr Armstrong is President of Tennis Tasmania and a Member Representative to Tennis Australia.

Robert L Gordon BSc, MIFA, MAICD, FAMI, CPM

Independent non-executive director
Appointed 12 February 2009

Mr Gordon is the Managing Director of Forestry Tasmania. He has been a company director for 16 years including six years as Chairman of connectfinancial. Mr Gordon was appointed as a director of MSF on 1 July 1998. He is also a director of MyState Financial Community Foundation Limited, the Gourmet Club Pty Ltd and was appointed a director of TPT on 22 September 2009. He is a member of the MyState board's Group Human Resources and Remuneration and Group Mergers and Acquisitions Committees.

Tim M Gourlay Dip Teach TTC, Grad Cert Mgmt, MAICD

Independent non-executive director
Appointed 12 February 2009

Mr Gourlay is executive director of Centacare Tasmania and was formerly Capital Works and Planning Consultant with the Tasmanian Catholic Education and Manager (Facility Services) with the Department of Education. He was a credit union director for more than 20 years. Mr Gourlay was appointed a director of MSF on 1 July 1998, and is a director of The Gourmet Club Pty Ltd, and Chairman of the MyState Financial Community Foundation Limited. Mr Gourlay is a member of the MyState board's Group Corporate Governance and Nomination and Group Risk Committees. He was appointed a director of TPT on 22 September 2009.

Miles L Hampton BEc(Hons), FCIS, FCPA, FAICD

Independent non-executive director
Appointed 12 February 2009

Mr Hampton has been a director of TPT since July 2006. He is Chairman of MyState board's Group Risk Committee and a member of the Group Audit and Group Mergers and Acquisitions Committees. He was appointed a director of MSF and subsidiary companies on 22 September 2009. Prior to commencing a career as a non-executive director, Mr Hampton was Managing Director of agribusiness and real estate public company, Roberts Limited from 1987 until 2006. Mr Hampton is currently a director of Australian Pharmaceutical Industries Ltd, Forestry Tasmania, the Van Diemen's Land Company, Tasman Farms Limited and is Chairman of the Tasmanian Water & Sewerage Corporations. Mr Hampton has previously held positions as a director of public companies Ruralco Holdings Ltd, Wentworth Holdings Ltd, HMA Ltd and Gibsons Ltd. He has also been a director of a number of private companies.

Collin M Hollingsworth CPA, FAMI, MAICD

Independent non-executive director
Appointed 12 February 2009

Mr Hollingsworth was General Manager, Corporate Services, TAFE Tasmania from 1998 until April 2008. He is an experienced company director and former Chairman and director of both CPS and Island State Credit Unions. Mr Hollingsworth was appointed a director of MSF on 1 July 2007. He is a director of The Gourmet Club Pty Ltd and was appointed as a director of TPT on 22 September 2009. Mr Hollingsworth is Chairman of MyState board's Group Audit Committee and a member of the Group Risk and Group Mergers and Acquisitions Committees.

Sarah Merridew BEc, FCA, FAICD

Independent non-executive director
Appointed 12 February 2009

Mrs Merridew is a Non-Executive director of Tasmanian Railway and the Tasmanian Water and Sewerage Corporations. She is Honorary Treasurer of the Royal Flying Doctor Service Tasmanian Section and actively involved with other community organisations. Mrs Merridew was formerly a director of Tasmanian Public Finance Corporation and a partner of Deloitte Touche Tohmatsu including a period as Managing Partner for Tasmania. She is an experienced company director and has extensive experience in providing audit, risk management and business advisory services to the public and private sectors. Mrs Merridew was appointed a director of MSF and subsidiaries on 22 September 2009 and a director of TPT on 11 December 2001, following her previous appointment to the board of Perpetual Trustees Tasmania Limited. She was a director of Tasmanian Banking Services Limited from 2005 until 2009. She is a member of MyState board's Group Audit, the Group Corporate Governance and Nomination and the Group Mergers and Acquisitions Committees.

Ian G Mansbridge CPA, FCIS, FCIM

Independent non-executive director
Appointed 12 February 2009

Mr Mansbridge's career has included Managing Director of Sandhurst Trustees Ltd, Managing Director of National Mortgage Market Corporation, Managing Director of Elders Rural Bank (Rural Bank) and a General Manager of Bendigo Bank. He has been National President of the Trustee Corporations of Australia, a Director of Tasmanian Banking Services and Chair of the National Stock Exchange of Australia Ltd. He is currently a director of Australian Friendly Society, Sandhurst Trustees Ltd and Goulburn-Murray Water. He was appointed a director of TPT in March 2004, and MSF on 22 September 2009. He is Chairman of MyState board's Group Mergers and Acquisitions Committee and a member of the Group Risk Committee.

Anthony B Reidy FAICD, MFIA, JP

Independent non-executive director
Appointed 8 October 2008

Mr Reidy is Chief Executive of the Tasmanian Council of Social Service. He was appointed a director of MSF on 26 October 2001 and was Chairman from December 2006 until September 2009. He was elected Chairman of The Gourmet Club Pty Ltd in December 2006. Mr Reidy was appointed a director of TPT on 22 September 2009. Mr Reidy is a member of the MyState board's Group Corporate Governance and Nomination and the Group Human Resources and Remuneration Committees.

(b) Retirements

At MyState's 2010 Annual General Meeting, the Chairman of MyState, Dr Vertigan, announced that three directors of MyState would step down from the MyState board by no later than the 2011 Annual General Meeting. Further to that announcement and in accordance with the MyState constitution, Mr Nicholas d'Antoine, Mr Tim Gourlay and Mr Tony Reidy will retire as directors by no later than the 2011 Annual General Meeting, scheduled to occur on 25 October 2011.

(c) Executive Team

MyState's current executive team consists of the following members:

G John Gilbert B Com, FAICD

Managing Director
Appointed 10 December 2009
Refer Section 5.7(a) above.

Paul K M Viney B Bus FCPA, FCIS, CFTP, MAICD

Chief Financial Officer and Company Secretary
Appointed 11 January 2010

Mr Viney was appointed Company Secretary and Chief Financial Officer of MyState on 11 January 2010 and Secretary of the MSF group of companies on 24 November 2009. He was previously appointed Company Secretary of MyState on 8 October 2008. Mr Viney was appointed Company Secretary and Chief Financial Officer of TPT in July 2003. He was Secretary of Tasmanian Banking Services Limited from July 2003 until 10 August 2009. Prior to joining TPT, Mr Viney was General Manager Corporate, Chief Financial Officer and Company Secretary for Harris & Company Limited, a director of The Examiner Newspaper Pty Ltd, Group Treasurer of the Australian Cement Group of Companies, Manager Corporate Banking for Tasmania Bank, Assistant Commissioner for Corporate Affairs in Tasmania and Assistant Accountant for James Hardie Packaging. He has had extensive experience in finance, accounting and company secretarial roles.

Darren W Turner Grad Dip Bus Admin, Dip Bus, F Fin

General Manager – Retail Banking and Distribution
Appointed 11 January 2010

Prior to joining MyState, Mr Turner worked for the ANZ Banking Group for 21 years from 1983 to 2004, progressing through the company to hold senior roles responsible for Mortgage Operations nationally, Strategy and National Franchising operations. He has been with MyState for seven years and has held a variety of executive roles responsible for Corporate Strategy and Development and Retail Banking. He currently is responsible for Retail Banking, Distribution, Product Development and Research. He has 28 years' experience in financial services, including extensive experience in sales, operational and strategic management.

David E Benbow FIPA, Dip SM, Dip FP, GAICD

General Manager – Wealth Management and Trustee Services
Appointed 11 January 2010

Mr Benbow has been in the role of General Manager Wealth Management and Trustee Services since the merger of TPT and MSF. Prior to the merger he undertook the role of General Manager – Distribution for TPT from 2008. He also held the role of General Manager Asset Management until 2008. Previously, Mr Benbow was employed at AXA from 1986 to 1998 in Hobart and Melbourne in various accounting and superannuation management roles. His last role was as Business Development Manager – Adviser Services. Mr Benbow has over twenty years' experience in the financial services industry including experience in superannuation, funds management and client management roles.

Tim M Rutherford BA (Hons), MA, MBA

General Manager – Technology and Operations
Appointed 10 January 2010

Tim Rutherford is MyState's General Manager – Technology & Operations, having started with MSF as General Manager – Business Systems in November 2007. Mr Rutherford is responsible for the strategic direction and operations of MyState's information technology, loans processing, credit management and collections, property, major projects and business improvement. Mr Rutherford has extensive management and consulting experience having worked with Rio Tinto (2006-2007), NAB (2004-2005), PwCC/IBM (1999-2004), KPMG (1997-1999) and Andersen Consulting (1994-1997). Mr Rutherford worked in Australia, Switzerland, United States, Canada, Japan, Korea, New Zealand and India on large organisational transformation projects covering operational strategy, large-scale systems implementations, organisational restructuring and performance optimisation.

5.8 Information on The Rock securities

MyState's interest in The Rock

As at the date of this Scheme Booklet, MyState does not hold any interest in securities of The Rock.

Acquisitions of The Rock securities by MyState in previous four months

In the four months to the date of this Booklet, there were no acquisitions of securities of The Rock by MyState.

Pre-Scheme benefits

During the four months before the date of this document, neither MyState nor any of its Associates has given, offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to vote in favour of the Scheme or to dispose of shares in The Rock and where the benefit was not offered to all Shareholders in The Rock.

Benefits to The Rock directors

MyState will not be making any payment or giving any benefit to any current member of the Board of The Rock as compensation or consideration for, or otherwise in connection with, their resignation from that Board if the Scheme becomes Effective and the Board is accordingly reconstituted, other than as required under the relevant person's employment agreement with The Rock.

5.9 Continuously disclosing entity

MyState is listed on the ASX. As such, MyState is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations. MyState is subject to the ASX Listing Rules which require immediate disclosure to the market of any information of which MyState is aware which a reasonable person might expect to have a material impact on the price or value of its securities. MyState will provide a copy of any of the following documents, free of charge, to any Shareholder who requests a copy before the Scheme Meeting:

- The annual financial reports for MyState for the year ended 30 June 2011;
- A copy of MyState's constitution; and
- Any continuous disclosure notices given by MyState after the lodgement with ASIC of the 2011 annual financial reports and before lodgement for registration of this Scheme Booklet by ASIC.

These documents can also be accessed through MyState's website at www.mystatelimited.com.au.

6 Information about the Merged Entity

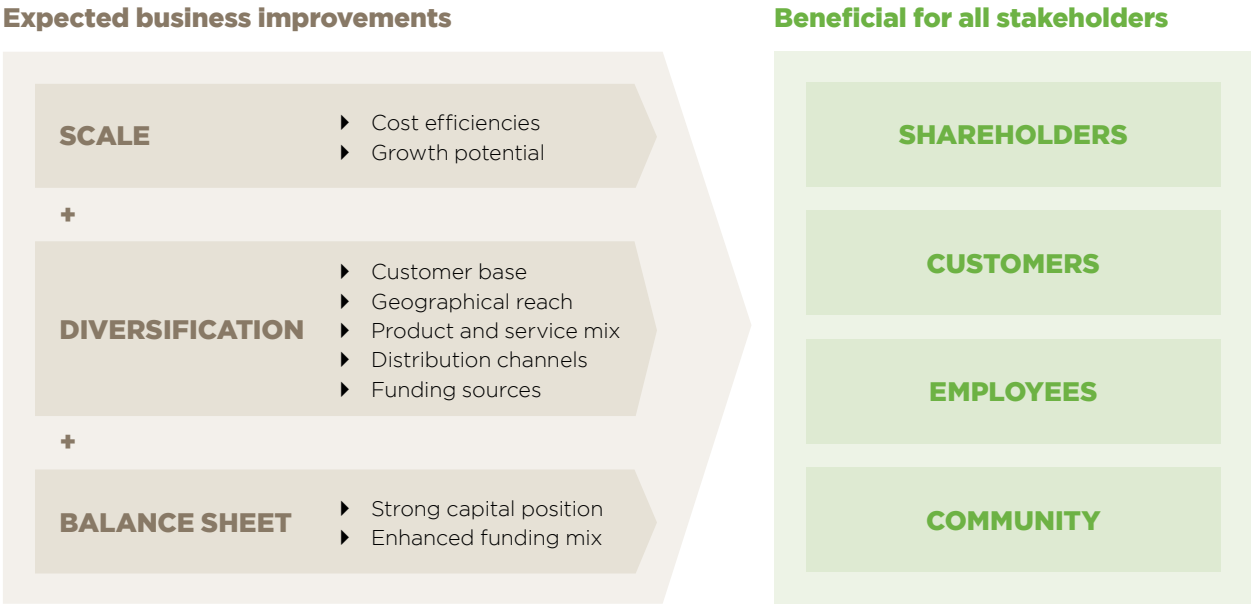
6.1 Rationale for the merger – growth through scale

MyState believes that the proposed merger represents a natural partnership that will deliver significant mutual benefits for customers, employees and shareholders. Anticipated benefits arising from the merger are illustrated below:

(a) Structure

The proposed merger provides Shareholders in The Rock with the opportunity to be part of a larger ASX listed financial service group, MyState, which utilising a non-operating holding company (NOHC) structure, owns and operates MSF, an ADI based in Tasmania, and a trustee and wealth management company, TPT.

Figure 6.1: Summary of key merger benefits



The merger will result in The Rock becoming a separately operating division within MyState, enabling The Rock to:

- Maintain a separate operational structure focused on the needs of regional Queensland; and
- Continue the proud traditions of The Rock brand and service to the local community; while
- Benefiting from the substantially increased operational capability and financial stability which the larger scale of the Merged Entity brings.

The proposed structure of the Merged Entity immediately post merger is illustrated on page 38.

Figure 6.2: Proposed Merged Entity structure

Scale and diversification

There has been considerable consolidation in the financial services industry in Australia in recent years. This consolidation has been driven by the need for industry participants to build and maintain operational and financial scale in order to ensure that they can continue to provide their customers with an attractive range of cost-effective products.

This need is no better illustrated than in the area of technology, which in the banking sector is increasingly becoming the main enabler of improved operational efficiency as well as the key driver of customer acquisition and retention via on-line channels.

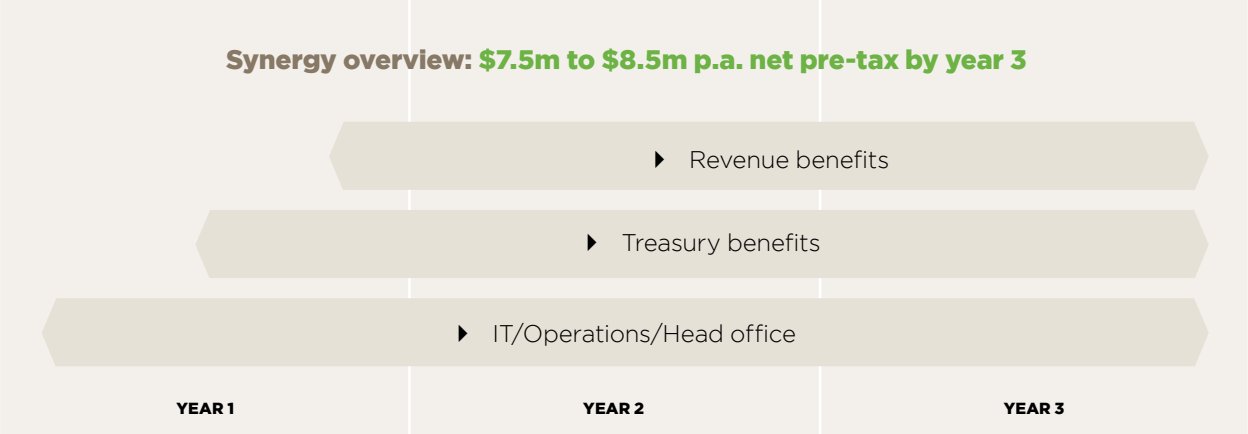
As a result of the merger, both organisations will benefit from the enhanced scale and geographic diversification, better enabling them to maintain their competitiveness against key peers and achieve on-going growth.

Shareholder value

It is expected that the Merged Entity will create shareholder value through:

- Delivery of enhanced revenue opportunities through:
  - A larger and more diversified distribution footprint;
  - Ability to distribute substantially expanded and more competitive products and services that meet a wider range of customer needs; and
  - Ability to better manage the assets and liabilities of the Merged Entity to achieve improved interest margins and/or consequent pricing advantages.
- Delivery of cost savings through:
  - Treasury benefits, including cost savings flowing from proposed ADI licence consolidation;
  - Combining corporate functions and eliminating duplicated head office functions and costs, including costs associated with The Rock Board, ASX listing, share registry, annual reports and audit;
  - Rationalising and aligning information technology systems and transaction processing; and
  - Realising scale efficiencies in areas such as insurances, payroll, compliance and risk management as well as reducing duplication in areas such as finance and marketing.
- The pooling of talent and capability across the Merged Entity – for example the strong branding, marketing and direct sales skills of MyState – can be deployed to leverage The Rock's brand and distribution footprint, while the substantially experienced system implementation skills of The Rock could be utilised to assist MyState with any future core system upgrade and alignment;
- Mitigation of operational risks for both businesses associated with lack of geographic diversification which currently impact upon credit rating, product ratings, securitisation and commercial paper pricing;
- The stronger funding and capital position of the Merged Entity which will support future growth strategies;

Figure 6.3: Timetable for synergy benefits



- Potential for improved stock liquidity achieved through the broader MyState Share register of some 67,000 shareholders; and
- Potential for improved investor confidence and dividend stability – MyState has a consistent history of paying fully franked dividends and the MyState board has announced that it will generally pay ordinary dividends each year within the range of 70% to 90% of net profit after tax – see Section 6.4.

Synergy components and timing

MyState expects that the combination of cost and revenue synergies will, on an annualised basis, result in potential pre-tax synergies for the Merged Entity of between $7.5 and $8.5 million per annum, within a three-year timeframe. One-off pre-tax integration costs of $3.5 million are expected to be incurred over the first three years in order to achieve these synergies. MyState expects that the majority of these synergies will be realised from year two onwards post merger. An overview of expected synergy components is illustrated above.

These anticipated synergies have been determined by MyState following a detailed review of The Rock's existing operations and through the formulation of a detailed synergy and integration plan.

Total net synergies may be grouped into the following three components, each of which comprise approximately one third of anticipated total benefits;

1. **Revenue benefits,** through expansion of The Rock's existing product offering using existing MyState products and services, and through branch upgrades. Revenue benefits include:
   - Writing of additional home loans across the existing branch network of The Rock, with associated general insurance commissions, loan fees and net interest margin benefits flowing to the Merged Entity. The writing of these additional home loans will be supported by an upgrade of the existing branch network of The Rock and through an improvement in the existing sales culture of The Rock; and
   - Writing of personal loans across the existing branch network of The Rock, with associated consumer credit commissions, loan fees and net interest margin benefits flowing to the Merged Entity. Personal loan solutions are not currently offered by The Rock but are offered by MyState. The introduction of these existing MyState products to The Rock's customer base underpins the additional revenue forecast to come from personal loans.

   These revenue benefits are expected to commence at the end of year 1 and be predominantly realised from year 2 onwards;
2. **Treasury benefits**, expected through an improvement in overall funding terms and establishment costs. Benefits are expected to be realised via improved geographic diversification of the asset and loan portfolio, and overall scale benefits which are expected to lower the cost profile of the Merged Entity. Treasury benefits include:
   - Cost savings in structuring future RMBS securitisation transactions, through an ability to complete transactions on a larger value and lower volume basis;
   - Improved pricing of future RMBS securitisation transactions, via releasing higher value transactions, with increased geographic and duration diversification;
   - Improved pricing of the Merged Entity's wholesale funding requirements, via consolidation of existing MyState and The Rock wholesale funding sources;

- Cost savings derived from a proposed ADI licence consolidation, which would allow existing MyState and The Rock excess liquidity and capital to be better utilised by the Merged Entity; and
- Funding costs benefits driven by an improvement in the Merged Entity's credit rating when compared to the existing MyState and the Rock credit ratings.

These treasury benefits are expected to commence in the middle to the end of year 1 and be predominantly realised from year 2 onwards;

3. **IT, operations and head office benefits**, derived through scale and efficiency opportunities. IT, operations and head office benefits include:
   - Consolidation of existing IT networks and platforms;
   - Elimination of duplicate roles and functions;
   - Board cost reductions; and
   - Efficiencies in other corporate overheads, such as insurances.

These benefits are expected to be largely realised from year 1 onwards.

MyState has developed a detailed integration plan which sets out the required activities to achieve the above synergies. These required integration activities will be guided by a clear set of principles:

- **"Clearly distinct local identities"** will be maintained;
- Utilising **"the best of our brands"** will make the most of the Merged Entity's combined people, products and systems;
- **"Customer driven"** to ensure that customer touch points are maintained or improved, with significant planned investment in the existing branch network of The Rock;
- **"Drive efficiency"** by leveraging size and scale benefits; and
- **"Maximise growth opportunities"** over the medium to long term.

Having regard to the work undertaken to date, MyState believes that the amount and timing of estimated synergies are both reasonable and achievable. However, the realisation and timing of synergies are subject to the successful integration of MyState and The Rock and other risks described in Section 7. Accordingly, there can be no assurance that the synergies will be realised in line with the timing and amounts disclosed above. Any failure to achieve the estimated level of synergies, or any delay in achieving them or any increase in anticipated integration costs, may adversely affect the financial performance and position and future prospects of the Merged Entity.

Integration costs and timing

In order to achieve the synergies referred to above, the Merged Entity will incur approximately $3.5m of one-off pre-tax integration costs over the first three years.

These costs primarily include investment in upgrading the existing branch network of The Rock, of approximately $2 million. IT implementation costs and general restructuring costs make up the balance of these integration costs.

It is expected that these implementation costs will be incurred evenly over the first 3 years after the implementation of the Scheme.

6.2 Board and management of the Merged Entity

Upon implementation of the Scheme, the board of MyState will comprise nine members, being eight non-executive directors and one executive director. Following the merger, the board of MyState will comprise:

MyState Limited non-executive directors

- Dr Michael J Vertigan AC, Chairman and independent non-executive MyState director
- Mr Peter D Armstrong, independent non-executive MyState director
- Mr Bob L Gordon, independent non-executive MyState director
- Mr Miles L Hampton, independent non-executive MyState director
- Mr Colin M Hollingsworth, independent non-executive MyState director
- Mr Ian G Mansbridge, non-independent non-executive MyState director
- Mrs Sarah Merridew, independent non-executive MyState director
- Mr Stephen Lonie, independent non-executive director of The Rock

It is the current intention of MyState that these directors will also be appointed to the board of The Rock on implementation of the Scheme.

MyState Limited executive director

Mr G John Gilbert, executive MyState Limited director and Managing Director. The Rock's Managing Director, Stuart McDonald, will not continue in a role as part of the Merged Entity.

Other Senior Executives

It is the current intention of MyState to continue the employment of key employees, subject to the need to develop an appropriate management structure for the Merged Entity which recognises the geographic needs of each of its divisions while eliminating, where possible, unnecessary duplication of roles and responsibilities.

6.3 MyState's intentions for the business, assets and employees of The Rock

If the Scheme is implemented, MyState's intention is to consolidate the businesses of The Rock and MyState Group and begin to deliver significant benefits to all the stakeholders.

MyState's intentions include:

- Operating the businesses of The Rock, TPT and MSF as separately branded business;
- Ensuring on-going business and service continuity;
- Identifying and realising available cost and revenue synergies across the Merged Entity;
- Continuing with the existing employment arrangements in place across the Merged Entity, other than where there is a need to review duplicate roles and responsibilities, with a focus on executive and management level employees; and
- Continuing responsible corporate governance and management which protect the interests of all stakeholders.

If the Scheme is implemented, the current intentions of MyState are as follows:

Registered office

The Merged Entity's registered office will be in Launceston, Tasmania, with the main administration centres of MSF and TPT being in Hobart. The registered head office and operational headquarters for The Rock will remain in Rockhampton.

Operational structure

- The Rock will operate as a separate division largely utilising its existing management and organisational structures. It is intended that MyState will appoint a chief executive officer to oversee the local operation of The Rock, who will report to the MyState Managing Director. This appointment will be made from within the existing ranks of suitably qualified and experienced senior executives and senior managers across the Merged Entity. The position will be based in Rockhampton.
- The MyState Group utilises a shared services model to provide core operational services to its businesses. Shared services include human resources, brands and marketing, product research and development finance, information technology, strategy, company secretarial, compliance and risk services. It is intended, taking account of the geographic separation, that where feasible shared services will be provided centrally. The shared services model facilitates economies of scale and cost synergies being achieved. The model also provides each business with a level of specialisation and expertise which could otherwise not be justified in a smaller company and which can be deployed locally as required on a cost recovery basis.
- A review will be undertaken to identify any duplication of corporate functions and these will be eliminated over time to ensure cost synergies are met and the shared services model implemented. The review will take account of the need to preserve certain functions at a local or business level which are unable to be performed efficiently or effectively through a geographically remote or centralised shared services model. This review will not preclude consideration of locating some corporate functions of the Merged Entity within The Rock operations.
- While The Rock Chief Executive Officer will be largely responsible for the performance of The Rock's business, he or she will also be ably assisted by other Executives and senior managers within the MyState Group who share functional accountabilities in particular areas such as IT, Marketing, Products and Human Resources.
- MyState currently intends that the operations of all businesses will continue as normal after the implementation of the Scheme. Each business within the MyState Group will be subject to periodic ongoing review by MyState management and the MyState board.
- The progress of the merger implementation will be subject to more detailed scrutiny through an Integration Steering Committee (see details below).
- MyState will liaise with APRA in relation to any APRA requirements in the future to consolidate the ADI licences of MyState Group and The Rock and merge MyState and The Rock while maintaining The Rock's business as a separate division.

Removal of The Rock from the Official List of the ASX

- Once the Scheme has been implemented, it is intended that shares in The Rock will cease to be officially quoted on the Official List of the ASX.

Other intentions

Other than as set out in this Section, if the Scheme is implemented it is MyState's current intention to:

- Continue the business of The Rock in substantially the same manner as it is presently conducted;
- Not make any major changes to the business of The Rock nor redeploy the fixed assets of The Rock.

Implementation and integration process

- If the Scheme is implemented, the board of MyState will implement a rigorous governance framework to monitor and manage the merger integration process in order to achieve the synergies and deliver on the promises of the merger.

- The board of MyState will facilitate the establishment of a committee to oversee the merger integration process.
- A Merger Management Team consisting of key management personnel from MyState and The Rock will take overall responsibility for the integration through co-ordination of work-streams, tools and templates as well as communications to stakeholders.
- The integration will be based on the principle of building on the strengths of the Merged Entity and in this regard MyState aims to ensure that major decisions about the integration are made with the input, involvement and knowledge of The Rock management.
- As is prudent and in order to act without delay should the Scheme be approved, some preliminary planning has been undertaken in consultation with The Rock management, in order to identify early issues or tasks which will need immediate attention.
- The success of the merger is dependent upon the management of the integration risks. The Merged Entity will use strategies to mitigate these risks, including a clear integration plan, but not all risks can be eliminated. These risks are further considered in Section 7.

Employee Share Plan

- The Employee Share Plan (ESP) has been established by the MyState Limited board pursuant to powers provided in the MyState Constitution. Subject to an offer being made by MyState or its subsidiaries, eligible employees can acquire shares up to a prescribed amount in respect of each financial year. There is no additional cost to MyState or its subsidiaries for these issues as eligible employees who elect to participate agree to salary sacrifice the equivalent value of the shares they receive. The shares are issued subsequent to the end of the financial year.
- If the Scheme is implemented, the MyState board's intention is to extend the ESP to include eligible employees of The Rock.

Executive Long Term Incentive Plan

- The Executive Long Term Incentive Plan (ELTIP) has been established by the MyState board to encourage the executive management team to have a greater involvement in the achievement of the MyState Group's objectives. To achieve this aim, the ELTIP provides for the issue to the executive management team of MyState and its subsidiaries fully paid ordinary shares in MyState if performance criteria specified by the MyState board are satisfied in a set performance period.
- If the Scheme is implemented, the MyState board's intention is to extend the ELTIP offer to include eligible members of The Rock's executive team.

6.4 Dividend and capital management policy

Dividend policy

The board of MyState has established a policy of generally paying ordinary dividends each year within the range of 70% to 90% of net profit after tax. This policy has been developed having regard to:

- The growth prospects for the company and the continuing expectation of shareholders for a solid profit and dividend performance;
- The need to safeguard the shareholders' longer-term interests by adopting prudential targets that support the growth objectives of the business; and
- The desirability for some flexibility in payout ratio to take account of variability in profit from one year to the next.

It is not expected that this dividend policy will change post the implementation of the Scheme.

Post merger capital management initiatives

Following the implementation of the Scheme, the Merged Entity will be capitalised above minimum regulatory capital requirements. The ADI boards of The Rock and MSF post implementation of the Scheme will set capital targets for the percentage of Risk Weighted Assets for Tier 1 capital, taking into account timing of integration costs and synergies and other factors inherent in its normal operations.

Both The Rock and MSF are currently working with the regulatory authorities to ensure compliance with the requirements of Basel III, to be implemented from 1 July 2013. The Merged Entity intends to continue these discussions and will undertake to remain appropriately capitalised under the new Basel III regime.

6.5 Pro forma financial information

Introduction

This Section contains pro forma financial information for the Merged Entity, including:

- Pro forma historical income statement for the Merged Entity for the year ended 30 June 2011; and
- Pro forma historical balance sheet for the Merged Entity as at 30 June 2011.

The pro forma financial information in this Section should be read in conjunction with the risks described in Section 7 and other information contained in this Scheme Booklet.

The pro forma financial information contained in this Section is based on audited accounts and is presented in an abbreviated form insofar as it does not contain all the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The unaudited pro forma financial information in this Section is for illustrative purposes only and is prepared on the basis that the Scheme had been

implemented on 1 July 2011. If the merger had occurred in the past, the Merged Entity's financial position and operating results would likely have been different from that presented in the pro forma financial information in this Section. The Merged Entity pro forma financial information has been prepared by MyState based on published financial information of MyState and The Rock.

The Investigating Accountant has prepared an Investigating Accountant's report in respect of the pro forma historical financial information included in this Section. A copy of this report is included in Annexure B.

Accounting policies

The accounting policies of the Merged Entity used to prepare the pro forma financial information are based on the accounting policies of MyState contained in its audited financial statements for the year ended 30 June 2011, unless otherwise noted.

6.6 Merged Entity pro forma historical income statement

This Section contains the pro forma historical income statement of the Merged Entity as though the Scheme had been implemented on 1 July 2010.

The pro forma historical income statement of the Merged Entity is compiled from the following:

- Audited consolidated income statement of MyState for the financial year ended 30 June 2011, extracted from the financial accounts for the financial year ended 30 June 2011;
- Audited consolidated income statement of The Rock for the financial year ended 30 June 2011, extracted from the financial accounts for the financial year ended 30 June 2011;
- Pro forma adjustments as detailed in Section 6.7.

The Merged Entity pro forma historical income statement and the pro forma adjustments are based on information prepared by both MyState and The Rock.

6.7 Pro forma adjustments underlying the pro forma historical income statement

Alignment of the accounting policies of MyState and The Rock

The following material differences have been identified between the accounting policies of MyState and The Rock based on published accounting policies.

The useful lives applied to computer software by The Rock are materially different to those applied by MyState.

As such aligning The Rock's useful lives with that of MyState, results in a pre-tax $0.37 million increase in amortisation expense and a $0.37 million decrease in profit before tax for the Merged Entity.

Synergies and costs

The synergies included in the pro forma historical income statement are at the mid-point of the synergies anticipated to be achieved by the Merged Entity within a three-year timeframe (i.e. after integration is fully completed). The majority of the synergies are expected to be realised from year two onwards post the implementation of the Scheme.

No adjustment has been made to the Merged Entity pro forma historical income statement for the impact of integration costs or transaction costs related to the merger that may impact the income statement.

Synergies and integration costs associated with the merger are discussed in more detail in Section 6.1.

Adjustments relating to the new capital structure

No adjustment has been made to the Merged Entity pro forma historical income statement to reflect any change in financing costs.

Adjustments relating to the impact of acquisition accounting

The impact of acquisition accounting is discussed in more detail in Section 6.9.

For the purposes of the pro forma historical income statement, no adjustments have been made to reflect the impact of acquisition accounting. No adjustments have been made because, for the purposes of the pro forma historical income statement and balance sheet, the book value of The Rock's assets and liabilities, as reported in the financial statements for the year ended 30 June 2011, are assumed to be equal to their fair value at the date of acquisition.

The expected impact of adopting acquisition accounting on the income statement of the Merged Entity will include an amortisation charge for finite life intangible assets. Refer to Section 6.9 for further discussion on potential intangible assets which may arise as a result of the merger.

Adjustments relating to non-recurring and one-off transactions

The Merged Entity pro forma historical income statement assumes the merger occurred on 1 July 2010. Non-recurring and one-off transactions which occurred during the 2011 financial year have been excluded from the pro forma historical income statement of the Merged Entity.

This results in $0.71 million of 2011 MyState dividend revenue and $1.71 million of 2011 MyState restructuring expenses being excluded from the pro forma historical income statement. It also results in $1.44 million of 2011 The Rock profit on sale revenue and $1.83 million of 2011 The Rock consultancy, restructuring and other expenses being excluded from the pro forma historical income statement.

Merged Entity pro forma historical income statement

All in $'000	MYSTATE FY2011	THE ROCK FY2011	PRO FORMA ADJUSTMENTS	PRO FORMA MERGED ENTITY INCLUDING SYNERGIES
Interest income	151,681	78,776	–	230,457
Interest expense	(84,075)	(57,002)	–	(141,077)
Net interest margin	**67,606**	**21,774**	**–**	**89,380**
Other revenue[1]	35,675	8,807	(2,157)	42,325
Other expenses[1, 2, 3]	(68,366)	(23,593)	11,171	(80,788)
Profit before bad and doubtful debts and income tax	**34,915**	**6,988**	**9,014**	**50,917**
Less bad and doubtful debts	(3,991)	(38)	–	(4,029)
Profit before income tax expense	30,924	6,950	9,014	46,888
Income tax expense[4]	(8,904)	(2,094)	(2,918)	(13,916)
Net profit after income tax	**22,020**	**4,856**	**6,096**	**32,972**

Notes:

1. The Merged Entity pro forma historical income statement assumes the merger occurred on 1 July 2010. Non-recurring and one-off transactions which occurred in 2011 have been excluded from the pro forma income statement of the Merged Entity. This results in $0.71 million of revenue gained and $1.71 million of expenses incurred by MyState being excluded. It also results in $1.44 million of revenue gained and $1.83 million of expenses incurred by The Rock being excluded.
2. An adjustment of $0.37 million has been made to align the intangible asset useful lives of The Rock with that of MyState. No other material differences have been identified between the accounting policies of MyState and The Rock based on published accounting policies.
3. The Merged Entity pro forma historical income statement assumes the merger occurred on 1 July 2010 and $8.0 million, being the mid-point between the expected $7.5 million to $8.5 million, of pre-tax synergies were realised in the financial year ended 30 June 2011. All synergies, regardless of their nature, have been allocated to 'Other Expenses'.
4. Pro forma income tax expense has been calculated by applying a nominal tax rate of 30% to the pre-tax adjustments resulting from notes 1, 2 and 3 above.

6.8 Pro forma historical balance sheet

This Section outlines the pro forma historical balance sheet of the Merged Entity as though the Scheme had been implemented on 1 July 2010.

The pro forma historical balance sheet of the Merged Entity as at 30 June 2011 is compiled for the following:

- Audited consolidated balance sheet of MyState as at 30 June 2011, extracted from the financial accounts for the financial year ended 30 June 2011;
- Audited consolidated balance sheet of The Rock as at 30 June 2011, extracted from the financial accounts for the financial year ended 30 June 2011;
- Pro forma adjustments as detailed in Section 6.9.

The Merged Entity pro forma historical balance sheet and the pro forma adjustments are based on information prepared by both MyState and The Rock.

6.9 Pro forma adjustments underlying the pro forma historical balance sheet

Alignment of the accounting policies of MyState and The Rock

Following a review of the accounting policies of The Rock, the accounting policies are not considered by MyState to be materially different to those utilised by MyState in their affect on the pro forma historical balance sheet.

Therefore, at this time, no adjustments have been made to the pro forma historical balance sheet of the Merged Entity to align accounting policies.

Adjustments relating to the new capital structure

No adjustment has been made to the Merged Entity pro forma historical balance sheet to reflect any change in financing costs.

Adjustments relating to the impact of acquisition accounting

Accounting standard AASB 3 Business Combinations requires MyState to measure the cost of the merger at the aggregate fair value of assets, liabilities and equity issued by MyState in exchange for control of The Rock at the date on which the exchange occurs.

MyState ordinary shares form part of the cost of acquisition. In accordance with accounting standards, the fair value of these shares will be determined as the published market price on the date of acquisition. For the purposes of calculating the cost of acquisition, a MyState ordinary share price of $3.50 (being the closing price on 30 August 2011) has been used. To the extent that the MyState Share price changes in the period to the acquisition date, the cost of acquisition and accordingly the value of intangible assets acquired will change.

All identifiable assets (including intangible assets), liabilities and contingent liabilities that meet certain recognition criteria should be recognised separately in the consolidated financial statements of the Merged Entity. Once this process has been completed, the excess of the cost of the merger over and above MyState's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities should be recognised as goodwill. This goodwill amount and any related impairment will only be identified once the merger occurs. Similarly, the identification and valuation of intangible assets, including the breakdown between finite life and infinite life intangibles, will not be possible until after the completion of the merger. Accounting standards allow a period of 12 months to finalise provisional acquisition accounting adjustments from the date of acquisition.

For the purposes of calculating the intangible assets and goodwill for the Merged Entity on consolidation, the book value of The Rock's assets and liabilities, as reported in the audited accounts as at 30 June 2011, is assumed to be equal to their fair value at the date of acquisition. The amount of total intangible assets, including goodwill, relating to the acquisition will change once the fair value of all assets, liabilities and contingent liabilities are determined as at the acquisition date.

Adjustments relating to non-recurring and one-off transactions

Non-recurring and one-off transactions which occurred during the 2011 financial year do not affect the historical balance sheet of each entity as at 30 June 2011.

As such no adjustment to the pro forma historical balance sheet is required due to non-recurring and one-off transactions. Refer to Section 6.7 for details of non-recurring and one-off transactions affecting the pro forma historical income statement.

Merged Entity pro forma historical balance sheet

All in $'000	MYSTATE AS AT 30 JUNE 2011	THE ROCK AS AT 30 JUNE 2011	PRO FORMA ADJUSTMENTS	PRO FORMA MERGED ENTITY INCLUDING SYNERGIES
ASSETS				
Cash and cash equivalents	34,971	39,680	–	74,651
Available for sale financial assets	269,169	3,546	–	272,715
Receivables	15,146	5,707	–	20,853
Loans at amortised cost	1,854,540	995,974	–	2,850,514
Financial Assets Held to Maturity	–	187,767	–	187,767
Other investments	4,520	–	–	4,520
Assets classified as held for sale	5,625	–	–	5,625
Property, plant and equipment	8,084	5,324	–	13,408
Tax assets	5,832	1,475	–	7,307
Other assets	36	–	–	36
Intangible assets and Goodwill[1]	48,831	7,255	7,694	63,780
TOTAL ASSETS	**2,246,754**	**1,246,728**	**7,694**	**3,501,176**
LIABILITIES				
Deposits	1,496,596	738,560	–	2,235,156
Interest bearing loans and borrowings	507,130	435,240	–	942,370
Derivatives	–	2,978	–	2,978
Payables and other liabilities	29,829	6,661	–	36,490
Tax liabilities	3,708	2,404	–	6,112
Provisions	4,890	327	–	5,217
TOTAL LIABILITIES	**2,042,153**	**1,186,170**	**–**	**3,228,323**
NET ASSETS	**204,601**	**60,558**	**7,694**	**272,853**
EQUITY				
Share capital[1]	64,701	34,821	33,431	132,953
Retained earnings[1]	137,275	25,499	(25,836)	136,938
Asset revaluation reserve[1]	2,340	1,986	(1,986)	2,340
Employee equity benefits reserve	253	–	–	253
Hedging reserve[1]	–	(2,085)	2,085	–
Net unrealised gains reserve	32	–	–	32
General Reserve for Credit Losses[1]	–	337	–	337
TOTAL EQUITY	**204,601**	**60,558**	**7,694**	**272,853**

Notes:

1. The Merged Entity pro forma historical statement of financial position assumes the merger occurred on 1 July 2010. The merger adjustments assume a MyState share price of $3.50 (being the closing price on 30 August 2011 and an exchange ratio of 7.75 New MyState Shares for every 10 The Rock shares and that 25.16 million of The Rock shares were on issue (as at 30 June 2011). This does not take into account any potential change in the issued ordinary share capital of The Rock subsequent to 30 June 2011.

For the purposes of calculating the intangible assets and goodwill for the Merged Entity on consolidation, the book value of The Rock's assets and liabilities have been assumed to be those as reported in The Rock's latest audited accounts, as at 30 June 2011. No allowance has been made for any movements in The Rock's assets and liabilities post 30 June 2011.

Notes (continued):

The calculation of intangible assets and goodwill is as follows:	
MyState share price at 30 August 2011	$3.50
Imputed share price offered for The Rock based on 7.75 New MyState Shares for every 10 The Rock shares on issue	$2.71
Total number of The Rock shares on issue (30 June 2011)	25,162,000
Total value of New MyState Shares to be issued to The Rock shareholders	$68,251,925
Less value of The Rock shares at 30 August 2011	34,821,000
Increase in share capital value	33,430,925
Less The Rock net assets at 30 June 2011	$60,558,000
Goodwill on acquisition	$7,693,925

The general reserve for credit losses of $0.33 million of The Rock prior to the merger which is eliminated on consolidation is deemed to be reinstated by a transfer from the Merged entities' retained earnings of an equivalent amount as an initial transaction entry. Other reserves relating to The Rock, including it's Hedging Reserve and Asset Revaluation Reserve are eliminated on consolidation of the Merged Entity.

6.10 Outlook of Merged Entity

The directors of MyState have carefully considered whether they have a reasonable basis to produce reliable and meaningful pro forma forecast information and other information regarding earnings, dividends and capital position of the Merged Entity, and have concluded that, in their opinion, they do not have a reasonable basis.

This is because the Merged Entity's performance in any period will reflect a number of factors that cannot be predicted with a high level of confidence and are generally outside its control. These factors include:

- Interest rate outlook and movements in official rates which particularly impact upon the net interest income of ADIs, as well as demand for housing finance;
- Competitive forces and changes in customer expectations and behaviours which impact revenue and growth opportunities;
- Future economic conditions in Australia and in particular the regions within which the businesses operate, which can be impacted by both global and local events and government policies, as well as climatic conditions and natural disasters;
- Wider movement in the value of equities and other assets which impact upon the earnings of the managed funds and wealth management products and services; and
- Uncertainties in the regulatory environment including the impacts of new prudential standards.

The factors noted above may affect the assumptions relating to the Merged Entity's revenues, costs and profitability, which are subject to significant uncertainty. For these reasons, MyState believes that the risk of potentially misleading Shareholders in The Rock outweighs the potential value of more definitive profit guidance.

Notwithstanding the above qualification, MyState and The Rock believe that the Scheme is in the best interests of shareholders, as has been confirmed by The Rock's Independent Expert, Lonergan Edwards & Associates Limited (see Annexure A) who has concluded that the Scheme is fair[1] and reasonable, and that the Scheme is in the best interests of Shareholders in The Rock in the absence of a superior proposal. The Independent Expert has valued The Rock at between $2.62 and $2.94 per share.

As previously stated MyState anticipates that the combination of cost and revenue synergies could, on an annualised basis, result in potential pre-tax synergies for the Merged Entity of between $7.5 and $8.5 million per annum, within a three year timeframe[2]. MyState expects that the majority of these synergies will be realised towards the later part of the three year timeframe.

Prior to one-off acquisition and implementation costs, the anticipated synergies, if achieved, will translate into EPS accretion for MyState shareholders in the first full year post merger and will be strongly EPS accretive thereafter.

1. Provided The Rock's interim dividend for FY12 is at least 6 cents per share.
2. In order to achieve the synergies referred to, the Merged Entity is expected to incur approximately $3.5m of one-off pre-tax integration costs over the first three years. See Section 6.1.

7 Risks of investing in MyState Shares

7.1 Introduction

Shareholders in The Rock will receive New MyState Shares as their Scheme Consideration.

The financial performance and operations of MyState's business, the value of MyState Shares and the amount and timing of any dividends that MyState pays will be influenced by a range of factors. Many of these factors will remain beyond the control of MyState. Accordingly, the market price of MyState Shares may rise or fall over any given period due to these factors. They include risk factors that:

- Are specifically relevant to the financial services sector of the market and to the business of MyState – see Section 7.2;
- Arise in relation to holding MyState Shares – see Section 7.3;
- Arise in relation to the merger – see Section 7.4; and
- Impact on the market price of all ASX listed shares, such as economic policy or international market, economic or political conditions – see Section 7.5.

The principal risk factors which Shareholders in The Rock who may receive New MyState Shares under the Scheme should consider include those described below. The risks identified in this Section 7 are not exhaustive and do not take into account your investment objectives, financial situation, taxation position or particular needs. You should read this Scheme Booklet carefully. If you are unclear in relation to any matter or uncertain if MyState Shares are a suitable investment for you, you should consult your legal, financial or other professional adviser.

7.2 Business risks of MyState

Risks related to the financial services industry

There are a number of risks which arise directly as a result of MyState's participation in the Australian financial services industry.

Credit risk

Credit risk is the risk of loss resulting from a debtor or counterparty failing to meet its contractual obligations to the lender and is the most significant risk associated with the activities of both the MyState and The Rock businesses.

MyState's and The Rock's lending activities cover a range of products including mortgages, consumer loans and commercial loans. Less favourable economic or business conditions, whether generally or in specific industry sectors or geographic locations (in particular Tasmania and Queensland) may expose MyState Group to increased risk that customers fail to meet their obligations.

MyState maintains provisions for impairment charges however should these provisions prove inadequate there may be an impact on the financial performance of the MyState business.

Market risk and dislocation of global capital markets

Market risk is the risk of losses arising from adverse movements in market pricing. Market risk can arise through an over-reliance on a particular source of funding, including securitisation, and through interest rate risk associated with mismatching between pricing periods of assets and liabilities amongst others. The recent dislocation in global capital markets presents challenges for financial institutions that seek access to capital markets to fund their operations. Australian financial institutions are impacted by this dislocation. The challenges with access to capital markets may drive increased reliance on other funding sources, such as retail deposits. The extent and duration of disruption to global credit markets is unknown and may impact the financial performance of MyState.

Liquidity risk

Liquidity risk is the risk that MyState may be unable to meet its financial commitments when they fall due and may arise as a result of a mismatch in cash flows from financial transactions. Risks associated with the inability to obtain adequate funding from certain financial markets may increase liquidity risks for global and Australian financial institutions, as discussed under "Market risk" above.

Basel III

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector globally. Any proposed implementation of Basel III initiatives by APRA, particularly with respect to capital adequacy principles, may result in changes to MyState's Capital Adequacy Ratio. The outcomes of the implementation of Basel III are uncertain and may require MyState to allocate additional capital to meet these requirements. MyState will work with APRA to determine if any changes to MyState's business will need to be made in the future to comply with proposed changes.

Reputation risk

Various issues may give rise to reputational risk and cause harm to the Merged Entity's business and prospects. These issues include appropriately dealing with potential conflicts of interests, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies and sales and trading practices. Failure to address these issues appropriately could give rise to additional legal risk, subject the Merged Entity to regulatory enforcement actions, fines and penalties, or harm the Merged Entity's reputation among its customers and investors in the marketplace.

Operational risk

Operational risk may arise as a result of MyState's inability to execute its business functions. Operational risks associated with the MyState business may include fraud, process error, system maintenance and failure and inadequate employee skills and performance. MyState has in place systems and processes to control exposure to operational risk. Inherent limitations in the performance of these control systems may result in there being an impact on MyState's financial performance.

Changes in technology

Information systems used by the MyState business are important to the management of the MyState business and to the delivery of products and services to customers. The ability of the MyState business to operate a robust information technology platform may have an impact on the financial performance of MyState.

Competition

There is significant competition for the provision of financial services in the markets in which MyState operates. While MyState has in place strategies to manage competitive market conditions, there is a risk that increased competition may adversely impact the financial performance and position of MyState.

Regulatory and tax

MyState is regulated by various regulatory authorities in Australia including APRA, ASIC, ACCC and ASX. The earnings of MyState may be impacted in unpredictable ways by changes to legal, regulatory, fiscal or other policies adopted by governments or these authorities. These may include changes in capital and liquidity requirements, limiting the types of financial products or services that can be offered or limiting fees which can be charged for those products and services.

Any significant change in taxation law could have an adverse impact on the performance of MyState.

Failure to comply with regulatory requirements may have an adverse effect on MyState's reputation with customers and regulators.

Legal proceedings and contingent liabilities

In the course of its operations, MyState may be involved in disputes and litigation. Any material or costly dispute or litigation could adversely impact the MyState business. The extent of such disputes and litigation cannot be ascertained at this time. No material disputes exist as at the date of this Scheme Booklet.

7.3 Risks referable to holding MyState Shares

Risks associated with MyState's growth strategy

MyState intends to use the merger as a platform for geographic diversification. There is a risk that MyState's control systems and management structure are not adequately equipped to execute this strategy effectively.

7.4 Risks relating to the Proposal

Movements in the value of MyState Shares

The number of New MyState Shares to be received by Shareholders in The Rock on the date that the Scheme becomes Effective is fixed. There are a number of factors which may cause the value of MyState Shares to change between the date that the Scheme becomes Effective and the period beyond that date.

Many of the factors which impact the market price of MyState Shares are beyond the control of MyState. There is no guarantee that the market price of MyState Shares will increase in the future.

Integration risks

The Proposal involves the integration of the businesses that previously operated independently. Integration risks associated with the Proposal may include:

- Unexpected costs or delays relating to implementation of plans to achieve cost synergies via the consolidation of certain duplicate functions including those associated with duplicate ADI licences and technology;
- An inability or unexpected delay in the realisation of certain anticipated revenue synergies as a result of changes in customer preferences or an inability to drive greater sales volumes through the branch network of the Merged Entity;
- Customer attrition arising as a result of the merger of the two entities;
- Potential damage to the reputation of the brands of The Rock and/or MyState due to potential actions from competitors, media and lobby groups in relation to the Proposal; and
- Possible conflict between the cultures of the two organisations arising from the Proposal.

Reliance on information

Prior to entering into the Scheme Implementation Deed, MyState and The Rock undertook due diligence on information about the respective parties. The Board of The Rock elected to proceed with the Proposal following the due diligence investigations. However, there is a risk that all material information was not provided as part of this process. In addition, there is a risk that information provided for the purposes of due diligence has changed.

7.5 General risks

Risk relating to changes in economic conditions

The financial performance of MyState may be impacted by changes in economic conditions in Australia and in international markets. In particular, adverse changes in the following economic and other factors may have an impact on the outlook for the MyState business:

- Inflation and interest rates;
- Employment levels and labour costs;
- Economic growth, unemployment levels and consumer confidence;
- Property markets in particular a decline in residential mortgage markets; and
- Government, fiscal, monetary and regulatory policy, including specifically as it relates to the financial services sector.

Other key risks to the financial performance of MyState may include:

- Fluctuations in both debt and equity capital markets impacting access to funding, including securitisation markets; and
- Instability in Australian and international political systems, economies and financial markets.

Although the MyState business has in place a number of strategies to minimise the exposure to and mitigate the impact of such risks, these risks may nonetheless have an adverse impact on MyState.

8 Implementation of the Scheme

All dates referred to in this Section 8 are indicative only. The actual dates on which events referred to in this Section 8 occur will depend upon the time at which the conditions precedent to the Scheme are satisfied or, if applicable, waived. Those conditions are summarised in Section 8.12. The Rock has the right to vary all dates subject to the approval of such variation by MyState, the Court and the ASX where required. Any variation to the dates referred to in this Section 8 will be announced to the ASX and published online at www.therock.com.au.

8.1 Scheme Meeting

In accordance with an order of the Supreme Court of Queensland dated 18 October 2011, Shareholders in The Rock will be asked to approve the Scheme at the Scheme Meeting to be held at Travelodge Hotel, 86 Victoria Parade, Rockhampton on Monday, 28 November 2011 commencing at 10.30 am. The notice convening the Scheme Meeting is set out in Annexure F of this document.

At the Scheme Meeting, Shareholders in The Rock will be asked to consider and, if thought fit, to pass a resolution approving the Scheme. For the acquisition of all shares in The Rock by MyState to proceed, and the Scheme Consideration to become payable, the Scheme must be approved by a majority in number of Shareholders in The Rock voting at the Scheme Meeting whether in person or by proxy, who must, together, hold at least 75% of the votes cast on the resolution.

8.2 Second Court Hearing

If the Scheme is approved by Shareholders in The Rock, and all other conditions to the Scheme other than approval by the Court and any other conditions to be imposed by the Court under section 411(6) of the Corporations Act have been satisfied or waived, The Rock will apply to the Court for orders approving the Scheme following the Scheme Meeting.

The Corporations Act and the relevant Court rules provide a procedure for Shareholders in The Rock to oppose the approval by the Court of the Scheme. Any Shareholder in The Rock who wishes to oppose the approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on The Rock a notice of appearance in the prescribed form together with any affidavit on which the Shareholder in The Rock will seek to rely at the Second Court Hearing.

The Second Court Hearing is currently scheduled to occur on 1 December 2011. Any change to this date will be announced to the ASX and notified on The Rock's website.

8.3 Effective Date

If the Court approves the Scheme, The Rock will lodge with ASIC an office copy of the Court order approving the Scheme. The Rock intends to lodge this office copy with ASIC on 1 December 2011. The Scheme comes into effect on the date on which The Rock lodges the Court order approving the Scheme. This date is referred to in this document as the Effective Date.

8.4 Record Date

Shareholders in The Rock will be entitled to receive the Scheme Consideration if they are registered as the holders of shares in The Rock on the Record Date. The Record Date is 7.00 pm (Sydney time) on the fifth Business Day after the Effective Date or such other date (after the Effective Date) as The Rock and MyState may agree. The Record Date is currently expected to be 8 December 2011.

8.5 Determination of persons entitled to Scheme Consideration

(a) Dealings on or before the Record Date

For the purposes of establishing the identity of Scheme Shareholders, dealings in shares in The Rock will only be recognised if:

- In the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant shares in The Rock on or before the Record Date; and
- In all other cases, registrable transfers or transmission applications in respect of those dealings are received on or before the Record Date at The Rock Share Registry,

and The Rock will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Shareholders, any transfer or transmission application in respect of shares in The Rock received after such times, or received prior to such times but not in registrable form.

(b) Dealings in shares in The Rock after the Record Date

All share certificates and holding statements for the shares in The Rock (other than any in favour of MyState) will cease to have effect after the Record Date as documents of title in respect of those shares, and as from that date each entry on the Register (other than any entries in respect of MyState) will cease to have any effect except as evidence of entitlement to the Scheme Consideration in respect of shares in The Rock relating to that entry.

8.6 Implementation Date

The Implementation Date is the fifth Business Day after the Record Date, or such other day as The Rock and MyState may agree. On the Implementation Date, MyState will issue as Scheme Consideration to each Scheme Shareholder 7.75 New MyState Shares for every 10 Scheme Shares transferred to MyState.

A holding statement for your Scheme Consideration will be despatched within 2 Business Days after the Implementation Date to the address recorded in the Register on the Record Date. In the case of Scheme Shares held in joint names, holding statements for New MyState Shares issued to that Scheme Shareholder will be issued in the names of those joint holders and sent to the holder whose name appears first on the Register on the Record Date.

8.7 Warranty by Shareholders in The Rock about their shares in The Rock

The effect of clause 8.2 of the Scheme is that each Scheme Shareholder, including those shareholders who vote against the Scheme and those shareholders who do not vote, will be taken to have warranted to The Rock and MyState that all their shares in The Rock, including any rights and entitlements attaching to those shares in The Rock, which are transferred to MyState under the Scheme will, at the date they are transferred to MyState, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind and that they have full power and capacity to sell and to transfer their shares in The Rock to MyState together with any rights attaching to those shares in The Rock.

If the warranty is breached, Shareholders in The Rock may be liable to pay to MyState any amounts paid by MyState to acquire clear title to their shares in The Rock.

8.8 Suspension of trading in shares in The Rock

The Rock will apply to ASX to suspend trading on the ASX in shares in The Rock with effect from the close of trading on the Effective Date. This suspension is expected to occur on 1 December 2011.

On a date after the Implementation Date to be determined by MyState, The Rock will apply for termination of the official quotation of shares in The Rock on the ASX and to have itself removed from the official list of the ASX.

8.9 How will overseas Shareholders in The Rock be treated under the Scheme?

Scheme Shareholders whose address, as shown in the Register on the Record Date, is in Australia or its external territories, or New Zealand will be entitled to receive New MyState Shares pursuant to the Scheme.

Any Scheme Shareholder whose address, as shown in the Register on the Record Date, is a place outside Australia or its external territories or New Zealand, will be deemed to be Ineligible Overseas Shareholders, unless The Rock and MyState agree in writing, that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New MyState Shares when the Scheme becomes Effective.

Ineligible Overseas Shareholders will be entitled to participate in the Scheme on the same basis as all Shareholders in The Rock. However, Ineligible Overseas Shareholders will not receive New MyState Shares. Instead, MyState will issue the New MyState Shares to which Ineligible Overseas Shareholders would otherwise have become entitled to the Nominee. Under the Scheme, Ineligible Overseas Shareholders appoint The Rock as their agent to receive on their behalf any financial services guide or other notices which may be given by the Nominee.

Under the Deed Poll which is contained in Annexure D to this Scheme Booklet, MyState has covenanted to comply with clause 5.2 of the Scheme, which deals with the treatment of Ineligible Overseas Shareholders as follows.

- The Nominee will sell on the ASX the relevant New MyState Shares on behalf of the Ineligible Overseas Shareholders as soon as is reasonably practicable, and, in any event, not more than 20 Business Days after the Implementation Date.
- The Nominee will then remit the net proceeds of sale of such New MyState Shares, after deduction of any brokerage, stamp duty and other taxes and charges, to the relevant Ineligible Overseas Shareholder. The Nominee may pay such proceeds of sale by doing any of the following at the Nominee's election:
  - Sending the proceeds to the Ineligible Overseas Shareholder's address as shown in the Register on the Record Date;
  - Depositing or procuring The Rock Share Registry to deposit the proceeds into an account with any Australian bank notified to The Rock (or an agent of The Rock who manages the Register) by an appropriate authority from the Ineligible Overseas Shareholder;
  - If it is not possible for the Nominee to pay the proceeds to an Ineligible Overseas Shareholder in the manner set out above, the Nominee may credit the amount payable to that Ineligible Overseas Shareholder to a separate bank account of The Rock to be held until the Ineligible Overseas Shareholder claims the amount or the amount is dealt with in accordance with unclaimed money legislation. The Rock must hold the amount on trust, but any benefit accruing from the amount will be to the benefit of The Rock. An amount credited to the account is to be treated as having been paid to the Ineligible Overseas Shareholder. The Rock must maintain records of the amount paid, the people who are entitled to the amounts and any transfers of the amounts.

Full details of this sale process are contained in clause 5.2 of the Scheme contained in Annexure E to this Scheme Booklet.

8.10 Effect of the Scheme on creditors

The Scheme, if implemented, will not materially prejudice The Rock's ability to pay its creditors as it involves the purchase of the shares in The Rock rather than The Rock's underlying assets. No new liability, other than transaction costs, is expected to be incurred by The Rock as a consequence of the implementation of the Scheme.

8.11 Stamp duty

The Rock does not expect that any stamp duty will be payable on the transfer of the Scheme Shares to MyState. However, if stamp duty is payable, MyState has an obligation under the Scheme Implementation Deed to pay such stamp duty.

8.12 Key terms of the Scheme Implementation Deed

(a) Overview

The Rock and MyState entered into the Scheme Implementation Deed on 30 August 2011. Key terms of the Scheme Implementation Deed are summarised in this Section and the agreement is set out in full at Annexure C of this document.

(b) Conditions precedent

Implementation of the Scheme is subject to conditions precedent which include the following:

- The ASX approving the New MyState Shares for official quotation;
- No MYS Prescribed Occurrence or ROK Prescribed Occurrence occurs before 8.00 am on the Second Court Date;
- Before 8.00 am on the Second Court Date, no litigation, arbitration proceedings or other legal proceedings are commenced, instituted or threatened, and which if successful would result in either a MYS Material Adverse Change or a ROK Material Adverse Change;
- Before 8.00 am on the Second Court Date, as a result of the Proposal, no person becomes entitled to exercise any rights under any provision of any material contract which results, or could reasonable be expected to result in a ROK Material Adverse Change;
- Before 8.00 am on the Second Court Date, all necessary approvals are provided in respect of the Proposal under the *Financial Sector (Shareholdings) Act 1998* (Cth) and the *Banking Act 1959* (Cth);
- Before 8.00 am on the Second Court Date, all approvals are provided in respect of the Proposal by ASIC, the ASX, and any other regulatory approvals required by law;
- Before 8.00 am on the Second Court Date, the ATO has provided to The Rock a draft of the class ruling:
  - Confirming that the Shareholders in The Rock may elect to obtain scrip for scrip rollover in relation to the exchange of their shares in The Rock for New MyState Shares; and
  - In connection with The Rock employee share plan, confirming that New MyState Shares provided to employees are treated as a continuation of shares in The Rock and other interests issued under The Rock employee share plan;

- Shareholders in The Rock agree to the Scheme at the Scheme Meeting by the requisite majorities required by the Corporations Act and the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;
- At 8.00 am on the Second Court Date, no temporary restraining order, preliminary or permanent injunction or other order or material legal restraint or prohibition preventing the Proposal is in effect; and
- The Rock's and MyState's representations and warranties remain true and correct.

(c) Payment of Scheme Consideration

MyState undertakes to The Rock (in its own rights and separately as trustee or nominee for each of the Scheme Shareholders) that, in consideration for the transfer to MyState (or a subsidiary) of each share in The Rock, MYS will issue the Scheme Consideration in accordance with the Scheme.

(d) No solicitation

During the period to the earlier of 28 February 2012 and the termination of the Scheme Implementation Deed (Restricted Period), The Rock has agreed that it will not, and must ensure that none of its representatives do not, solicit or invite, either directly or indirectly, any enquiries, discussions or proposals in relation to, or which may be reasonably be expected to lead to, a Competing Proposal.

(e) No talk

The Rock has also agreed that it will not, and must ensure that none of its representatives do not, during the Restricted Period, directly or indirectly participate in negotiations, provide or make available any information, enter into any agreement or understanding, or communicate any intention to do any of those things in relation to, or which may reasonably be expected to lead to, a Competing Proposal, subject to customary fiduciary exceptions.

(f) No due diligence

The Rock has agreed that it will not, and must ensure that none of its representatives do not, during the Restricted Period, provide or make available any information, including by way of providing information and access to perform due diligence, in relation to, or which may reasonably be expected to lead to, a Competing Proposal.

(g) Reimbursement Amount

The Rock must pay MyState the Reimbursement Amount in the following circumstances:

- If prior to the earlier of the Effective Date or 28 February 2012, any member of The Rock Board fails to recommend or withdraws or adversely modifies his or her support or recommendation for the Scheme other than as a result of a MYS Material Adverse Change, a breach of the Scheme Implementation Deed by MyState giving The Rock a right to terminate or a Court or Government Agency takes action to restrain or prohibit the Proposal;
- A Competing Proposal is announced prior to the earlier of the Effective Date or 28 February 2012 and, within 12 months after 30 August 2011, a person other than MyState completes a Competing Proposal; or
- At any time prior to the earlier of the Effective Date or 28 February 2012, a person other than MyState acquires the whole or a substantial part of The Rock's assets, business or property.

MyState must pay the Reimbursement Amount to The Rock if MyState is in material breach of the Scheme Implementation Deed and The Rock terminates the Scheme Implementation Deed as a result.

(h) Representations and warranties

Each of MyState and The Rock has given representations and warranties which are considered usual for this type of agreement having regard to the circumstances of the parties and the Proposal.

(i) End Date

If the Scheme is not implemented by 28 February 2012 (**End Date**) or an event occurs which may prevent a condition precedent being satisfied by the End Date, the parties must consult in good faith to determine whether the Proposal can proceed by alternative means, whether the Second Court Date will be extended (no later than 5 business days before the End Date) or whether to extend the End Date. If the parties cannot reach agreement within 5 business days of becoming aware of the relevant event or by the End Date, then either party may terminate the Scheme Implementation Deed.

(j) Termination by MyState

MyState may terminate the Scheme Implementation Deed at any time before 8.00 am on the Second Court Date if:

- There is a ROK Material Adverse Change;
- The Rock is in material breach of the Scheme Implementation Deed and MyState has given written notice to The Rock stating an intention to terminate and the breach is not remedied by The Rock within 5 business days from the time notice is given;
- A majority of The Rock Board changes or withdraws its recommendation to vote in favour of the Scheme, or recommends a Competing Proposal; and
- A Court or Government Agency takes action to restrain or prohibit the Proposal.

(k) Termination by The Rock

The Rock may terminate the Scheme Implementation Deed at any time before 8.00 am on the Second Court Date if:

- There is a MYS Material Adverse Change; or
- MyState is in material breach of the Scheme Implementation Deed and The Rock has given written notice to MyState stating an intention to terminate and the breach is not remedied by MyState within 5 business days from the time notice is given;
- A majority of The Rock Board changes or withdraws its recommendation to vote in favour of the Scheme, or recommends a Competing Proposal, in accordance with the Scheme Implementation Deed; and
- A Court or Government Agency takes action to restrain or prohibit the Proposal.

(l) Business continuity and dividends

Up to the Implementation Date, each of The Rock and MyState must conduct their businesses in the ordinary and proper course of business and consult on certain material decisions.

MyState must pay an interim dividend for the half year to 31 December 2011 not exceeding 15 cents per share provided the record date is before the Record Date for the Scheme and it is paid before the Implementation Date.

The Rock must pay an interim dividend not exceeding 12 cents per share provided the record date is before the last day of trading of shares in The Rock and the Scheme is approved by Shareholders in The Rock and the Court. The dividend:

- Must be paid from profits for the period from 1 July 2011 to the earlier of the Implementation Date and 31 December 2011 or, with APRA approval, from retained profits, after deducting allowances for transaction costs and expected costs of redundancies and termination of key management personnel in the half year ending 31 December 2011 connected with the Proposal; and
- Not reduce The Rock's Capital Adequacy Ratio below the Board's approved minimum threshold of 12%.

The Rock must suspend the operation of its dividend reinvestment plan and keep it suspended until the Implementation Date.

(m) Stamp duty

MyState must pay all stamp duties in respect of the Scheme Implementation Deed or the steps to be taken under that deed or the Scheme.

8.13 Deed Poll

Under the terms of the Deed Poll, MyState agrees in favour of Shareholders in The Rock to perform its obligations to pay the Scheme Consideration under the Scheme Implementation Deed and comply with its other obligations under the Scheme.

The Deed Poll may be relied upon by any Shareholder in The Rock, despite the fact that they are not a party to it, and each Shareholder in The Rock appoints The Rock as its agent to enforce their rights under the Deed Poll against MyState.

The Deed Poll is governed by the laws of Queensland and is set out in full in Annexure D of this document.

9 Additional information

9.1 Ranking of New MyState Shares

The New MyState Shares will rank equally with all other MyState Shares on issue. Further detail in relation to the rights attaching to MyState Shares is set out in Section 9.2.

9.2 Rights attaching to MyState Shares

The rights attaching to MyState Shares are:

- Contained in the MyState Constitution; and
- In certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The key rights attaching to MyState Shares are summarised as follows:

General

MyState Shares are the only securities on issue in the capital of MyState. All MyState Shares are of the same class and rank equally in all respects. The MyState board is empowered to issue shares of other classes with such rights as the MyState directors determine.

Notices

Each shareholder in MyState is entitled to receive notice of and to attend and vote at general meetings of MyState and to receive all notices, accounts and other documents required to be sent to MyState shareholders under the MyState Constitution, the Corporations Act or the ASX Listing Rules. The quorum required is 25 members present in person or by proxy, attorney or representative.

General meetings and voting

At a general meeting of MyState, each MyState shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and one vote for each fully paid MyState Share held on a poll (adjusted for any partly paid shares on issue).

Voting is by a show of hands unless a poll is demanded and not withdrawn. A poll may be demanded by at least five MyState shareholders entitled to vote on the resolution, MyState shareholders with at least five per cent of the votes that may be cast on the resolution of the poll, or the chairperson.

The chairperson does not have a casting vote on a show of hands or on a poll.

Dividends

The MyState board may, from time to time, resolve to distribute the profits of MyState by way of a dividend. A dividend declared by the MyState board will be payable in respect of each MyState Share, subject to the rights attaching to any MyState Shares with special dividend rights.

Shareholding limitations and enforcement of shareholding limitation

No MyState shareholders may, together with their associates, hold more than 10% of the MyState Shares. MyState shareholders holding MyState Shares in excess of the shareholding limitations may be required to dispose of their MyState Shares held in excess of the shareholding limitations and otherwise have their rights to vote at general meetings or to receive distributions or dividends suspended in relation to the MyState Shares in excess of the shareholding limitations.

Transfer of MyState Shares

Subject to the Constitution and the ASX Listing Rules, a transfer of MyState Shares may be effected in any manner compliant with the ASX Settlement Operating Rules, including by a written instrument approved by the MyState directors. The MyState directors may refuse to register a transfer of MyState Shares in circumstances permitted by the ASX Listing Rules, ASX or the MyState Constitution.

Non-marketable parcels

Subject to the MyState Constitution, the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, MyState may sell the MyState Shares held by a MyState shareholder where the number or MyState Shares held is less than a marketable parcel.

Share buy-backs

MyState may buy back MyState Shares at times and on terms determined from time to time by the MyState directors.

Proportional takeover provisions

The MyState Constitution contains provisions requiring the approval of MyState shareholders to any proportional takeover scheme. A transfer resulting from acceptance of an offer made under a proportional takeover bid must not be registered unless and until approved by an ordinary resolution. This provision will lapse in 2012 unless renewed by a special resolution of MyState shareholders.

Winding up

Subject to any rights that may be attached to MyState securities issued with rights different to the MyState Shares, if MyState is wound up, the liquidator may, with the sanction of a special resolution, divide the whole or any part of the property of MyState amongst the MyState shareholders.

For this purpose, the liquidator may determine a value considered fair for any property and may decide how the division shall be carried out as between MyState shareholders or different classes of MyState shareholders.

MyState directors – appointment and removal

The minimum number of MyState directors is 5 and the maximum number of MyState directors is 12. MyState directors are elected at the annual general meeting.

The MyState Constitution provides that at the 2011 annual general meeting, one non-executive MyState director nominated by TPT and three MyState directors nominated by MSF must retire and subject to the MyState Constitution, the Corporations Act and the ASX Listing Rules, all will be eligible for re-election.

Subject to the requirements of the ASX Listing Rules, the retirement requirements set out above may be varied if approved by:

- No less than 80% of the MyState directors; and
- The MyState directors whose appointment will be directly affected by the proposed variation,

provided that there must be no more than eight of the initial ten MyState directors at the close of the 2011 annual general meeting of MyState.

Subject to the requirements of the ASX Listing Rules, following the 2011 annual general meeting, one-third of the MyState directors (those who have been longest in the office since their last election) must retire at each annual general meeting. A retiring MyState director is eligible for re-election.

The MyState board may appoint a person to fill a casual vacancy or in addition to the existing MyState directors. This person will hold office until the next annual general meeting of MyState, at which time they must be elected.

MyState's right to recover certain payments

MyState has certain rights including an entitlement to recover payments from a MyState shareholder and its personal representative and assigns, including by way of lien or set-off, in certain limited circumstances, including in relation to amounts unpaid on partly paid shares in MyState and in relation to dividends or distributions paid to persons holding shares in breach of the shareholding limitations.

Alteration of Constitution

The MyState Constitution may only be amended by a special resolution passed by at least three quarters of the votes cast by MyState shareholders present and voting at a general meeting.

9.3 Quotation of New MyState Shares on ASX

MyState Shares are quoted on ASX. Application will be made by MyState to ASX for official quotation of the New MyState Shares on ASX as soon as possible after the Effective Date.

Trading of the New MyState Shares on a deferred settlement basis is expected to commence on 2 December 2011.

9.4 Issue of holding statements

As soon as practicable after the Implementation Date, MyState will send holding statements confirming the issue of the New MyState Shares to:

- Scheme Shareholders who become entitled to those New MyState Shares, by prepaid post to their registered address as shown on Register; and
- The Nominee who is issued with those New MyState Shares to be sold on behalf of Ineligible Overseas Shareholders.

9.5 The Rock Directors' recommendation

The Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme at the Scheme Meeting. The Directors unanimously consider that, for the reasons set out in Section 3, the Scheme is in the best interests of Shareholders in The Rock.

In the absence of a Superior Proposal, each of the Directors intends to vote in favour of the Scheme at the Scheme Meeting in relation to shares in The Rock held by them or on their behalf. The interests of Directors in shares in The Rock are set out in Section 9.9 of this document.

The Directors consider that the reasons for Shareholders in The Rock to vote in favour of the Scheme outweigh the reasons to vote against the Scheme, in the absence of a Superior Proposal. These reasons and other relevant considerations are set out in Section 3. You should also read the Independent Expert's report which is set out in full in Annexure A.

9.6 Intentions of The Rock Directors concerning the business of The Rock

If the Scheme is implemented, the existing Directors, other than Mr Stephen Lonie, will resign from the board of The Rock provided that a proper board is constituted at all times. Accordingly, the resigning Directors are not able to make any statements of intentions regarding:

- The continuation of The Rock's business or how the business will be conducted after the implementation of the Scheme;
- Any major changes to The Rock's business, including any redeployment of the fixed assets of The Rock; or
- The future employment of present employees of The Rock.

MyState has provided an outline of its intentions for The Rock's operations in Section 6.3.

9.7 Capital structure of The Rock

At the date of this document, The Rock has 25,161,601 ordinary shares on issue.

9.8 Notifiable interests

As at 29 September 2011, the following persons had notified The Rock that they had a relevant interest in 5% or more of shares in The Rock.

Name	Number of shares in The Rock	Percentage of shares in The Rock on issue
FirstMac Limited	3,191,439	12.68%

9.9 Marketable securities held by The Rock Directors and other interests

No marketable securities of The Rock are held by or on behalf of Directors and no such persons are otherwise entitled to such securities as at the date of this document other than as listed below, all of which are held beneficially.

Director	Number of shares in The Rock
Stephen Lonie	32,175
Brad Beasley	62,752
Rod Davies	10,000
Ross Illingworth	284,585
Stuart McDonald	Nil

In the absence of a Superior Proposal, each of the Directors intends to vote all shares in The Rock held by them or on their behalf, in favour of the Scheme.

Mr Ross Illingworth is employed by Carnbrea & Co Limited, a wealth management advisory business. In his capacity as an employed financial adviser, Mr Illingworth has in the past provided advice to clients of Carnbrea in respect of investments in MyState Shares. Mr Illingworth ceased advising on MyState Shares during the period of negotiations on the Proposal between The Rock and MyState and their mutual due diligence enquiries. As he is a Director of The Rock, Mr Illingworth does not in the course of his employment by Carnbrea provide advice on shares in The Rock. Mr Illingworth has no personal interest in Carnbrea clients' investments in MyState Shares.

Mr Illingworth has an indirect interest through a superannuation fund in 171,700 MyState Shares.

Mr Brad Beasley is a partner of the firm South & Geldard, which receives normal professional fees for services to The Rock, including the preparation of securities and loan agreements for loans made to customers of The Rock, and the provision of legal advice.

No marketable securities of MyState are held by or on behalf of any other Director as at the date of this document.

9.10 Agreements or arrangements with The Rock Directors

Save as set out in this Section, there are no agreements or arrangements made between any Director and any other person, including MyState, in connection with or conditional upon the outcome of the Scheme.

The Managing Director, Stuart McDonald, is entitled to participate in a Strategic Incentive Plan Payment (**Bonus**) payable by The Rock if the Scheme is completed before 31 December 2012. The Bonus is calculated as follows:

- A base level of $200,000 (inclusive of taxation and superannuation); and
- $10,000 for each percentage point, or part thereof, of shareholder value uplift in excess of 15% above the Reference Price, to a maximum of 100% of his remuneration package of $450,000.

Reference Price means the lesser of the VWAP used for the determination of the transaction valuation of the Proposal, or the VWAP for two weeks before the announcement of the Proposal. The measurement of the shareholder value uplift will take into account all forms of consideration paid to Shareholders in The Rock. The shareholder value uplift will be determined by an external auditor or accountant taking into account the opinion and findings of the Independent Expert.

The Bonus will be in the range of $200,000 to $450,000 and on present indications is likely to be at the upper end of that range. If the Board approves the Bonus, the Managing Director will be paid the Bonus in cash on the first business day after the implementation of the Scheme.

On termination of the Managing Director's employment by The Rock, the Managing Director is entitled to a termination payment equal to 12 months salary plus superannuation, being an amount of $450,000.

On implementation of the Scheme, Mr Stephen Lonie will be invited to join the MyState board and will be entitled to directors fees at the rate payable to a non-executive director of MyState. As at 1 July 2011, the fees payable to a MyState non-executive director were $77,500 per annum (inclusive of statutory superannuation).

The Rock has agreed to indemnify each Director against liabilities incurred by such Director in connection with the Proposal and the Director's involvement in the process that resulted in the Proposal, and legal costs reasonably incurred in defending an action for any such liability. The Rock has the right to control any such claim against a Director that could result in a payment being made to that Director under the indemnity.

9.11 Payments or other benefits to The Rock Directors and The Rock executive officers

Save as set out in Section 9.10 of this document and in the following paragraph, it is not proposed that any payment or other benefit will be made or given to any Director, secretary or executive officer of The Rock, or any body corporate related to The Rock, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as Director, secretary or executive officer of The Rock or a body corporate connected with The Rock.

9.12 Interests of Directors in contracts entered into by MyState

No Director has any interest in a contract entered into by MyState. As disclosed in Section 9.10, on implementation of the Scheme, Mr Stephen Lonie will be invited to join the MyState board.

9.13 Consents and disclaimers

(a) Consent to be named

The following parties have given and have not, before the time of registration of this document by ASIC, withdrawn their written consent to be named in this document in the form and context in which they are named:

- Pottinger as financial adviser to The Rock;
- BDO Audit (Qld) Pty Ltd as auditor to The Rock;
- Clayton Utz as legal adviser to The Rock; and
- Link Market Services Limited as The Rock Share Registry.

(b) Consents to be named and to the inclusion of information

Lonergan Edwards & Associates Limited has given and has not, before the time of registration of this document by ASIC, withdrawn its written consent to be named as the Independent Expert in this document and to the inclusion of the Independent Expert's report set out in Annexure A of this document and other statements in this document said to be based on statements made by Lonergan Edwards & Associates Limited, in each case in the form and context in which they appear in this document.

Wise Lord & Ferguson has given and has not, before the time of registration of this document by ASIC, withdrawn its written consent to be named as the Investigating Accountant in this document and to the inclusion of the Investigating Accountant's report set out in Annexure B of this document and other statements in this document said to be based on statements made by Wise Lord & Ferguson, in each case in the form and context in which they appear in this document.

(c) Disclaimers of responsibility

Each person named in Sections 9.13(a) and 9.13(b) of this document:

- Does not make, or purport to make, any statement in this document or any statement on which a statement in this document is based other than, in the case of Lonergan Edwards & Associates Limited and Wise Lord & Ferguson, a statement included in this document with the consent of that party; and
- To the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this document, other than a reference to its name and, in the case of Lonergan Edwards & Associates Limited and Wise Lord & Ferguson, any statement or report which has been included in this document with the consent of that party.

9.14 Expert consents

Lonergan Edwards & Associates Limited has prepared the Independent Expert's report set out in Annexure A of this document advising as to whether, in its opinion, the Proposal is in the best interests of Shareholders in The Rock. Lonergan Edwards & Associates Limited will be paid a fee of approximately $180,000 (excluding GST) in relation to the preparation of its report.

Wise Lord & Ferguson has prepared the Investigating Accountant's report set out in Annexure B of this document. Wise Lord & Ferguson will be paid a fee of approximately $30,000 (excluding GST) in relation to the preparation of its report.

9.15 MyState consent

MyState has given and has not, before the time of registration of this document by ASIC, withdrawn its written consent to the inclusion of the statements set out in the MyState Chairman's letter and Sections 5, 6 and 7 in the form and context in which those statements appear.

9.16 Other information material to the making of a decision in relation to the Scheme

Except as set out in this document, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Director which has not previously been disclosed to Shareholders in The Rock.

9.17 Supplementary information

The Rock will issue a supplementary document to this document if it becomes aware of any of the following between the date of lodgement of this document for registration by ASIC and the Effective Date:

- A material statement in this document is false or misleading;
- A material omission from this document;
- A significant change affecting a matter included in this document; or
- A significant new matter has arisen and it would have been required to be included in this document if it had arisen before the date of lodgement of this document for registration by ASIC.

10 Taxation implications

10. Taxation implications

10.1 Introduction

The following is an outline of the Australian tax consequences that will generally apply for Shareholders in The Rock who dispose of their shares in The Rock under the Scheme. It does not take into account the specific circumstances of any particular Shareholder in The Rock.

This outline reflects the current provisions of the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth) (the Tax Law) and the regulations made under those Acts, taking into account currently proposed amendments and the Company's understanding of the current administrative practices of the ATO. This outline does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action, nor does it take into account tax legislation of countries apart from Australia.

The information contained in this outline is of a general nature only. It does not constitute tax advice and should not be relied upon as such.

The Board of The Rock strongly recommends that you consult your own independent tax adviser regarding the consequences of acquiring, holding or disposing of shares in The Rock in light of the Tax Law and your particular investment circumstances.

10.2 Capital Gains Tax (CGT) implications

(a) General

The following discussion applies to you if you hold your shares in The Rock on capital account for investment purposes.

(b) Calculation of a capital gain or loss

Upon disposal of shares in The Rock under the Scheme, a CGT event will be triggered. As a general rule, a capital gain or capital loss is calculated as the difference between the cost base or reduced cost base of the shares in The Rock and the capital proceeds received.

Further details in relation to the availability of scrip for scrip rollover relief on the exchange of shares in The Rock for New MyState Shares are set out in Section 10.2(c). If applicable, this scrip for scrip rollover relief would mean that no tax should become payable on the exchange.

The cost base will generally include the cost of acquiring the shares in The Rock plus any other incidental acquisition costs. Shareholders in The Rock who have received returns of capital (if any) while holding shares in The Rock should also ensure that the cost base has been appropriately adjusted.

Capital proceeds of the disposal will be calculated as the market value of the New MyState Shares received for each share in The Rock at the date the contract is entered into. The date that the contract is entered into will be the date the Scheme is approved by Shareholders in The Rock.

Generally, the market value of the New MyState Shares should be calculated by reference to the closing price of the shares on the ASX on the date that the contract is entered into. Shareholders in The Rock are recommended to keep a note of the relevant dates.

To the extent that the disposal of shares in The Rock results in a capital gain, certain Shareholders in The Rock may be able to offset that capital gain with any current or previous year capital losses, subject to the loss utilisation rules that may apply. Shareholders in The Rock who acquired their shares in The Rock before 11.45 am on 21 September 1999 may choose to apply indexation to the cost base of the shares in The Rock in calculating any capital gain, but not a capital loss. Indexation has been frozen since 30 September 1999. Applying indexation renders a shareholder ineligible to use the general CGT discount, which is addressed in the following Section.

Alternatively, a Shareholder in The Rock who is an individual, trust or complying superannuation fund, and has held their shares in The Rock for at least one year may choose to apply the general CGT discount. Utilisation of the general CGT discount will result in

individuals and trusts only including 50% (complying superannuation funds 66 2/3%) of the capital gain in their assessable income. Capital losses must be deducted before applying any CGT discount.

Capital losses may not be offset against ordinary income but must be utilised against capital gains derived in the same or subsequent years of income.

(c) Scrip for scrip rollover relief

Scrip for scrip rollover enables a Shareholder in The Rock to elect to defer the capital gain they would otherwise make from disposing of their shares in The Rock until the point in time when they dispose of their New MyState Shares received in exchange. Scrip for scrip rollover relief will only be available where the Shareholder in The Rock would have otherwise made a capital gain.

Shareholders in The Rock may be entitled to scrip for scrip rollover if certain conditions are met, which includes those Shareholders in The Rock who acquired their shares in The Rock as a result of an arrangement which qualifies as an 'employee share scheme' for Australian tax purposes. These conditions include:

- The exchange of shares must be a single arrangement which results in MyState ultimately acquiring at least 80% of the voting shares in The Rock. Under the terms of the Scheme this condition for rollover relief should be met;
- The Shareholder in The Rock must have acquired their original interest on or after 20 September 1985. Any shareholders acquiring shares in The Rock on or after this date should meet this condition, unless they are deemed to have an earlier acquisition date;
- The terms of disposal of the shares must be open to all Shareholders in The Rock on substantially the same terms or be a takeover bid which is not in contravention of section 612(a)-(g) of the Corporations Act, or be a compromise or arrangement approved by a Court under section 411(4)(b) of the Corporations Act, which again should be satisfied by the terms of the Scheme.

Scrip for scrip rollover relief does not apply automatically and must be elected. The election to utilise scrip for scrip rollover relief is evidenced by the manner in which the tax return for the relevant income year is prepared although it may be prudent to keep a written record of that election with your tax records.

To the extent that scrip for scrip rollover relief is utilised by a Scheme Shareholder:

- Any capital gain made as a result of the exchange of shares in The Rock for New MyState Shares should be disregarded;
- The cost base of the New MyState Share acquired in the exchange is determined by reasonably attributing to it the CGT cost base (or part of it) of the share in The Rock for which a rollover was obtained;
- The date of acquisition of the New MyState Shares is taken to be the date of acquisition of the shares in The Rock for CGT purposes.

The Rock has applied to the ATO for class rulings to confirm the treatment of shares in The Rock and New MyState Shares and the application of scrip for scrip rollover relief. At the date of this document, no class ruling has yet been issued. The Rock will announce to ASX when a class ruling is issued and make available the details of the ruling on its website. If the ruling application is rejected, The Rock will inform shareholders as soon as possible.

(d) Foreign shareholders

You will be required to disregard the whole of the capital gain or capital loss you make on the disposal of your shares in The Rock if:

- You are not a resident of Australia for the purposes of Australian tax law and have not used the shares in The Rock in carrying on business through an Australian permanent establishment; and
- You and your associates have not held 10% or more of the shares in The Rock throughout a 12 month period during the 2 years preceding the sale of your shares.

Foreign shareholders that have held 10% or more of the shares in The Rock, either alone or together with their associates, should obtain specific advice on the application of the Australian CGT rules to any gain or loss realised on sale.

If you are a foreign shareholder, you should also obtain specific advice on the application of the laws of your country of residence and any Double Tax Treaty between your country of residence and Australia in determining the tax consequences of the disposal of your shares in The Rock.

10.3 Income tax implications

(a) General

The following discussion applies to you if you hold your shares in The Rock on revenue account for sale purposes.

(b) Calculation of the revenue gain or loss

If you hold your shares in The Rock as trading stock, or otherwise in certain circumstances for the purpose of sale at a profit, the profit that you realise on the disposal or scrip for scrip rollover of your shares in The Rock will be included in your assessable income. Alternatively, if you realise a loss on sale, the loss should be an allowable deduction to you.

The profit or loss you include in your assessable income is calculated without reference to discounts on disposal, unlike the case with capital gains.

10.4 Stamp duty

No stamp duty will be payable by any Shareholder in The Rock on the disposal of the shares in The Rock to MyState. MyState, as the transferee/acquirer of those shares, will be the party who will be liable for any stamp duty that is payable in respect of the Scheme.

10.5 Goods and Services Tax (GST)

You will not be liable to pay GST on the Scheme Consideration you receive for your shares in The Rock.

A Independent Expert's report by Lonergan Edwards & Associates Limited

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The Directors
The Rock Building Society Limited
102 Bolsover Street
Rockhampton Qld 4700

27 September 2011

Subject: Proposed merger with MyState Limited by way of a scheme of arrangement

Dear Directors

Introduction

1 On 31 August 2011 The Rock Building Society Limited (The Rock) and MyState Limited (MyState) announced that they had entered into a Scheme Implementation Deed (the Deed) to merge the two companies by way of a scheme of arrangement (the Scheme).

2 If the Scheme (which is subject to a number of conditions precedent) is approved by The Rock shareholders and the Court, MyState will acquire all the issued shares in The Rock. Under the Scheme The Rock shareholders will receive 7.75 MyState shares for every 10 shares held in The Rock at the Scheme Record Date (the Scheme Consideration). In addition, The Rock shareholders will, if the Scheme is successfully implemented, be entitled to receive a proposed interim dividend of no more than 12 cents per share in respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA)[1]. They will not be entitled to the MyState dividend for the same period[2].

3 The Scheme values all the shares in The Rock (on a fully diluted basis) at approximately $68.3 million[3].

4 The Scheme is subject to the Court convening a meeting of The Rock shareholders. Under the *Corporations Act 2001 (Cth)* (Corporations Act), the Scheme is approved by The Rock shareholders if a resolution in favour of the Scheme is passed by a majority in number of The Rock shareholders present and voting at the Scheme meeting (in person or by proxy), and by 75% of the votes cast on the resolution. If this occurs a second Court hearing will be held to approve the Scheme, which if approved, will become binding on all shareholders who hold shares in The Rock at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

---

1 The decision to declare the proposed interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

2 An amount of not more than 15 cents per MyState share.

3 Based upon the closing price of MyState shares ($3.50) on the day immediately prior to the announcement of the Scheme (30 August 2011).

Liability limited by a scheme approved under Professional Standards legislation

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The Rock Building Society Limited

5 The Rock is an Authorised Deposit-taking Institution (ADI) based in Central Queensland. The company provides a range of traditional retail banking products and services through its branch, mini-branch, ATM and mortgage broker networks. The Rock provides insurance broking services with respect to domestic insurance products under the brand RockSure Insurance Broking Services (RockSure). The Rock is in the process of transitioning its insurance broking activities to an agency arrangement following the sale of The Rock's rural and commercial insurance broking assets in June 2011, an arrangement which is expected to be functioning later this calendar year.

MyState Limited

6 MyState is a listed diversified financial services group operating principally in Tasmania. MyState provides a range of financial products and services through two wholly owned subsidiaries, MyState Financial Limited (MSF) and Tasmanian Perpetual Trustees Limited (TPT).

7 MSF is a retail financial services ADI operating predominantly in Tasmania. TPT is a major Tasmanian based trustee and wealth management company.

Purpose of report

8 There is no regulatory requirement for an independent expert's report (IER). However, both the Scheme and The Rock Directors' recommendation are subject to an independent expert concluding that the Scheme is in the best interests of The Rock shareholders. In addition, as the Scheme (if approved and implemented) will result in 100% of the securities in The Rock being held by MyState, Regulatory Guide 111 – *Content of expert reports* (RG 111) requires that an expert (if appointed) provide an opinion on whether the consideration payable under the Scheme is "fair" and "reasonable" to the shareholders of The Rock.

9 The Directors of The Rock have therefore requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether the proposed acquisition of the shares in The Rock by MyState under the Scheme is fair and reasonable and in the best interests of The Rock shareholders and the reasons for that opinion.

10 LEA is independent of The Rock and MyState and has no other involvement or interest in the Scheme.

Summary of opinion

11 In our opinion, the Scheme is fair provided The Rock's interim dividend for FY12 is at least six cents per share, and is reasonable and in the best interests of The Rock shareholders in the absence of a superior proposal. In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme.

12 We have formed this opinion for the reasons set out below.

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Value of The Rock

13 We have assessed the value of The Rock shares on a 100% controlling interest basis at $2.62 to $2.94 per share, as shown below:

Value of 100% of The Rock	Low $m	High $m
Net profit after tax (NPAT) adopted for valuation purposes	5.3	5.3
Price earnings (PE) multiple	10.5	11.0
Value of The Rock (core business)	55.7	58.3
Synergies	9.0	13.8
Surplus assets	1.2	2.1
Value of The Rock	**65.9**	**74.2**
Number of shares outstanding (millions)	25.2	25.2
The Rock value per share ($)	**2.62**	**2.94**

Value of Total Consideration[4]

14 As stated above, under the terms of the Deed, The Rock shareholders may also receive an interim dividend for FY12 of no more than 12 cents per share in addition to the Scheme Consideration (but will not receive MyState's interim dividend for the same period). Accordingly, it is necessary to take into account these interim dividends when assessing the Scheme.

15 Having regard to the recent share market trading in MyState shares, we have assessed the value of the Total Consideration under the Scheme at between $2.47 to $2.82 per share (after deducting the estimated MyState interim dividend for the six months to 31 December 2011 and adding the estimated interim dividend The Rock is expected to pay[5] should the Scheme be successfully implemented[6]), as follows:

Value of Total Consideration	Low $ per share	High $ per share
Assessed realisable value of MyState shares	3.25	3.60
Less estimate of MyState's interim dividend per share for FY12	(0.14)	(0.12)
Assessed realisable value of MyState shares (net of dividend)	3.11	3.48
Exchange ratio	0.775	0.775
Scheme Consideration	2.41	2.70
Add estimate of The Rock's interim dividend per share for FY12[(1)]	0.06	0.12
Assessed value of Total Consideration	**2.47**	**2.82**

4 Being the Scheme Consideration plus The Rock's expected FY12 interim dividend.

5 In respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA).

6 The decision to declare the proposed interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

Note:

1 The Rock may declare an interim dividend of no more than 12 cents per share in respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA). However, it should be noted that the decision to declare the proposed interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

16 As shown in the table above, we have assumed that The Rock will pay an interim dividend for FY12 of between 6 and 12 cents per share if the Scheme is implemented. The low end of this range is consistent with the interim dividend paid by The Rock in the last 2 years. However, in our opinion, The Rock is likely (based on current expectations) to pay an interim dividend for FY12 at the upper end of our adopted range. This is because:

(a) the Deed allows The Rock to pay a FY12 interim dividend of up to 12 cents per share (provided certain criteria are met) without impacting the terms of the Scheme. Accordingly, provided the conditions are met it is appropriate to assume that The Rock will declare and pay the maximum dividend possible (as Directors would not be acting in the best interests of shareholders if they had the capacity to pay the maximum dividend but did not do so)

(b) although The Rock is yet to determine the quantum of this interim dividend, we understand that the Board's current intention is to pay an interim dividend towards the upper end of the maximum amount allowed

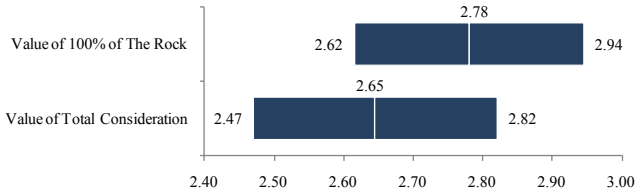
(c) given the level of surplus capital held by The Rock we believe that The Rock should be able to pay a FY12 interim dividend at the upper end of our adopted range (being a four to six cent per share increase in the interim dividend paid by The Rock in the previous two years).

17 However, it should be noted that the actual interim dividend to be paid by The Rock is uncertain and could be less than the six to 12 cents per share range adopted.

Fair and reasonable opinion

18 Pursuant to RG 111 a scheme is "fair" if the value of the Total Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for The Rock shares is shown below:

Comparison of Total Consideration to value of The Rock
$ per The Rock share



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19 The mid-point of our assessed value of the Total Consideration ($2.65 per share) falls within our valuation range of The Rock shares on a 100% controlling interest basis (albeit at the low end).

20 As noted above we believe it is appropriate to assume that The Rock will pay an interim dividend for FY12 of between six and 12 cents per share if the Scheme is implemented. While the Directors' of The Rock have indicated that they have no reason to consider that a FY12 interim dividend of less than six cents per share will be paid, it should be noted that the actual interim dividend is uncertain at this time. However, under the terms of the Scheme Implementation Deed, the Directors of The Rock will announce the quantum of the proposed interim dividend prior to the date of the Scheme Meeting.

21 In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme.

22 Having regard to the above we have therefore concluded that the Scheme is fair to The Rock shareholders provided The Rock's interim dividend for FY12 is at least six cents per share.

23 Pursuant to RG 111, a transaction is reasonable if it is fair. A transaction may also be reasonable if, despite not being fair, there are sufficient reasons for shareholders to approve the transaction. Further, in our opinion, if the Scheme is "fair and / or reasonable" it must also be "in the best interests" of shareholders in the absence of a superior proposal.

24 Consequently, in our opinion, the Scheme is also "reasonable" and "in the best interests" of The Rock shareholders in the absence of a superior proposal.

Assessment of the Scheme

25 We summarise below the likely advantages and disadvantages of the Scheme for The Rock shareholders.

Advantages

26 The Scheme has the following benefits for The Rock shareholders:

(a) the mid-point of our assessed value for the Total Consideration ($2.65 per share) falls within our valuation range of The Rock shares on a 100% controlling interest basis (albeit at the low end) and is therefore considered fair pursuant to RG 111 provided The Rock's interim dividend for FY12 is at least six cents per share. In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme.

(b) the Total Consideration represents a significant premium to the recent market prices of The Rock shares prior to the announcement of the Scheme on 31 August 2011

(c) in our opinion, The Rock shareholders are being paid a significant share of the synergy benefits which MyState expects to generate as a result of the Scheme. In addition, The Rock shareholders will (in aggregate) own around 22% of the Merged Entity and will therefore participate in the expected realisation of the synergies

(d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of The Rock shares is likely to trade at a significant discount to our valuation and the Total Consideration (consistent with the portfolio nature of individual shareholdings)

(e) as The Rock shareholders receive MyState shares as consideration under the Scheme they will therefore, if the Scheme proceeds, hold an interest in a much larger entity with greater diversification.

27 It should also be noted, although The Rock is unable to solicit, encourage or initiate any competing transaction (as a condition of the Scheme), it does remain entitled to appropriately respond to a bona fide unsolicited offer. Despite this no alternative proposal has emerged subsequent to the announcement of the Scheme.

Disadvantages

28 The Rock shareholders should note that if the Scheme is approved they will no longer hold a direct interest in The Rock. However, as noted above, The Rock shareholders (in aggregate) will own approximately 22% of the Merged Entity and will therefore participate (albeit only on a pro rata basis) in any future value created by The Rock as a result of ongoing operations over and above that reflected in the Total Consideration.

Conclusion

29 Given the above analysis, we consider the acquisition of The Rock shares by MyState under the Scheme is fair provided The Rock's interim dividend for FY12 is at least six cents per share, and is reasonable and in the best interests of The Rock shareholders in the absence of a superior proposal.

General

30 In preparing this report we have considered the interests of The Rock shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

31 The impact of approving the Scheme on the tax position of The Rock shareholders depends on the individual circumstances of each investor. The Rock shareholders should read Section 10 of the Scheme Booklet (Taxation Implications) and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

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32 The ultimate decision whether to approve the acquisition of shares by MyState under the Scheme should be based on each shareholder's assessment of their own circumstances. If The Rock shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that The Rock shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Nathan Toscan
Authorised Representative

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I Key terms of the Scheme

Terms

33 On 31 August 2011 The Rock and MyState announced that they had entered into the Deed which proposes that the two companies merge by way of the Scheme.

34 If the Scheme (which is subject to a number of conditions precedent) is approved by The Rock shareholders and the Court, MyState will acquire all the issued shares in The Rock. Under the Scheme The Rock shareholders will receive 7.75 MyState shares for every 10 shares held in The Rock at the Scheme Record Date. In addition, The Rock shareholders will, if the Scheme is successfully implemented, be entitled to receive an interim dividend of no more than 12 cents per share in respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA). The decision to declare the proposed interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court. The Rock shareholders will not be entitled to the MyState dividend for the same period[7].

Conditions

35 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the Deed between The Rock and MyState dated 30 August 2011:

(a) receipt of all required regulatory approvals including, the Australian Securities and Investments Commission (ASIC), the Australian Securities Exchange (ASX), the Federal Treasurer under the *Banking Act 1959 (Cth)* and the Federal Treasurer under the *Financial Sector (Shareholdings) Act 1998 (Cth)*

(b) approval of The Rock shareholders by the requisite majorities at the Scheme meetings under the Corporations Act

(c) approval of the Scheme by the Court in accordance with s411(4)(b) of the Corporations Act

(d) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the transaction is in effect at 8.00am on the Second Court Date

(e) no "ROK Prescribed Occurrence" or "MYS Prescribed Occurrence" (as defined in clause 1.1 of the Deed) takes place in respect of either The Rock or MyState on or before 8.00am on the Second Court Date

7 An amount of not more than 15 cents per MyState share.

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(f) before 8.00am on the Second Court Date, the Australian Taxation Office (ATO) has:

(i) provided to The Rock a draft of the class ruling confirming that eligible shareholders of The Rock may elect to obtain scrip for scrip tax rollover relief

(ii) provided to The Rock a draft of the class ruling in connection with The Rock's employee share plan confirming that MyState shares provided to applicable employees in connection with Scheme are treated for the purposes of Division 83A of the *Income Tax Assessment Act 1997 (Cth)* as a continuation of The Rock shares and other interests issued under The Rock's employee share plan

(g) an independent expert issues a report which concludes that the Scheme is in the best interests of The Rock shareholders.

36 In addition, The Rock has agreed that, up until the earlier of the termination of the Deed and 28 February 2012, it will not (in broad terms), subject to certain conditions including those detailed in Section 11.3 of the Deed:

(a) solicit, invite, encourage or initiate any competing transaction

(b) participate in any discussions or negotiations which may reasonably be expected to lead to a competing transaction

(c) provide any information to a third party for the purposes of enabling that party to table a competing transaction

(d) enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to the completion of a competing transaction.

37 The Rock is permitted to consider a bona fide competing proposal that has been received after the date of the Deed if:

(a) it was not solicited by and was not otherwise brought about as a result of its breach of its exclusivity obligations;

(b) the proposal constitutes (or would be likely to constitute) a superior proposal; and

(c) based on written advice from its legal advisers, the Board of The Rock determines that ongoing compliance with exclusivity obligations would involve a breach of fiduciary duties or would otherwise be unlawful.

38 The Deed may be terminated if, amongst other things:

(a) either The Rock or MyState is found to be in breach of the Deed

(b) a "ROK Material Adverse Change" or "MYS Material Adverse Change" (as defined in clause 1.1 of the Deed) takes place in respect of either The Rock or MyState on or before 8.00am on the Second Court Date

(c) the majority of The Rock's Board changes or withdraws their recommendation to The Rock shareholders to vote in favour of the Scheme (or recommends a competing proposal).

39 A reimbursement fee of $0.5 million (plus GST, if any) is payable by either The Rock to MyState or MyState to The Rock in certain circumstances as specified in the Deed.

Resolution

40 The Rock shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.

41 If the resolution is passed by the requisite majorities, The Rock must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all shareholders who hold shares in The Rock at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

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II Scope of our report

Purpose

42 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Corporations Regulations) prescribes information to be sent to shareholders in relation to a members' scheme of arrangement pursuant to s411 of the Corporations Act.

43 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.

44 As MyState has neither a current shareholding in The Rock nor representation on The Rock Board, there is no regulatory requirement for our report. However, both the Scheme and The Rock Directors' recommendation are subject to an independent expert concluding that the Scheme is in the best interests of The Rock shareholders. In addition, as the Scheme (if approved and implemented) will result in 100% of the securities in The Rock being held by MyState, RG 111 requires that an expert (if appointed) provide an opinion on whether the consideration payable under the Scheme is "fair" and "reasonable" to the shareholders of The Rock.

45 The Directors of The Rock have therefore requested LEA to prepare an IER stating whether the proposed acquisition of the shares in The Rock by MyState under the Scheme is fair and reasonable and in the best interests of The Rock shareholders and the reasons for that opinion.

46 This report has been prepared by LEA for the benefit of The Rock shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Notice of Meeting and Scheme Booklet to be sent to The Rock shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of The Rock shareholders.

47 The ultimate decision whether to approve the Scheme should be based on each shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

48 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.

49 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) the Scheme to be "fair" if the value of the consideration is equal to or greater than the value of the securities that are the subject of the Scheme. A comparison must be made assuming 100% ownership of the target company

(b) the Scheme to be "reasonable" if it is fair. The Scheme may also be "reasonable" if, despite not being "fair" but after considering other significant factors, there are sufficient reasons for shareholders to approve the Scheme in the absence of a superior proposal.

50 There is no legal definition of the expression "in the best interests". However, RG 111 states that a Scheme may be *"in the best interests of the members of the company"* if there are sufficient reasons for securityholders to vote in favour of the Scheme in the absence of a higher offer.

51 In our opinion, if the Scheme is "fair" and "reasonable" under RG 111 it must also be "in the best interests" of The Rock shareholders.

52 Our report has therefore considered:

(a) the market value of 100% of the shares in The Rock

(b) the value of the consideration offered by MyState (and expected dividend payments to The Rock shareholders)

(c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)

(d) the extent to which a control premium is being paid to The Rock shareholders

(e) the extent to which The Rock shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction

(f) the listed market price of The Rock shares, both prior to and subsequent to the announcement of the Scheme

(g) the likely market price of The Rock securities if the Scheme is not approved

(h) the value of The Rock to an alternative offeror and the likelihood of a higher alternative offer being made for The Rock prior to the date of the Scheme meeting

(i) the advantages and disadvantages of the Scheme from the perspective of The Rock shareholders

(j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

53 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

54 Our report is also based upon financial and other information provided by The Rock and MyState and their respective advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

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55 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of The Rock shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

56 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Scheme, rather than a comprehensive audit or investigation of detailed matters.

57 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

58 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

59 In forming our opinion, we have also assumed that:

(a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects

(b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Deed and the terms of the Scheme itself.

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III Profile of The Rock Building Society

Overview

60 The Rock is an ADI based in Central Queensland. The company provides a range of traditional retail banking products and services through its branch, mini-branch, ATM and mortgage broker networks. The Rock provides insurance broking services with respect to domestic insurance products under the brand RockSure. The Rock is in the process of transitioning its insurance broking activities to an agency arrangement following the sale of The Rock's rural and commercial insurance broking assets in June 2011, an arrangement which is expected to be functioning later this calendar year.

History

61 The Rock was founded in Rockhampton in 1967 and listed on the ASX in December 1992.

Current operations

62 The Rock is headquartered in Rockhampton, Queensland and currently has approximately 39,000 deposit customers and 5,300 loan customers. The company operates nine branches and 20 mini-branches along with an ATM network across 32 regional and suburban locations. The company directly employs approximately 120 staff and, indirectly contributes to job creation through its mini-branch network.

63 The Rock's current operations can be broadly divided into the following:

(a) **banking services** – provides a range of retail financial products and services including home loans, savings and transaction accounts

(b) **insurance broking services** – covering domestic products such as home and contents and motor vehicle.

Banking Services

64 The Rock provides a range of traditional retail banking products and services including home loans, term deposits, savings accounts and online financial products. The company's loan customers are located throughout Australia with approximately 50% based in Queensland. As at 30 June 2011, 36.7% of depositors were based in Central Queensland with 33.8% based in New South Wales (NSW). The Rock has used its traditionally Central Queensland focused platform to increase its presence in both North and South-East Queensland. Further supporting this expansion has been the development of the mini-branch network, whereby The Rock partners with local businesses to offer The Rock's banking services to local communities in a cost-effective manner.

RockSure

65 The Rock provides insurance brokerage services under the brand RockSure. RockSure provides insurance broking services with respect to a range of home and contents, rental properties, motor vehicles, life risk products, income protection, total and permanent disability and other personal lines of insurance product. In June 2001 The Rock obtained its licence as a registered general insurance broker, trading under the RockSure name, and since then has provided access to most major insurers, including QBE, CGU, Allianz, Lumley General, AMP General and Ansvar Insurance.

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66 The Rock is in the process of transitioning its insurance broking activities to an agency arrangement following the sale of its rural and commercial insurance broking assets in June 2011, an arrangement which is expected to be functioning later this calendar year.

Regulatory framework

67 The Rock is regulated by the Australian Prudential Regulation Authority (APRA) and holds both an Australian Financial Services Licence and an Australian Credit Licence issued by the Australian Securities & Investments Commission (ASIC).

Statement of financial performance

68 The financial performance of The Rock for the four years to 30 June 2011 is summarised below:

The Rock – consolidated financial performance[1]

Year ended 30 June	Audited 2008 $m	Audited 2009 $m	Audited 2010 $m	Audited 2011 $m
Interest income	91.1	82.2	69.0	78.8
Interest expense	(70.6)	(64.8)	(50.0)	(57.0)
Net interest income	20.5	17.3	19.1	21.8
Non-interest income	7.5	8.8	8.2	8.8
Total income	28.0	26.2	27.2	30.6
Operating expenses	(21.7)	(20.0)	(20.5)	(23.6)
Net profit before loan impairment and tax	6.3	6.2	6.7	7.0
Impairment expense	(0.1)	(0.0)	(0.1)	(0.0)
Net profit before tax	6.2	6.1	6.6	7.0
Income tax expense	(1.7)	(1.8)	(1.6)	(2.1)
NPAT	4.5	4.3	5.1	4.9
Net interest margin (NIM)	*1.66%*	*1.43%*	*1.51%*	*1.77%*
Non-interest income / Total income	*26.6%*	*33.7%*	*29.9%*	*28.8%*
Cost to income ratio (CTI)	*77.8%*	*76.6%*	*75.7%*	*77.3%*
Impairment expense / Average GLA[2] (bps)	*0.5*	*0.4*	*1.0*	*0.4*
Basic / Diluted earnings per share (cents)[3]	*23.45*	*22.28*	*21.35*	*19.42*
Dividends per share (cents)	*20.50*	*18.50*	*15.00*	*14.00*
Dividend payout ratio[4]	*87.7%*	*83.4%*	*73.6%*	*72.3%*
% Franked dividend	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Note:
1 Totals may not add due to rounding.
2 Gross loans and advances.
3 We note that there are no potentially dilutive instruments outstanding.
4 Declared dividends for the relevant financial year divided by reported NPAT.
Source: The Rock and LEA analysis.

69 The following comments relate to the operating performance of The Rock for the four financial years to 30 June 2011.

Year ended 30 June 2008

70 The Rock experienced a significant increase in earnings for the year ended 30 June 2008, recording a net profit after-tax (NPAT) of $4.5 million, an increase of 21.8% on the prior corresponding period. This increase in profit can be attributed to growth in the loan book over the two previous financial years combined with the effective management of wholesale funding costs. Net interest income increased by 14.4% to $20.5 million (from $17.9 million in the prior corresponding period), having been eroded by increased funding costs during the first half of the year (the reduction was tempered in the second half of the year as part of the increased costs were passed on to borrowers). During the year The Rock attempted to broaden its customer base by expanding its branch, agency and ATM network, yet was able to achieve a marginal reduction in its CTI ratio from 79.4 % to 77.8%.

Year ended 30 June 2009

71 A significant increase in funding costs due to the global financial crisis (GFC) together with a reduction in the loan book resulted in a 5.0% decrease in The Rock's NPAT on the prior corresponding period to $4.3 million. Net interest income fell by 15.6% to $17.3 million, however, these negative impacts were somewhat mitigated through a reduction in expenses and increased non-interest income. Despite the company's continued expansion of the mini-branch and ATM network, the company once again achieved a reduction in its CTI ratio from 77.8% to 76.6%.

Year ended 30 June 2010

72 The Rock experienced a significant increase in earnings for the year ended 30 June 2010, recording a reported NPAT of $5.1 million, an increase of 17.3% on the prior corresponding period. We note that this result includes a net contribution of approximately $0.4 million from non-recurring items. The reported result comprised a second half contribution of $3.2 million as compared to a first half contribution of just $1.9 million. This increase in profit in the second half was driven by a significant increase in the interest margin from $8.0 million in the first half to $11.0 million in the second half as a result of an industry-based improvement in margins on mortgages together with changes in funding sources including the creation of a Negotiable Certificate of Deposit (NCD) program which raised a further $90.0 million in deposit funds between February 2010 and June 2010.

Year ended 30 June 2011

73 Reported NPAT was down 4.3% on the prior corresponding period to $4.9 million, however, we note that this included a net non-recurring expense of approximately $0.3 million[8]. FY11 marked the resumption of loan book growth for the first time since FY08. This coincided with the restructuring of The Rock's balance sheet in order to better match the maturity profile of assets and liabilities in an effort to reduce future earnings volatility and balance sheet risk. During the year The Rock closed several underperforming mini-branches, with 20 in operation as at 30 June 2011 down from 29 as at 30 June 2010. On 27 June 2011 The Rock announced the sale of its rural and commercial insurance broking assets for $3.25 million, representing a premium to book value of approximately $1.4 million[9].

8 Post-tax.

9 Pre-tax. $1.0 million post-tax.

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74 Late in FY10 The Rock was required to respond to an ASIC regulatory inquiry regarding charging errors in certain accounts. This matter was resolved in FY11 and required refunds and/or interest adjustments to affected deposit accounts and an agreement by The Rock to implement improved compliance systems. Consultancy and advisory fees associated with responding to this inquiry, as well as other non-recurring expenses including costs associated with a comprehensive strategic review of the business, totalled approximately $1.8 million[10]. These costs were expensed in FY11.

Statement of financial position

75 The consolidated financial position as reported by The Rock as at 30 June 2010, 31 December 2010 and 30 June 2011 is summarised below:

The Rock – consolidated financial position[(1)]

	Audited 30 Jun 10 $m	Reviewed 31 Dec 10 $m	Audited 30 Jun 11 $m
Cash	56.9	62.5	39.7
Trade receivables	4.1	3.6	5.3
Financial assets held for sale	25.3	11.1	3.5
Financial assets held to maturity	183.7	305.4	187.8
Loans and advances	938.5	937.5	996.0
Derivatives	-	-	-
Property, Plant &Equipment (PP&E)	6.0	5.9	5.3
Other assets	0.4	0.7	0.4
Income tax receivable	-	-	-
Deferred tax assets	1.7	1.2	1.5
Intangibles	8.7	8.3	7.3
Total assets	1,225.3	1,336.2	1,246.7
Deposits	572.1	688.3	738.6
Trade and other payables	10.4	6.9	6.7
Derivatives	3.3	1.7	3.0
Income tax payable	1.0	0.7	0.8
Deferred tax liability	1.1	1.2	1.6
Provisions	0.3	0.3	0.3
Borrowings	578.3	577.3	435.2
Total liabilities	1,166.5	1,276.4	1,186.2
Net assets	58.8	59.8	60.6
Net tangible assets (NTA)	50.1	51.5	53.3

Note:
1 Totals may not add due to rounding.
Source: The Rock and LEA analysis.

76 In respect of the above we note that:

(a) **cash –** comprises cash at bank, cash on hand and interest earning bank deposits at call

10 Pre-tax. $1.3 million post-tax.

(b) **financial assets held to maturity –** consist of deposits with other ADIs

(c) **financial assets held for sale –** a breakdown of The Rock's financial assets classified as held for sale for the last three half-year reporting periods is set out below:

The Rock – financial assets classified as held for sale	Audited 30 Jun 10 $000	Reviewed 31 Dec 10 $000	Audited 30 Jun 11 $000
Australian listed shares (at cost)	1	1	1
Shares in Australian Settlements Limited (at cost)	233	233	233
Investment in RMBS (at fair value)	25,105	10,819	3,312
Total	25,339	11,053	3,546

Source: The Rock.

Australian Settlements Limited was created to supply services to member financial institutions. The shares are not publicly tradeable or redeemable and are held by The Rock to receive essential banking services including clearing facilities. As at 30 June 2011, The Rock is not intending to, nor is it able to, dispose of these shares without the approval of a majority of shareholders.

In FY10, in an effort to improve its profitability and to take advantage of excess liquidity, The Rock diversified its investment practices to include investments in residential mortgage-backed securities (RMBS). According to The Rock, at the time many of these instruments were being sold at significant discounts in the secondary market whilst still providing protection against credit risk through low loan to valuation ratios (LVRs) and lender's mortgage insurance on the underlying asset pools. In FY11, The Rock sold the majority of its holdings of RMBS[11].

Separately, as part of its liquidity policy The Rock has created an internal RMBS facility with the securities being eligible for repurchase transactions with the Reserve Bank of Australia (RBA).

(d) **PP&E –** consists primarily of land, buildings, plant and equipment and motor vehicles

(e) **intangibles –** a breakdown of The Rock's intangibles for the last three half-year reporting periods is set out below:

The Rock – intangible assets[(1)]	Audited 30 Jun 10 $m	Reviewed 31 Dec 10 $m	Audited 30 Jun 11 $m
Software	6.4	6.2	6.8
Insurance book	1.6	1.5	-
Other	0.8	0.6	0.5
Total intangible assets	8.7	8.3	7.3

Note:
1 Totals may not add due to rounding.
Source: The Rock.

11 The loss on sale of the RMBS investments was $153,000 and was reported as an abnormal item in FY11.

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The majority of software intangible assets relates to the core banking system, BaNCS, that was implemented during FY10, allowing The Rock to expand its product portfolio, streamline its systems, enhance security and reduce maintenance and licensing costs.

Costs relating to the purchase of an insurance book were classified as an intangible asset. This asset was sold on 27 June 2011 as part of the sale of The Rock's rural and commercial insurance broking assets and does therefore not feature on the balance sheet of The Rock as at 30 June 2011.

Other intangible assets relate primarily to the costs associated with the establishment of the special purpose entities used for mortgage securitisation programmes.

77 A brief discussion of other key balance sheet items is presented below.

Loans and advances

78 The Rock's loan book for the last three half-year reporting periods was as follows:

The Rock – loans and advances by classification

	Audited 30 Jun 10		Reviewed 31 Dec 10		Audited 30 Jun 11	
	$m	%	$m	%	$m	%
Residential	347.4	37.1	336.1	36.0	424.3	42.7
Securitised residential	588.6	62.9	598.6	64.0	568.4	57.3
GLA	936.0[1]	100.0	934.7	100.0	992.7	100.0
Deferred loan origination costs	2.5		2.8		3.3	
Provisions	-		-		-	
Net loans and advances (NLA)	938.5		937.5		996.0	
Total risk-weighted assets (RWA)	323.4		360.7		345.1	
Growth in residential loans[2]	*33.8%*		*nil*		*22.1%*	
Growth in securitised residential[2]	*(21.1%)*		*(5.9%)*		*(3.4%)*	
Growth in GLA[3]	*(6.9%)*		*(2.4%)*		*6.1%*	
RWA / GLA	*34.5%*		*38.4%*		*34.8%*	

Note:
1 Whilst not set out separately, we note that as at 30 June 2010 there was approximately $1,000 of loans in respect of the Employee Share Plan. These were secured by lien over relevant shares and dividends. Shares issued under this plan were converted to ordinary fully paid shares on 30 June 2011.
2 Growth represents annual growth on prior corresponding period.
Source: The Rock and LEA analysis.

79 All residential loans are secured by registered mortgage over residential real estate. The majority of loans are written over a maximum term of 25 to 30 years as principal and interest loans, requiring regular principal and interest payments. The Rock's loan customers are located throughout Australia, with approximately 50% based in Queensland.

80 Securitised residential loans represent a securitised mortgage portfolio that The Rock manages and services. The Rock receives fee income for services provided to the securitisation program, which is recognised on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

81 The Rock's GLA have grown by 6.1% over the 12 months to 30 June 2011, driven by a 22.1% increase in non-securitised residential loans over the same period. Underpinning this growth was the improved funding structures of The Rock, allowing it to offer more competitively priced products to its customers.

Asset quality

82 All loans and advances are secured by mortgages over residential real estate, with approximately 72% having an LVR under 80%. Of the remaining 28% of loans with an LVR greater than 80%, approximately 0.2% do not have mortgage insurance[12]. 92.2% of all loans are individually, fully mortgage insured as at 30 June 2011, as compared to 99.7% as of 30 June 2010. This reduction is attributable to The Rock's change in policy in November 2010 to not require mortgage insurance for loans with an LVR less than 80% as well as the decision not to mortgage insure loans provided to customers to purchase investment properties through their self-managed superannuation funds due to there being no readily available insurance product for these loans. The maximum LVR for loans to self-managed superannuation funds was raised from 70% to 80% shortly after 30 June 2011.

83 An overview of The Rock's loan provisions for the last three half-year reporting periods is set out below:

The Rock – loan provisions	Audited 30 Jun 10 $000	Reviewed 31 Dec 10 $000	Audited 30 Jun 11 $000
Specific provision	-	-	-
Provision for overdrawn savings accounts	47	71	70
General reserve for credit losses (GRCL)	337	337	337
Total provisions and GRCL	384	408	407
Past due but not impaired loans	44,932	40,217	46,098
Impaired loans	-	-	-
Impaired loans / GLA	-	-	-
90+ days past due / Past due but not impaired	3.7%	5.3%	5.2%
Specific provision / Impaired loans	-	-	-
Total provisions (incl. GRCL) / GLA (bps)	4	4	4
Total provisions (incl. GRCL) / RWA (bps)	12	11	12

Source: The Rock and LEA analysis.

84 In respect of the above we note the following:

(a) there are no impaired loans nor specific provisions as at 30 June 2010 or 30 June 2011

(b) GRCL has remained stable over the period

(c) past due but not impaired loans 90+ days in arrears have increased as a proportion of total past due.

12 Approximately $2 million of these loans have an LVR of between 80% and 81% and represent interest only loans where interest is added on the last day of the month before payment is due. The remaining loan of $0.4 million has an LVR of 86%.

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Funding mix

85 The Rock funds its portfolio of gross loans and advances through the retail and wholesale markets and through securitisation. Set out below is a summary of The Rock's funding mix from 30 June 2010 to 30 June 2011:

The Rock – funding sources[1]

	Audited 30 Jun 10 $m	Reviewed 31 Dec 10 $m	Audited 30 Jun 11 $m
Call deposits	361.7	457.1	437.9
Term deposits	121.6	133.6	153.3
Gross deposits	483.4	590.7	591.1
Provision for overdrawn savings accounts[2]	(0.0)	(0.1)	(0.1)
Total (net) deposits	483.3	590.6	591.1
Negotiable Certificate of Deposit (NCD)	88.8	97.5	147.5
Subtotal	572.1	688.1	738.6
Securitisation	439.6	446.6	435.2
RBA borrowings	138.7	130.8	-
Total funding (excluding equity)	1,150.4	1,265.6	1,173.9
Growth in gross deposits[3]	*(11.9)%*	*15.2%*	*22.3%*
Gross deposits / Total funding	*42.0%*	*46.7%*	*50.4%*

Note:
1 Totals may not add due to rounding.
2 Refer to paragraph 83 for exact figures.
3 Growth represents annual growth on prior corresponding period.
Source: The Rock and LEA analysis.

86 As at 30 June 2011, 50.4% of The Rock's funding requirements were sourced from deposits, up from 42.0% as at 30 June 2010. This increase can be attributed to The Rock's increasing focus on sourcing deposits from outside of its traditional Central Queensland base (NSW represents approximately 34% of total deposits as at 30 June 2011, up from approximately 22% as at 30 June 2010).

87 Contributing to the increase in total deposits was the introduction of the NCD program in February 2010. This program allows The Rock to issue promissory notes with a minimum face value of $100,000 which pay a fixed interest rate for a specified term. These deposits are accepted as collateral for repurchase transactions by the RBA and are traded in a highly liquid secondary market. This program grew by 66% from 30 June 2010 to $147.5 million as at 30 June 2011.

88 With respect to deposits, we note that there were no customers who individually had deposits which represented more than 10% of liabilities.

89 The Rock also sources funds through a loan securitisation program, whereby housing mortgage loans are sold as securities to Trusts. These securities are eligible for repayment once the Trust balances fall below 10% of the initial invested amount, which is usually a period of around five years after the securities are issued. Interest paid to securityholders is repriced on a monthly basis. The Rock entered the securitisation market in November 1998 and has been an issuer of RMBS since 2001.

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90 RBA borrowings represented funds borrowed from the RBA for a fixed period under repurchase agreements. The security for these borrowings were RMBS amounting to $156.8 million as at 30 June 2010. These borrowings were completely repaid to the RBA when they matured during FY11.

91 The Rock has no direct reliance upon funding from offshore markets[13].

92 The Rock is rated by both Moody's and Standard & Poor's with both providing investment grade long-term issuer credit ratings of Baa3 and BBB-, respectively. Moody's has affirmed that The Rock will retain its long-term issuer credit rating of Baa3 should the merger with MyState go ahead. Standard & Poor's announced on 1 September 2011 that it had placed its 'BBB-/A-3' counterparty credit ratings on The Rock on CreditWatch with positive implications with any upward rating potential expected to be reliant on assessment of the Merged Entity and subject to the implementation of the Scheme.

APRA requirements (capital adequacy and liquidity)

93 The Rock is subject to minimum capital requirements imposed by APRA. APRA requires ADIs to have a minimum total capital ratio (being the sum of Tier 1 and Tier 2 capital[14]) to RWA of 8%[15], with half of this required to be Tier 1 capital. Additionally, The Rock's internal capital management policy set by the Board requires a minimum total capital adequacy ratio of 12%, with policies in place requiring reporting to the Board and APRA if the capital ratio falls below this level.

94 The Rock is also required to maintain at least 12% of its total adjusted liabilities as high quality liquid assets[16] (HQLA) under APRA prudential standards.

95 The Rock's recent capital adequacy and liquidity ratios are as follows:

The Rock – capital adequacy and liquidity ratios[(1)]	30 Jun 10 $m	30 Sep 10 $m	31 Dec 10 $m	31 Mar 11 $m	30 Jun 11 $m
Tier 1 capital	41.4	43.5	42.8	42.1	45.0
Tier 2 capital	1.0	1.1	1.1	1.1	1.1
Total capital	42.4	44.7	43.9	43.2	46.1
RWA	323.4	369.3	360.7	327.3	345.1
Tier 1 capital ratio	12.81%	11.79%	11.88%	12.86%	13.03%
Tier 2 capital ratio	0.31%	0.30%	0.31%	0.34%	0.32%
Total capital ratio	13.12%	12.09%	12.19%	13.20%	13.35%
Total liquidity	28.7%	32.2%	33.3%	26.5%	25.5%
HQLA liquidity	17.0%	19.5%	19.2%	14.9%	12.7%
Surplus capital above APRA Tier 1[(2)]	20.2	21.2	20.9	20.5	21.9
Surplus capital above Board Total[(3)]	3.6	0.3	0.7	3.9	4.7

13 The Rock relies on warehouse funding from banks that have some reliance on offshore markets.

14 Net of specified deductions and adjustments for amortisation at the respective level.

15 On both a standalone basis (Level 1) and a consolidated banking group basis (Level 2).

16 Liquid assets capable of being converted to cash within 48 hours.

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Note:
1 Totals may not add due to rounding.
2 Calculated as Tier 1 capital held by The Rock in excess of APRA's requirement that 50% of total capital must be held in Tier 1.
3 Calculated as Total capital held by The Rock in excess of the Board's 12% Total capital requirement.
Source: The Rock and LEA analysis.

Share capital

96 As at 30 August 2011 The Rock had 25,161,601 fully paid ordinary shares on issue. There are no other securities on issue.

Top 10 shareholders

97 As at 2 September 2011, the top 10 shareholders in The Rock represented 18.70% of the issued capital, as shown in the table below:

The Rock – top 10 shareholders

Name	Shares held	% of issued capital
FirstMac Limited	1,536,178	6.11
Trio C Pty Limited	565,054	2.25
UBS Wealth Management	493,437	1.96
Mr Kim David Cannon & Mrs Aspasia Elizabeth Cannon	483,297	1.92
RBC Dexia Investor Services	321,881	1.28
Garmaral Pty Limited	300,659	1.19
Lymal Pty Limited	291,145	1.16
Colonial Nominees Pty Limited	284,585	1.13
Mirrabooka Investments Limited	250,000	0.99
Donetta Pty Limited	179,779	0.71
Total	4,706,015	18.70

Source: The Rock.

98 Shareholders in The Rock are, without prior relevant approval, prevented from acquiring an interest in more than 15% of the issued capital (refer paragraph 229**)**.

Share price performance

99 The price of The Rock's shares from 1 July 2008 to 30 August 2011 is summarised below:

The Rock – share price performance

	High $	Low $	Close $	Monthly Volume[1]
Quarter ended				
September 2008	3.35	2.85	2.92	83,390
December 2008	3.09	2.57	2.60	82,775
March 2009	3.05	2.13	2.50	78,494
June 2009	2.60	2.25	2.36	87,780
September 2009	3.10	2.37	2.46	165,989
December 2009	2.80	2.42	2.55	310,720
March 2010	3.02	2.52	2.75	182,726
June 2010	3.00	2.43	2.52	344,180

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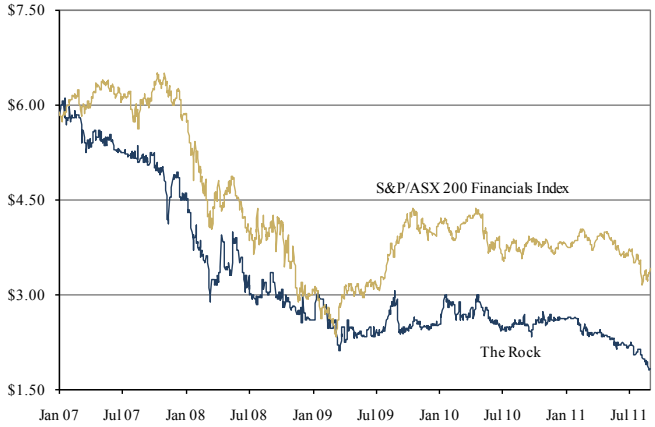
The Rock – share price performance

	High $	Low $	Close $	Monthly Volume[1]
Month ended				
September 2010	2.70	2.35	2.55	208,263
October 2010	2.74	2.54	2.60	266,592
November 2010	2.70	2.51	2.61	531,775
December 2010	2.70	2.50	2.62	352,639
January 2011	2.69	2.62	2.63	189,736
February 2011	2.65	2.36	2.50	327,046
March 2011	2.45	2.35	2.41	337,278
April 2011	2.46	2.30	2.35	201,385
May 2011	2.35	2.15	2.22	184,271
June 2011	2.25	2.17	2.20	160,866
July 2011	2.25	2.05	2.15	160,933
1 August 2011to 30 August 2011	2.62	1.81	1.84[2]	405,823

Note:
1 Monthly volumes for the quarter ended represent average monthly volumes.
2 Being the close as at 29 August 2011 (noting that The Rock shares did not trade on the ASX on 30 August 2011).
Source: Bloomberg and LEA analysis.

100 The following graph illustrates the movement in The Rock's share price compared to the S&P/ASX 200 Financials Index from 1 January 2007 to 30 August 2011:

The Rock – share price history[1]
1 January 2007 to 30 August 2011



Note:
1 The S&P/ASX 200 Financials Index has been rebased to The Rock's last traded price on 2 January 2007.
Source: Bloomberg and LEA analysis.

101 As shown above, the share price of The Rock, although having performed largely in-line with the S&P/ASX 200 Financials Index, has on the whole, underperformed over the specified period.

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Liquidity

102 The liquidity in The Rock shares based on trading on the ASX from 1 March 2011 to 30 August 2011 is set out below:

The Rock – liquidity analysis

Month / period	No of shares traded 000	WANOS outstanding[1] 000	Implied level of liquidity Period[2] %	Annual[3] %
March 2011	337	24,957	1.35	16.20
April 2011	201	25,150	0.80	9.59
May 2011	184	25,162	0.73	8.78
June 2011	161	25,162	0.64	7.68
July 2011	161	25,162	0.64	7.68
1 August 2011 to 30 August 2011[4]	220	25,162	0.87	10.49
3 months to 30 August 2011[4]	570	25,162	2.27	9.06
6 months to 30 August 2011[4]	1,265	25,123	5.04	10.07

Note:
1 Weighted average number of shares outstanding during the month (or period as the case may be).
2 Number of shares traded during month (or period as the case may be) divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the month (or period as the case may be).
4 Date ranges are inclusive.
Source: Bloomberg and LEA analysis.

103 Based on the above we note that the number of shares traded in The Rock is relatively low compared to ASX companies generally. Additionally, from March 2011 to June 2011, the level of liquidity in The Rock's shares decreased, with only 7.67% (on an annualised basis) of The Rock's shares traded in the month of June 2011. The level of trading in The Rock's shares increased in the 30 days preceding the announcement to equal 10.49% (on an annualised basis).

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IV Profile of MyState Limited

Overview

104 MyState is a listed diversified financial services group operating principally in Tasmania. MyState provides a range of financial products and services through two wholly owned subsidiaries, MSF and TPT.

105 MSF is a retail financial services ADI operating predominantly in Tasmania. TPT is a major Tasmanian based trustee and wealth management company.

History

106 On 10 October 2008 MSF and TPT announced a merger proposal to form MyState. The merger proposal was subsequently approved by MSF members and TPT shareholders on 19 August 2009. MSF was demutualised in the same month, before merging with TPT to create MyState on 9 September 2009.

107 MSF was established on 1 July 2007 following the merger of Island State Credit Union Limited (Island State) and Connect Credit Union of Tasmania Limited (Connect Financial). Island State was the product of 22 Tasmanian credit union consolidations over more than 35 years, while Connect Financial was created with the formation of the Tasmanian Public Service Savings & Loans Co-operative Society in 1959.

108 TPT was formed in December 2001 following the merger of Tasmanian Trustees Limited and Perpetual Trustees Tasmania Limited, both of which were established in 1887. TPT was created to be an impartial and professional executor and trustee for Tasmanians.

Current operations

109 MyState is headquartered in Tasmania and currently has approximately 200,000 customers. Its present business operations, provided through MSF and TPT, cover:

(a) **banking services** – includes transactional and internet banking, insurance and other alliances, personal and business banking and lending, and savings and investments

(b) **trustee services** – includes estate planning, estate and trust administration, power of attorney, and corporate and custodial trustee services

(c) **wealth management** – includes financial planning, managed fund investments, portfolio administration services, portfolio advisory services and private client services.

110 MSF is the largest contributor to MyState's earnings, making up approximately 93% of NPAT for the year ended 30 June 2011.

Regulatory framework

111 MyState and MSF are both regulated by APRA. MyState was enabled under Tasmanian legislation to own TPT, an authorised trustee company. TPT is regulated by APRA as a registered superannuation entity. Both MSF and TPT hold Australian Financial Services Licences and Australian Credit Licences issued by ASIC.

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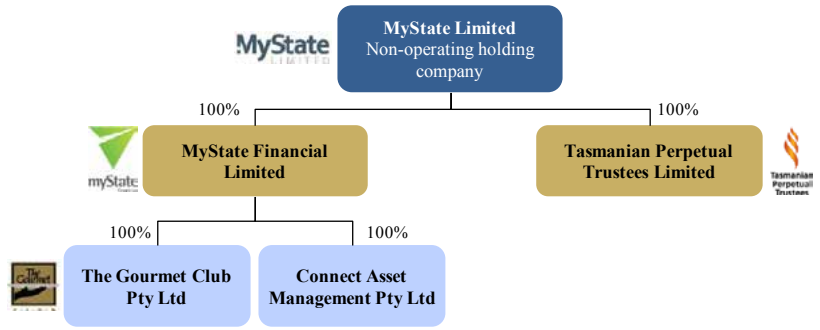
Organisational structure

112 MSF and TPT are currently operating as separate subsidiaries. The group structure of MyState is set out below:

MyState – group structure



Source: MyState.

MyState Financial

113 MSF is a broad based financial ADI operating primarily in Tasmania. MSF employs approximately 298 staff and looks after approximately 120,000 personal and business customers. Its product offering includes:

(a) **lending** – encompassing mortgage, personal, overdraft, line of credit and commercial (limited) products

(b) **savings and investment products** – including transactional savings accounts and fixed term deposits

(c) **wealth management and financial planning services** – including advice on investing, retirement and estate planning. MSF's wealth management operations were transferred to TPT on 1 July 2011 to create one Wealth Management business unit for MyState

(d) **insurance** – MyState is an appointed intermediary for CGU General Insurance and Swann Consumer Credit Insurance, and also provides Referral Health Insurance through an agreement with St. Lukes Health.

114 MSF also includes:

(a) **MyState Financial Community Foundation Limited** – provides annual grants to charities to educate and nurture the young people of Tasmania

(b) **Connect Asset Management Pty Ltd** – manages four Mortgage Securitisation Programmes under the name of ConQuest including ConQuest Mortgage Trust, ConQuest 2007/1 Trust, ConQuest 2010/1R Trust and the ConQuest 2010/2 Trust

(c) **The Gourmet Club Pty Ltd** – loyalty card program, offering discounts to members at establishments in the dining, travel and lifestyle sectors.

115 MSF provides its products and services through 12 branches across Tasmania. MSF also provides internet and telephone banking through its Hobart based service centre, and telephone and online lending and insurance sales through a remote distribution team based in Hobart. Additionally, MSF provides its customers with direct charge-free ATM access on the rediATM network, with more than 3,400 ATMs available across Australia.

Tasmanian Perpetual Trustees

116 TPT is a Tasmanian based provider of financial products and trustee services, and is the only statutory Trustee Company currently authorised to operate in Tasmania.

117 TPT employs approximately 72 staff located in four main branches[17] across Tasmania, and services approximately 80,000 customer relationships. TPT's operations include:

(a) **wills and estate planning** – including will preparation, Power of Attorney services, estate management and trust administration

(b) **managed investments** – TPT is the product issuer and responsible entity for 12 Managed Investment Schemes, and directly manages six cash and income funds and indirectly manages six investment growth funds through external managers. These products are distributed on a "no advice"[18] basis through the branch network, and on an "advice" basis through TPT financial planners. Additionally, TPT provides private client services including portfolio administration and investment advisory services

(c) **lending** – TPT provides first mortgage finance for rural, commercial and business lending purposes

(d) **financial planning** – including personal wealth planning and creation, wealth protection and retirement planning.

118 As at 30 June 2011, TPT had approximately $930 million in funds under management (FUM) on behalf of personal, business and wholesale investors, and had a further $737 million of funds under advice (FUA), through the company's role as financial adviser. We note that as a result of the merger between MSF and TPT, MSF's FUA balances were transferred to TPT on 1 July 2011. TPT's FUA, inclusive of MSF's FUA balances, as at 30 June 2009 and 2010, were $766 million and $743 million respectively.

17 TPT products and services are also provided through selected MSF branches across Tasmania.

18 "No advice" means the products are simply purchased over the counter at the branches by individuals who have not discussed the product with a TPT financial planner. On the other hand, "advice" means that TPT financial planners have discussed and/or recommended the products to the client.

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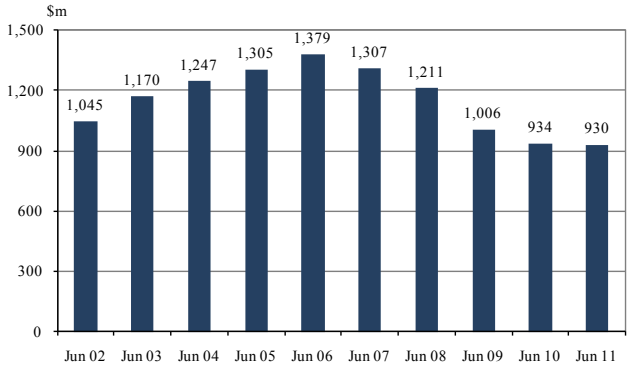
119 TPT's historical FUM is summarised below:

MyState – FUM
30 June 2002 – 30 June 2011



Source: MyState.

120 With respect to the above, we note that fund levels have decreased post the GFC. This has been primarily due to an unfavourable interest rate environment, intense competition for retail funds and adverse movements in market linked funds.

121 TPT receives a fee based upon the level of FUM. Approximately 50% of TPT's total income comprises management fees derived from its FUM as a responsible entity.

Financial performance

122 A summary of MyState's historical consolidated operating performance as reported for the four years ended 30 June 2011 is set out below. The merger between MSF and TPT on 9 September 2009 was classified for accounting purposes (under the provisions of AASB 3 – *Business Combinations*) as a "reverse acquisition" with MSF identified as the accounting acquirer. Consequently, the consolidated results of MyState have been prepared on the basis that they are a continuation of the accounts of MSF. Thus, the consolidated financial results for the years ended 30 June 2008 and 2009 are that of MSF only, and the 30 June 2010 results represent a combination of approximately ten months of operation for TPT and twelve months of operation for MSF. The consolidated results from the year ended 30 June 2011 reflected the first full year contribution from both MSF and TPT.

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MyState – consolidated financial performance[1]				
Year ended 30 June	Audited 2008 $m	Audited 2009 $m	Audited 2010 $m	Audited 2011 $m
Interest income	132.0	125.6	121.0	151.7
Interest expense	(76.8)	(73.1)	(61.0)	(84.1)
Net interest income	55.3	52.5	60.0	67.6
Non-interest income	20.0	20.5	34.6	35.7
Total income	75.3	73.1	94.6	103.3
Operating expenses	(55.2)	(54.8)	(66.3)	(68.4)
Net profit before loan impairment and tax	20.1	18.3	28.3	34.9
Impairment expense	(3.4)	(3.4)	(3.6)	(4.0)
Net profit before tax	16.7	14.9	24.7	30.9
Income tax expense	(4.5)	(4.1)	(7.3)	(8.9)
NPAT	12.2	10.8	17.3	22.0
NIM	*3.37%*	*3.03%*	*3.16%*	*3.23%*
Non-interest income / Total income	*26.6%*	*28.1%*	*36.6%*	*34.5%*
CTI	*73.3%*	*74.9%*	*70.1%*	*66.2%*
Impairment expense / Average GLA (bps)	*24.0*	*23.0*	*22.0*	*22.0*
Basic / Diluted earnings per share (cents)[2]	-	*21.22*	*27.46*	*32.65*
Dividends per share (cents)	*n/a*	*n/a*	*22.50*	*27.00*
Dividend payout ratio[3]	*n/a*	*n/a*	*87.5%*	*82.7%*
% Franked dividend	*n/a*	*n/a*	*100.0%*	*100.0%*

Note:
1 Totals may not add due to rounding.
2 We note that there are no potentially dilutive instruments outstanding.
3 Declared dividends for the relevant financial year divided by reported NPAT.
Source: MyState and LEA analysis.
n/a – not applicable.

123 Below we set out the relative contributions of MSF and TPT to the merged entity's consolidated results for the years ended 30 June 2010 and 2011, as well as MSF and TPT's standalone (i.e. not part of a merged entity) results for the years ended 30 June 2008 and 2009.

MyState – business segment results[1]				
	Audited FY08 $m	Audited FY09 $m	Audited FY10[2] $m	Audited FY11 $m
MSF				
Interest income	132.0	125.6	121.0	151.6
Interest expense	(76.8)	(73.1)	(61.0)	(84.1)
Net interest income	55.3	52.5	60.0	67.5
Non-interest income	20.0	20.5	19.8	19.9
Total income	75.3	73.1	79.8	87.4
Operating expenses	(55.2)	(54.8)	(53.8)	(54.6)
Net profit before loan impairment and tax	20.1	18.3	26.0	32.8
Impairment expense	(3.4)	(3.4)	(3.6)	(4.0)
Net profit before tax	16.7	14.9	22.3	28.8
Income tax expense	(4.5)	(4.1)	(6.6)	(8.9)
NPAT	12.2	10.8	15.7	19.9

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MyState – business segment results[1]	Audited FY08 $m	Audited FY09 $m	Audited FY10[2] $m	Audited FY11 $m
TPT				
Management fees	11.9	10.0	7.7	8.7
Commissions	5.4	5.5	4.6	5.7
Other fees	2.8	2.6	1.4	1.4
Other revenue	1.0	0.7	1.2	0.1
Total income	21.2	18.7	14.9	15.9
Operating expenses	(12.5)	(13.0)	(12.5)	(13.7)
Share of profit of Joint Venture	1.0	0.9	-	-
Net profit before tax	9.6	6.7	2.4	2.2
Income tax expense	(2.6)	(1.7)	(0.7)	(0.6)
NPAT	7.0	4.9	1.7[2]	1.6
Consolidation adjusted on NPAT	n/a	n/a	(0.1)	0.6

Note:
1 Totals may not add due to rounding.
2 MyState's first year of trading as a merged entity was FY10, however this included only 10 months of operation for TPT (only 10 months of operation has been shown above for TPT) and 12 months of operation for MSF. Further, as noted, as a result of "reverse acquisition" accounting, the consolidated results have been prepared on the basis that they are a continuation of the accounts of MSF, and thus the "consolidated" results for FY08 and FY09 are that of MSF only (i.e. TPT's FY08 and FY09 results have not been consolidated into MyState's accounts).

Source: MyState and LEA analysis.
n/a – not applicable.

124 The following comments relate to the operating performance of MyState for the four financial years to 2011. As noted above, the results for FY08 and FY09 are not reflective of the merged MyState entity. Hence, our commentary for FY08 and FY09 discuss MSF and TPT as separate entities.

Year ended 30 June 2008

125 MSF's results for FY08 were its first as a newly merged entity (as a result of the merger between Island State and Connect Financial). Despite a volatile financial market and a slowing Tasmanian housing market, MSF's financial performance to the year ended 30 June 2008 demonstrated strong returns.

126 TPT's FY08 financial performance was adversely impacted by the volatility in international equity markets. NPAT decreased 9.3% from the previous year, mainly as a result of a $0.43 million non-cash impairment charge (after tax) in relation to the performance of TPT's equity linked managed fund investments.

Year ended 30 June 2009

127 Both MSF and TPT were negatively affected by the onset of the GFC. MSF experienced a 11.3% decline in NPAT from the previous year, while TPT suffered a significantly greater decline of 29.9% in NPAT compared to the prior corresponding period. TPT's FUM continued to decline primarily due to the combined impact of the introduction of the Federal Government guarantee for deposits held by ADIs and negative movements in equity markets. This had an adverse effect on TPT's management fee income.

Year ended 30 June 2010

128 The results for FY10 were the first for the merged MyState entity, and included 12 months of MSF and 10 months of TPT. Consequently, there is no direct comparison of the consolidated results against a previous corresponding period. The consolidated financial performance was, however, better than forecast. NPAT of $17.3 million was slightly ahead of expectations and was largely a reflection of a better than anticipated NIM and achievement of post merger synergies. However, offsetting this positive result was the one-off costs associated with the merger, including redundancy payments which had a significant impact on the contribution from TPT.

129 MSF recorded a strong result for the 12 months to 30 June 2010, backed by substantial growth in retail term deposits and home lending of 13.9% and 17.9% respectively. It also improved its NIM and reduced all major expense lines.

130 TPT's performance for the 10 months to 30 June 2010 was adversely impacted by the effects of the GFC. Management fees, capital and income commissions were all down, however, effective cost control and reduced labour and property costs (resulting from the achievement of merger synergies), saw TPT record a positive NPAT of $1.69 million. FUM and FUA remained steady post the GFC.

Year ended 30 June 2011

131 FY11 was MyState's first full year of operations as a combined entity. MyState experienced a solid financial performance with the group CTI ratio falling, and the company recording an increase of some 27% in NPAT on the prior corresponding period[19]. This was despite a period of intense competition and subdued economic activity, and reflected the continued achievement of synergies from the merger[20].

132 MSF's home lending portfolio grew 10.6% compared to system growth of 6.3%, and the household deposit portfolio grew 7.9% compared to system growth of 7.4%. The NIM was negatively impacted in the first six months of FY11 by higher deposit rates in an aggressive funding market, however was positively impacted in the second half of the year by the increase to the official cash rate in November 2010, combined with a softening in retail term funding markets.

19 Note FY10 included only 10 months of operation for TPT, whereas FY11 included a full 12 months of operation for TPT.

20 We understand from MyState management that the estimated synergies for the MSF and TPT merger had largely been realised and fully reflected in the FY11 result.

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133 TPT also experienced good growth, with management and estate administration fees up on the previous year, increasing overall revenues by approximately 6.8%. FUM and FUA remained relatively steady.

Financial position

134 The consolidated financial position as reported by MyState as at 30 June 2010, 31 December 2010 and 30 June 2011 is summarised below.

MyState – consolidated financial position[1]

	Audited 30 Jun 10 $m[2]	Reviewed 31 Dec 10 $m	Audited 30 Jun 11 $m
Cash	36.8	41.3	35.0
Financial assets held for sale	226.8	210.6	269.2
Trade receivables	10.8	9.7	15.1
Loans and advances	1,708.2	1,770.0	1,854.5
Other investments	4.6	4.6	4.5
Assets classified as held for sale	-	-	5.6
PP&E	15.9	15.2	8.1
Tax assets	7.0	5.9	5.8
Other assets	0.0	0.0	0.0
Intangibles	48.7	49.1	48.8
Total assets	2,058.7	2,106.4	2,246.8
Deposits	1,486.7	1,447.9	1,496.6
Borrowings	328.6	427.7	507.1
Trade and other payables	34.2	20.5	29.8
Tax liabilities	6.6	4.1	3.7
Provisions	4.2	4.3	4.9
Total liabilities	1,860.3	1,904.4	2,042.2
Net assets	198.4	202.0	204.6
NTA	149.7	152.9	155.8

Note:
1 Totals may not add due to rounding.
2 2010 figures are restated for comparative purposes per the 2011 annual report.
Source: MyState.

135 The relative contribution of MSF and TPT to MyState's consolidated financial position for the periods above is shown below:

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MyState – business segment financial position[1]	Audited 30 Jun 10 $m	Reviewed 31 Dec 10 $m	Audited 30 Jun 11 $m
MSF			
Assets	1,999.5	2,049.4	2,183.8
Liabilities	(1,859.3)	(1,907.1)	(2,040.0)
Net assets	140.2	142.3	143.8
TPT			
Assets	31.9	30.3	32.0
Liabilities	(5.2)	(2.1)	(3.3)
Net assets	26.8	28.1	28.6
Consolidation adjustments			
Assets	27.3	26.7	31.0
Liabilities	4.2	4.9	1.1
Net assets	31.4	31.6	32.1

Note:
1 Totals may not add due to rounding.
Source: MyState Annual Reports.

136 In respect of the above consolidated position, we note that:

(a) **cash** – comprises cash at bank and in hand and short-term deposits with an original maturity of three months or less

(b) **financial assets held for sale** – includes term deposits, certificates of deposit and other investment securities that are held primarily for liquidity purposes

(c) **property, plant and equipment** – includes $5.5 million in land and buildings which are held at valuation. During FY11 independent valuations of land and buildings were conducted at 30 June 2011 for financial reporting purposes

(d) **other investments** – a breakdown of MyState's other investments as at 30 June 2010, 31 December 2010 and 30 June 2011 is shown below:

MyState – other investments[1]	Audited 30 Jun 10 $000	Reviewed 31 Dec 10 $000	Audited 30 Jun 11 $000
Shares in Cuscal Limited[2] (at cost)	3,347	3,347	3,347
Shares in Credit Union Technology Development Ltd (at cost)	25	25	25
Debentures in CGU Insurance VACC Limited (at fair value)	648	648	648
Term deposit at bank (at fair value)	500	500	500
Government stocks (at fair value)	30	30	-
Total other investments	4,551	4,551	4,521

Note:
1 Totals may not add due to rounding.
2 Cuscal Limited is a leading wholesale provider of transactional banking, liquidity and capital management products to specialist financial service retailers, including MyState.
Source: MyState.

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(e) **assets classified as held for sale** – comprises two freehold properties, both located in Hobart. During FY11, MyState initiated a property consolidation exercise, which will result in several sites around Hobart being vacated. These sites will be offered for sale and have been valued at their fair value less costs to sell and an impairment charge has been recognised in relation to the write down from their prior carrying value

(f) **intangibles** – a breakdown of MyState's intangible assets as at 30 June 2010, 31 December 2010 and 30 June 2011 is displayed below:

MyState – intangibles (net carrying amount)[1]

	Audited 30 Jun 10 $000	Reviewed 31 Dec 10 $000	Audited 30 Jun 11 $000
Goodwill	47,758	47,758	47,758
Licence fees	170	72	13
Consolidated software	723	815	698
RMBS setup costs	44	447	362
Total intangibles	48,696	49,092	48,831

Note:
1 Totals may not add due to rounding.
Source: MyState 2011 Annual Report.

The majority of MyState's goodwill arose from the merger of MSF and TPT. The aggregate carrying amounts allocated to each of MyState's cash generating units (CGUs) is as follows; MSF $22.492 million and TPT $25.266 million (total of $47.758 million).

Licence fees represents MSF's right to use a computer licence which runs MSF's main banking functions.

New software is currently being utilised by MSF to assist in better recovery outcomes and the ongoing maintenance of accounts that remain in arrears.

Finally, we note that the substantial increase in RMBS setup costs over the year to 30 June 2011 relates to the ConQuest 2010/2 RMBS transaction.

137 A brief discussion on other key balance sheet items is presented below.

Loans and advances

138 MyState's loans and advances are recognised at recoverable amounts, 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.

139 MyState's loan book for the last three half-year reporting periods was as follows:

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MyState – loans and advances by classification[1]	Audited 30 Jun 10[2]		Reviewed 31 Dec 10		Audited 30 Jun 11	
	$m	%	$m	%	$m	%
Residential	1,102.4	64.4	993.9	56.0	1,079.6	58.1
Securitised residential	336.9	19.7	514.4	29.0	512.2	27.6
Personal	230.1	13.4	220.3	12.4	220.9	11.9
Commercial	42.3	2.5	44.7	2.5	44.7	2.4
GLA	1,711.7	100.0	1,773.3	100.0	1,857.4	100.0
Provision for doubtful debts	(3.5)		(3.3)		(2.9)	
NLA	1,708.2		1,770.0		1,854.5	
RWA	860.5		823.3		860.9	
Growth in residential	*16.7%*		*(8.4%)*		*(2.1%)*	
Growth in securitised residential	*(6.3%)*		*101.3%*		*52.0%*	
Growth in personal[3]	*(6.6%)*		*(3.9%)*		*(4.0%)*	
Growth in commercial	*(11.1%)*		*(2.0%)*		*5.6%*	
Growth in GLA	*7.1%*		*9.8%*		*8.5%*	
RWA / GLA	*50.3%*		*46.4%*		*46.3%*	

Note:
1 Totals may not add due to rounding.
2 The growth in loans and advances in 2010 has been based on MSF's loans and advances in 2009.
3 The annual growth in personal loans to 30 June 2010 and 31 December 2010 has been based on MSF's personal loans as at 30 June 2009 and 31 December 2009. We note that the 30 June 2009 and 31 December 2009 personal loans category includes approximately $100 million of Revolving Credit facilities (from the residential loans category) which has been reclassified in these accounts for comparative purposes to the 30 June 2010 and 30 June 2011 accounts.
4 Growth represents annual growth on prior corresponding period.
Source: MyState and LEA analysis.

140 We note that the majority of loans were advanced to customers in Tasmania for residential use. Residential loans comprise mortgages secured over a residential property (generally first home or investment). The personal loan portfolio consists mainly of loan advances to individuals for the purchase of assets such as cars, boats and home renovations, while the commercial portfolio is primarily made up of lending to small business with the majority of loans secured over residential and commercial property.

141 MyState's overall loan book grew some 8.5% from FY10 to FY11. This growth was mainly driven by a 10.6% increase (from 30 June 2010 to 30 June 2011) in residential loans.

142 Connect Asset Management, as noted above is part of the MSF group, and is thus a wholly owned subsidiary. Accordingly, Connect Asset Management is consolidated into MyState's accounts and securitised loans[21] are included in the consolidated balance sheet. During FY11, MyState securitised residential, mortgage insured home loans, amounting to approximately $283.8 million.

21 Within the ConQuest Mortgage Trust, ConQuest 2007/1 Trust, ConQuest 2010/1R Trust and the ConQuest 2010/2 Trust.

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Asset quality

143 As noted above, the majority of MyState's loans are residential, and a significant proportion have an LVR under 80%.

144 Lending beyond an LVR of 80% to a maximum of 90% requires Mortgage Insurance. Mortgage secured loans to purchase land are permitted to an LVR of 95%.

145 An overview of MyState's loan provisions for the last three half-year reporting periods is set out below:

MyState – loan provisions

	Audited 30 Jun 10 $000	Reviewed 31 Dec 10 $000	Audited 30 Jun 11 $000
Specific provision	3,464	3,323	2,900
GRCL[(1)]	2,602	1,274	4,800
Total provisions and GRCL	6,066	4,597	7,700
Past due but not impaired loans	14,950	11,870	16,120
Impaired loans	5,373	4,958	5,304
Impaired loans / GLA	*0.3%*	*0.3%*	*0.3%*
90+ days past due / Past due but not impaired loans	*24.0%*	*23.1%*	*32.2%*
Specific provision / Impaired loans	*64.5%*	*67.0%*	*54.7%*
Total provisions (including GRCL) / GLA (bps)	*35.4*	*25.9*	*41.5*
Total provisions (including GRCL) / RWA (bps)	*70.5*	*55.8*	*89.5*

Note:
1 Methodology for calculation of GRCL was revised in 2011.
Source: MyState and LEA analysis.

146 In respect of the above we note the following:

(a) specific provisions have decreased over the period both in absolute terms and as a proportion of impaired loans

(b) impaired loans have remained relatively stable

(c) past due but not impaired loans 90 plus days in arrears have increased as a proportion of total past due.

Funding mix

147 MyState funds its portfolio of gross loans and advances through the retail, securitisation and wholesale markets. Set out below is a summary of MyState's funding mix from 30 June 2010 to 30 June 2011:

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MyState – funding sources	Audited 30 Jun 10 $m	Reviewed 31 Dec 10 $m	Audited 30 Jun 11 $m
Call deposits	592.4	620.5	623.8
Term deposits	894.3	794.3	872.8
Total deposits	1,486.7	1,414.8	1,496.6
Securitisation	240.6	426.8	418.1
Wholesale	88.0	33.0	89.0
Total funding (excluding equity)	1,815.3	1,874.6	2,003.7
Growth in deposits	*16.8%(1)*	*2.7%*	*0.7%*
Total deposits / Total funding	*81.9%*	*75.5%*	*74.7%*

Note:
1 Growth in deposits in 2010 has been based on MSF's deposits in 2009. We note that the 30 June 2009 call deposits include member redeemable preference share deposits which have been reclassified in the 30 June 2010 accounts as share capital. In addition, wholesale funding has been reclassified for 30 June 2009 for comparative purposes (components of this balance were included in both deposits and interest bearing loans and deposits in the 30 June 2010 accounts).
2 Growth figures represent annual growth on prior corresponding period.
Source: MyState and LEA analysis.

148 As at 30 June 2011, approximately 75% of MyState's funding requirement was sourced from deposits. This has decreased from some 82% in FY10. We note that growth in securitisation and wholesale funding has increased approximately 54% over the year to 30 June 2011.

149 MyState has no direct reliance upon funding from offshore markets.

150 MyState does not currently have a credit rating, however, is in the process of investigating the possibility of obtaining a credit rating.

APRA requirements (capital adequacy and liquidity)

151 MyState is subject to minimum capital requirements imposed by APRA. APRA requires ADIs to have a minimum total capital ratio (being the sum of Tier 1 and Tier 2 capital[22]) to RWAs of 8%[23], with half of this required to be Tier 1 capital. Additionally, MyState's internal capital management policy set by the Board requires a minimum total capital adequacy ratio of 13.5%, with policies in place requiring reporting to the Board and APRA if the capital ratio falls below this level.

152 MyState is also required to maintain at least 12% of its total adjusted liabilities as HQLA[24] under APRA prudential standards. MyState's internal policy is to maintain a minimum HQLA ratio of 12%, with immediate action taken to ensure that liquid funds are obtained from new deposits and borrowing facilities should the HQLA ratio fall below this level. The HQLA ratio is applicable only at the MSF subsidiary level (i.e. Level One).

22 Net of specified deductions and adjustments for amortisation at the respective level.
23 On both a stand-alone basis (Level 1) and a consolidated banking group basis (Level 2).
24 Liquid assets capable of being converted to cash within 24 hours.

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153 MyState's recent capital adequacy and liquidity ratios are as follows:

MyState – capital adequacy and liquidity ratios

	30 Jun 10 $m	30 Sep 10 $m	31 Dec 10 $m	31 Mar 11 $m	30 Jun 11 $m
Tier 1 capital	124.8	125.3	129.9	127.9	132.4
Tier 2 capital	-	-	-	-	-
Total capital	124.8	125.3	129.9	127.9	132.4
RWAs	860.5	894.1	823.3	835.0	860.9
Tier 1 capital ratio	14.5%	14.0%	15.8%	15.3%	15.4%
Tier 2 capital ratio	-	-	-	-	-
Total capital ratio	14.5%	14.0%	15.8%	15.3%	15.4%
Total liquidity	*14.35%*	*14.75%*	*13.53%*	*15.75%*	*16.59%*
HQLA liquidity	*14.35%*	*14.75%*	*13.53%*	*15.75%*	*16.59%*
Surplus capital above Board Tier 1[(1)]	*66.7*	*64.9*	*74.3*	*71.5*	*74.1*
Surplus capital above Board total[(2)]	*8.6*	*4.6*	*18.8*	*15.2*	*16.0*

Note:
1 Calculated as Tier 1 capital held by MyState in excess of the Board's 6.75% Tier 1 requirement.
2 Calculated as total capital held by MyState in excess of the Board's 13.5% total capital requirement.
Source: MyState and LEA analysis.

154 MSF 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. In FY10 MyState launched and priced a MSF RMBS issue under the ConQuest securitisation programme. The transaction had a significant positive effect on MSF's liquidity and capital adequacy ratios.

Share capital

155 As at 30 June 2011, MyState had 67,439,158 fully paid ordinary shares on issue. This balance included 28,103 shares that were issued during FY11 pursuant to the Employee Share Scheme (ESS). Under the ESS, eligible employees can acquire shares up to a prescribed amount in respect of each financial year. Employees who elect to participate agree to salary sacrifice the equivalent value of the shares they receive. The shares are issued subsequent to the end of the financial year.

156 In addition, MyState has an Executive Long Term Incentive Plan (ELTIP) in place. The ELTIP provides for the issue to the executive management team of fully paid ordinary shares in MyState if performance criteria specified by the Board are satisfied in a set performance period. The ELTIP provides for an independent Trustee to acquire and hold shares. Vesting of shares occurs once an assessment has been made after the performance period (currently three years) and once the Board resolves to notify the Trustee to issue entitlements under the relevant ELTIP offer. As at 30 June 2011, the Trustee had not acquired any shares pursuant to the ELTIP.

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Top 10 shareholders

157 As at 31 August 2011the top 10 shareholders in MyState represented 25.49% of the issued capital, as shown in the table below:

MyState – top 10 shareholders[1]

Name	Shares held	% of issued capital
Mecu Limited	3,751,797	5.56
Australian United Investment Company Limited	2,600,000	3.86
Diversified United Investment Limited	2,600,000	3.86
RBC Dexia Investor Services Australia Nominees Pty Ltd	1,858,809	2.76
The Ian Potter Foundation Ltd	1,800,000	2.67
Select Managed Funds Ltd	1,225,960	1.82
JP Morgan Nominees Australia Limited	954,887	1.42
Cogent Nominees Pty Ltd	912,049	1.35
UBS Wealth Management Australia Nominees Pty Limited	762,201	1.13
Mr Brian David Faulkner	726,000	1.08
Total	17,191,703	25.49

Note:
1 Totals may not add due to rounding.
Source: MyState.

158 Shareholders in MyState are, without prior relevant approval, prevented from acquiring an interest in more than 15% of the issued capital (refer paragraph 229).

Share price performance

159 The price of MyState's shares from 10 September 2009 (official listing date) to 30 August 2011 is summarised in the table below:

MyState – share price performance

	High $	Low $	Close $	Monthly Volume[1] 000
Quarter ended				
September 2009	3.10	2.80	2.91	566
December 2009	3.05	2.60	2.65	1,109
March 2010	3.75	2.62	3.35	984
June 2010	3.51	3.00	3.12	659
September 2010	3.30	2.95	3.20	634
Month ended				
October 2010	3.65	3.20	3.30	834
November 2010	3.80	3.30	3.60	868
December 2010	3.81	3.59	3.72	1,745
January 2011	3.77	3.70	3.75	306
February 2011	3.90	3.65	3.80	894
March 2011	3.85	3.71	3.75	849
April 2011	3.77	3.74	3.77	417
May 2011	3.80	3.55	3.75	350
June 2011	3.74	3.43	3.51	196
July 2011	3.75	3.50	3.60	312
1 August 2011 to 30 August 2011	3.61	3.28	3.50	594

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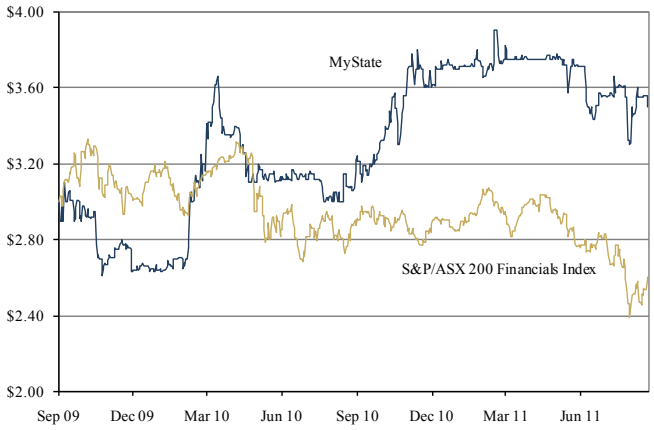
Note:
1 Monthly volumes for the quarter ended represent average monthly volumes.
Source: Bloomberg.

160 The following graph illustrates the movement in MyState's share price compared to the S&P/ASX 200 Financials Index from 10 September 2009 to 30 August 2011:

MyState – share price history
10 September 2009 to 30 August 2011



Note:
1 The S&P/ASX 200 Financials Index has been rebased to the MyState share price on 10 September 2009.
Source: Bloomberg.

161 As shown above, the share price of MyState has generally outperformed the S&P/ASX 200 Financials Index since it listed.

Liquidity

162 The liquidity in MyState shares based on trading on the ASX from 1 March 2011 to 30 August 2011 is set out below:

MyState – liquidity analysis

Month / period	No of shares traded 000	WANOS outstanding[1] 000	Implied level of liquidity Period[2] %	Annual[3] %
March 2011	849	67,439	1.26	15.11
April 2011	417	67,439	0.62	7.42
May 2011	350	67,439	0.52	6.23
June 2011	196	67,439	0.29	3.49
July 2011	312	67,439	0.46	5.55
1 August 2011 to 30 August 2011[4]	594	67,439	0.88	10.57
3 months to 30 August 2011[4]	1,113	67,439	1.65	6.60
6 months to 30 August 2011[4]	2,670	67,439	3.96	7.92

Note:
1 Weighted average number of shares outstanding during the month (or period as the case may be).
2 Number of shares traded during month (or period as the case may be) divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the month (or period as the case may be).
4 Date ranges are inclusive.
Source: Bloomberg.

163 Based on the above we note that the number of shares traded in MyState is relatively low compared to ASX companies generally. Additionally, from March 2011 to June 2011, the level of liquidity in MyState's shares decreased, with only 3.49% (on an annualised basis) of MyState's shares traded in the month of June 2011. Following this, the level of trading in MyState's shares increased, and in the 30 days preceding the announcement, total security turnover equalled 10.56% (on an annualised basis).

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V Australian financial services industry

Overview

164 The Australian financial services sector comprises retail and non-retail financial intermediaries, retail, commercial, corporate and investment banking, superannuation, life and general insurance, specialist fund managers, finance companies and other originators and/or retailers of financial services. Within the sector there are financial service conglomerates whose operations encompass a breadth of financial services, while others concentrate their efforts on specific financial service business segments.

Banking

165 An important and substantial subgroup of financial services industry participants are the ADIs. ADIs are corporations which are authorised under the *Banking Act 1959* to carry on banking business in Australia. ADIs include banks, credit unions/societies, building societies and specialist ADIs. All ADIs are subject to the same prudential standards but the use of the names 'bank', 'building society' and 'credit union' is subject to corporations meeting certain criteria[25].

166 Foreign ADIs are foreign banks that have been granted an authority to carry out banking business in Australia through a branch, rather than through a subsidiary incorporated in Australia. Foreign ADIs are subject to a restriction on the acceptance of retail deposits[26].

167 Factors distinguishing ADIs from other financial services industry participants include:

(a) ADIs, along with the RBA, are the only bodies corporate authorised to carry on banking business in Australia[27]

(b) the assets in Australia of an ADI must be equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value[28]

(c) ADIs are subject to prudential supervision and monitoring, and must adhere to the prudential standards applicable to ADIs as directed by APRA[29].

168 The ADI sector constitutes a significant part of the Australian financial system and plays a vital role in the overall Australian economy. ADIs raise funds through deposit taking and issuance of other debt liabilities, and use these funds to provide residential mortgages, commercial loans and other types of financial products to retail and corporate customers, both in Australia and abroad.

25 For example, banks must have start-up capital including a minimum of $50 million Tier 1 capital, whereas mutually owned ADIs are permitted to have start-up capital made up entirely or mostly of Tier 2 capital. Source: APRA (2008) *ADI Authorisation Guidelines.*

26 Source: APRA (2008) *ADI Authorisation Guidelines.*

27 Source: s8 *Banking Act 1959.*

28 Source: s13A(4) *Banking Act 1959.*

29 Source: Division 1A *Banking Act 1959.*

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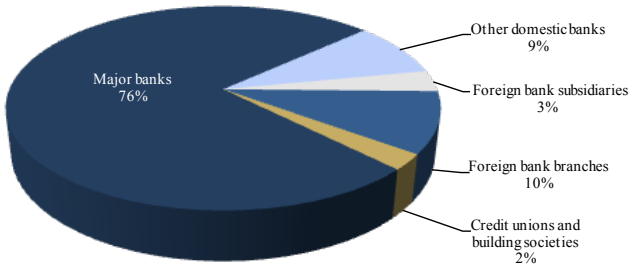
169 At 30 March 2011, ADIs reported total consolidated group assets of approximately $3.3 trillion, spread between the participants as follows:

ADIs – Total assets
30 March 2011



Source: APRA (2011) *Quarterly bank performance* and *Quarterly credit union and building society performance*. Excludes entities categorised as Other ADIs by APRA.

170 The sector is dominated by the four major Australian banks, which together account for 76% ($2.6 trillion) of total ADI assets. In addition to traditional lending and deposit activities, these banks are involved in a range of complex financial products and services, including funds management, insurance and capital market activities. These four banks, along with other larger ADIs, rely in part on wholesale funding, including offshore funding.

171 In contrast, credit unions and building societies held total assets of $81 billion as at 31 March 2011. Nevertheless they provide an important source of competition in the local mortgage lending and retail deposit-taking sectors. On average, these smaller ADIs are largely funded by retail deposits and have very little reliance on wholesale funding.

Credit Unions and Building Societies

172 Very nearly all credit unions and building societies are currently wholly-owned by their members, who are also their customers. Two building societies, The Rock and Wide Bay Australia Ltd, are listed on the ASX. Meanwhile MSF is wholly-owned by MyState Limited, an authorised non-operating holding company.

173 Credit unions and building societies enjoy high customer satisfaction ratings relative to banks[30]. This largely stems from their strong focus on customer service and close connection with regional and other communities.

174 Credit unions and building societies mainly source their funds from retail deposits, and lend that money as personal and housing loans. The largest credit unions and building societies also provide commercial loans. They are most active in the retail segment, catering for personal, rather than corporate and financial needs. Funds are also raised through securitisation programs, under which residential mortgages are bundled and then issued (sold) to the financial markets as RMBS.

30 Source: Choice *Bank satisfaction survey 2010.*

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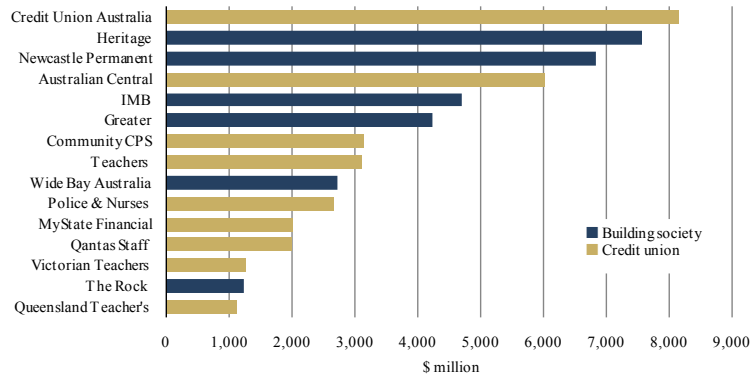
175 The industry has, and is still in the process of undertaking, significant rationalisation. In March 2005 Australia had 169 credit unions and 14 building societies but this had fallen to 101 and 10, respectively as at 21 September 2011, with consolidation expected to reduce this number further[31].

176 In addition, due to the Government's policy reform allowing large mutual organisations regulated by APRA to use the term bank, some of the largest credit unions are changing their names. Co-operative ownership of credit unions which choose to become mutual banks will not be affected. Mecu Limited adopted a new trading name, bankmecu, on 1 September 2011 and Queensland Teachers' Credit Union will change its name to QT Mutual Bank Limited on 1 October 2011[32].

Top 15 Credit unions and building societies
Total assets as at 30 June 2010



Note:
Community CPS includes Wagga Mutual as they have recently merged. Queensland Teacher's will become a mutual bank on 1 October 2011. Australian Central Credit Union trades under the business name People's Choice.
Source: KPMG (2011) *Building societies and credit unions survey 2010.*

177 Recent corporate activity has included the merger of Community CPS with Wagga Mutual Credit Union, effective 4 June 2011[33], and the Resources Credit Union merger with Industries Mutual Credit Union to form My Credit Union[34]. In the banking sector Bendigo and Adelaide Bank acquired Elder's 40% stake in Rural Bank in October 2010.

178 The rationale for consolidation in the sector is based on scale and improved financial strength, enhanced product ranges and geographical spread. Significant cost savings are usually also achieved.

31 Source: APRA website www.apra.gov.au accessed 21 September 2011.
32 Source: Herald Sun 1 September 2011 *Mecu Ltd becomes nation's 1st mutual bank.*
33 Source: Community CPS media release dated 12 May 2011.
34 Source: www.mycreditunion.com.au accessed 13 September 2011.

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Recent Industry Performance

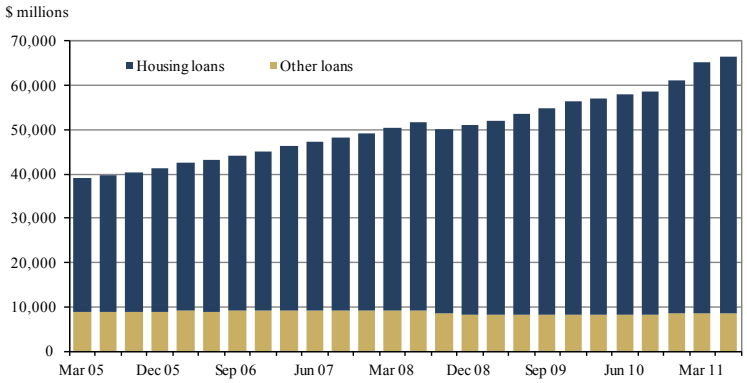
Asset base

179 Gross loans and advances held by credit unions and building societies combined were $65 billion as at 31 March 2011 having grown by around 8.0% per annum[35] in the six years since March 2005. Gross loans and advances held by banks increased to $2.1 trillion over the same period, growing at an average of around 10.6% per annum[36].

180 Recent growth in assets has been predominantly due to growth in housing loans which now account for around 87% of building societies' and credit unions' gross loans and advances, compared to only 58% for all banks.

181 At the end of June 2011 the value of outstanding housing loans was $1.2 trillion, up 2.3% compared to 30 March 2011. Owner-occupied housing loans accounted for 70% of the total loans outstanding, the remainder being investment housing loans. Bank housing loans accounted for 95% of the total housing loans outstanding[37].

Growth in gross loans and advances – Credit unions and building societies



Note: The numbers for December 2010 and March 2011 include increases of $1.1 billion and $2.1 billion respectively in housing loans that are due to a change in the implementation of prudential standard reporting requirements (off-balance sheet loans were transferred to be on-balance sheet).
Source: APRA (2011) *Quarterly credit union and building society performance.*

35 Compound annual growth rate. This growth rate excludes increases in housing loans of $1.1 billion in the December 2010 quarter and $2.1 billion in the March 2011 quarter, which were due to a change in the implementation of prudential standard reporting requirements (off-balance sheet loans were transferred to be on-balance sheet). If these increases are included in the calculation, the growth rate is 8.9% per annum.

36 Source: APRA statistics and LEA analysis.

37 Source: ABS (2011) 5609.0 *Housing finance.*

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Competition in housing lending

182 Increased demand for housing credit in the 1990s and early 2000s provided opportunities for new entrants to the housing lending industry. The spread of internet access made it easier for customers to compare offers and reduced the competitive advantage of the traditional banks' extensive branch networks.

183 The new lenders initially raised wholesale funds (reassuring providers that the use of mortgage insurance limited risks) and lent at rates below those charged by the banks, while providing better service such as coming to customers' homes at times convenient to them. The early focus was on individual investors, who were customers of banks which typically charged an additional 1% above the standard housing rate, which was not justified by the additional risk involved.

184 Raising funds through securitisation ('bundling' individual loans and selling them in financial markets) became prevalent in the mid 1990s. At this time non-bank lenders started to focus on owner-occupier borrowers. Some of the more prominent early non-bank lenders included Aussie, Wizard and RAMS. These lenders did not raise retail deposits and, therefore, were not regulated by APRA.

185 The proliferation of new housing lenders led to the emergence of mortgage brokers in the 1990s. Brokers help households compare the hundreds of home loan products and choose the best value one with the features they want. All lenders have made increased use of brokers to originate loans, rather than the traditional practice of lending to established customers. The emergence of mortgage brokers appears to have been particularly important for some of the smaller lenders (such as credit unions and building societies) that do not have extensive networks or the capacity to undertake widespread marketing. Brokers are now involved in about 40% of new home loan transactions in Australia.

Asset quality

186 The quality of assets of credit unions and building societies (predominantly residential loans) has been relatively stable over the last six years, compared to the assets held by banks, which are more diverse and include much greater exposure to the commercial and overseas markets. This difference can be seen in the level of provisions made by each sector to cover the risk of loan defaults.

187 The ratio of lending provisions to gross loans for both credit unions and building societies has remained relatively stable over the six years to March 2011. By contrast, the banks' provisions relative to gross loans have doubled since the onset of the GFC.

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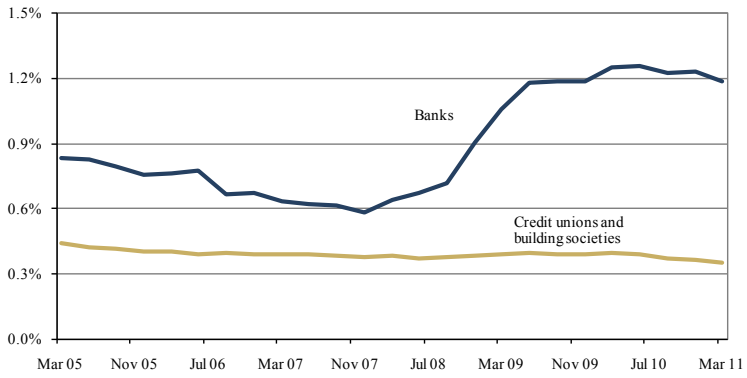
Lending provisions to gross loans and advances

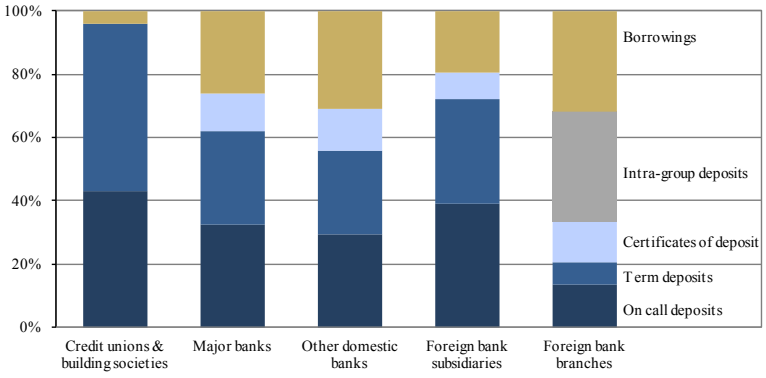


Source: APRA

Sources of funding

188 Unlike banks, credit unions and building societies source most of their funds from deposits (a mix of at call and term deposits). This is partly because they have strong retail deposit bases, and hence a reduced need for wholesale funding, and partly because in wholesale markets smaller institutions pay a significantly higher price for funding because they have lower credit ratings (or are not rated at all). Some credit unions and building societies also rely upon securitisation programs as a key source of funding.

Funding mix (excluding equity)
31 March 2011



Note: Securitised mortgages are included in borrowings.
Source: APRA (2011) *Quarterly credit union and building society performance*, and *Quarterly bank performance*.

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Deposits

189 Total deposits held by credit unions, building societies and banks was around $1.8 trillion as at 31 March 2011, having doubled in the six years since March 2005. Deposits held by credit unions and building societies have increased from $42 million to $67 million[38] over the same period.

190 Overall growth in deposits has been due to factors including compulsory superannuation, the introduction of high-yield online bank accounts and the fact that Australians are getting richer, with real net national disposable income per capita averaging 2.6% per year between 1989-99 and 2008-09[39].

191 The GFC has also had an impact on deposits with increased volatility in equity markets resulting in some investors moving to safer products. The Australian Government's introduction of deposit guarantees has also encouraged growth in deposits. To promote financial system stability throughout the GFC and to ensure the continued flow of credit throughout the economy the Government introduced the following schemes:

(a) the **Financial Claims Scheme** – established in October 2008 and protects account-holders' deposits made with domestic ADIs and interest accrued on such deposits, to a maximum of $1 million per account holder per ADI, with no direct charge to account holders. The $1 million guarantee is due to expire on 12 October 2011, however changes to the scheme were announced on 10 September 2011 and a lower permanent cap of $250,000 is expected to come into effect from 1 February 2012. This means the scheme will continue to cover 99% of Australian deposit accounts in full[40]

(b) the **Guarantee Scheme for Large Deposits and Wholesale Funding** (ADI Guarantee Scheme) – commenced on 28 November 2008 and allowed domestic ADIs to apply to have deposit balances of greater than $1 million per customer per ADI and certain debt instruments with maturities of up to 60 months guaranteed by the Commonwealth of Australia for a fee[41]. Foreign ADIs could also apply for certain deposits and debt instruments to be guaranteed. The scheme closed to new issuance of wholesale liabilities and acceptance of additional deposit funds on 31 March 2010. Guaranteed liabilities existing on that date remain guaranteed.

192 Competition for retail deposits has been intense in the last few years. The share of deposits held by credit unions and building societies has decreased from 4.5% in March 2005 to 3.7% in March 2011, whilst the share of the four major banks combined increased by 8%, largely due to acquisition of smaller domestic banks and building societies, and a shift away from wholesale markets, which became relatively more expensive and difficult to access as a result of the GFC.

38 Source: APRA *Quarterly performance statistics* spreadsheet issued 25 August 2011, downloaded from www.apra.gov.au.

39 Source: ABS 1370.0 *Measures of Australia's Progress 2010* (latest issue).

40 Source: Australian Government, Treasury press release No. 109. 11 September 2011. Deposits entered into between 11 September 2011 and 31 January 2012 inclusive will be covered at the current level of $1 million until 1 February 2012 at which point the new cap of $250,000 will apply.

41 Subject to certain eligibility criteria being met.

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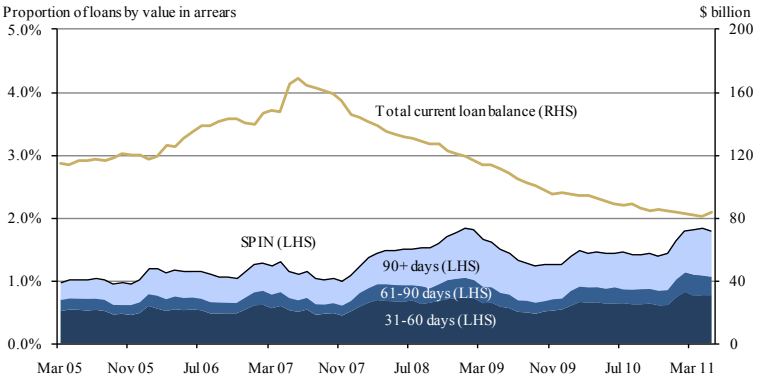
Securitisation

193 Twenty or more years ago lending for housing was provided largely by ADIs. The development of securitisation of residential mortgages provided an alternative source of funds and increased competition in lending. The share of housing lending in Australia financed through securitisation rose from less than 5% in the mid-1990s to over 20% in 2007.

194 The recent disturbances in the financial markets caused by the GFC reduced the funds available for investment in RMBS, even though Australian residential mortgages are generally of high quality and can provide a reasonably sound base for securitisation[42] as evidenced by the relatively low level of arrears data shown below.

Australian prime mortgage performance
Standard & Poor's mortgage performance index (SPIN)



Source: Standard & Poor's Australian RMBS watch.

195 While banks have larger absolute volumes of securitisation funding, it makes up a greater proportion of the funding sources of the smaller lenders (including credit unions and building societies). Consequently, with a view to maintaining competition in the home lending market the Federal Government intervened and in late 2008 directed the Australian Office of Financial Management[43] (AOFM) to invest $4 billion in AAA-rated RMBS[44]. A key eligibility criteria of the scheme is that lenders must operate independently of the four major Australian banks.

42 Source: AOFM (7 June 2011) *Presentation to the Australian Business Economists luncheon, Sydney.*

43 A specialist Australian Government agency responsible for management of Australian Government debt, cash balances and investments in financial assets.

44 Source: Treasury media release no. 105.

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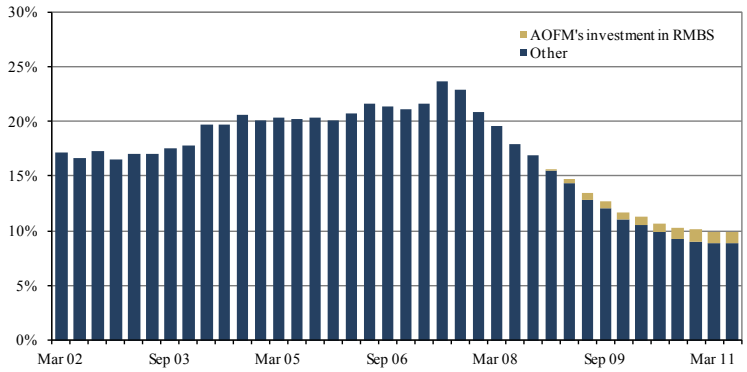
196 In December 2010 the Treasurer announced an extension to the AOFM's RMBS purchasing program of $4 billion, taking the total investment to $20 billion.

197 Since the inception of the AOFM program of investment in November 2008, the AOFM has invested $13.4 billion across 50 transactions[45]. This has allowed 19 issuers to raise over $31 billion in funding, keeping them competitive in the process and keeping important market infrastructure alive during very difficult times. Nonetheless the AOFM program is being scaled back. In the first half of calendar year 2009 the AOFM purchased 78% of the securities offered in the deals it agreed to support. In the first five months of calendar year 2011 this fell to 17%[46].

Securitised vehicles – proportion of all housing lending



Source: ABS 5609 *Housing finance;* AOFM website.

Income

Net interest income

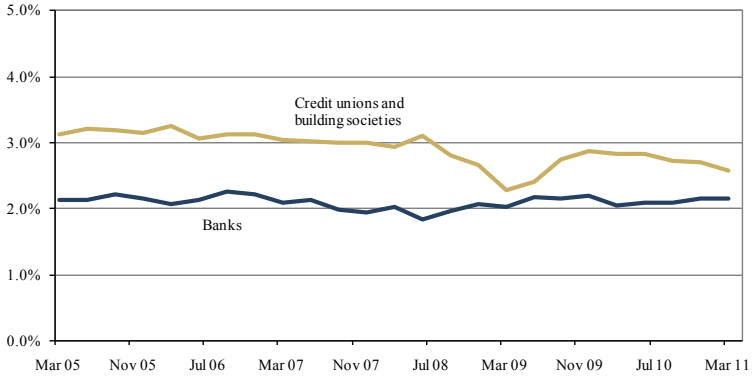
198 Credit unions and building societies generated $2.0 billion in net interest income for the financial year ended 30 June 2011 (FY11), which was steady compared to the previous year. Net interest income represented 74% of total operating income for FY11, compared to 60% of total operating income for all banks.

45 Source: www.aofm.gov.au accessed 12 September 2011.

46 Source: AOFM (7 June 2011) *Presentation to the Australian Business Economists luncheon, Sydney.*

199 Increased competition has reduced net interest margins[47] over the medium term, with credit union and building society margins decreasing from 3.1% in March 2005 to 2.6% in March 2011, although bank margins have been more stable (trending around 2.1%) over the same period. This is largely the result of increased competition in the deposit and mortgage sectors.

Net interest margins (indicative)



Note:
Indicative net interest margins based upon net interest income divided by the simple average of cash and liquid assets, securities, other deposits and gross loans and advances.
Source: APRA

Non-interest income

200 Non-interest operating income is generally derived from account and other product fees, and from operations in the insurance or wealth management sectors. For credit unions and banks, fees and commissions made up 70% of non-interest income for FY11, while for building societies, fees and commissions made up 90% of non-interest income.

47 Net interest income to average interest earning assets.

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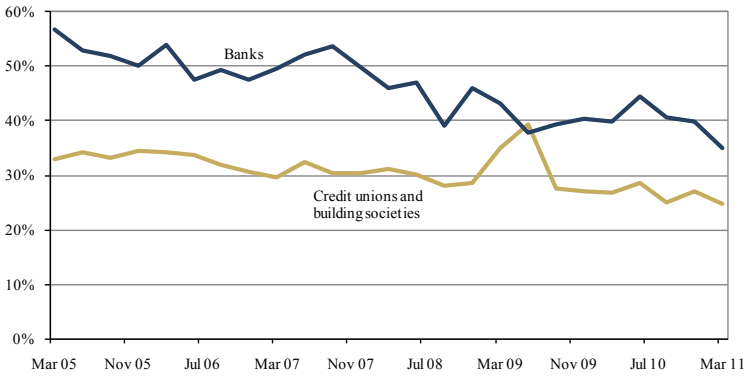
Non-interest income proportion of total operating income



Source: APRA

Costs

201 The fall in net interest margins has forced attention to reducing costs, with credit union cost-to-income ratios falling from 75.8% in the March 2005 quarter to 70.5% in the March 2011 quarter, and building society cost-to-income ratios falling from 72.4% to 66.8% over the same period[48].

202 By contrast banks are able to operate at much lower margins of around 2.1%, due to lower cost-to-income ratios, averaging 53.3%, primarily due to the larger scale of their operations and associated economies, as well as differences in business mix[49]. However, credit union and building society costs also reflect their focus on higher customer service levels, lower account fees, financial support for community projects and the passing on of margin benefits to members by offering lower interest rates[50].

Performance Drivers

203 The level of credit growth, including housing lending, is dependent on the overall actual (or perceived) strength of the economy and will be influenced by factors such as housing prices, unemployment rates and inflation. One effect of the GFC has been to slow credit growth, particularly in the area of personal loans and credit cards. Australian households generally became more cautious increasing their savings (deposits) and divesting themselves of riskier assets such as shares[51].

48 Source: APRA (August 2011) *Quarterly credit union and building society performance.*

49 Source: APRA (August 2011) *Quarterly bank performance.*

50 For example, see www.newcastlepermanent.com.au 5 May 2011 media release, *We give profits back.*

51 Source: Treasury (2011) *Economic roundup Issue 2, 2011* p 64.

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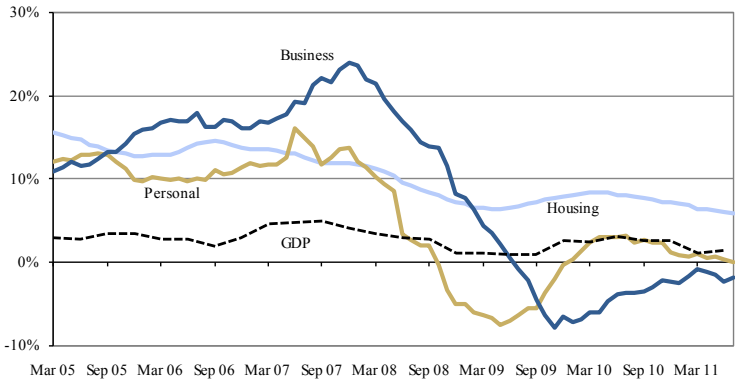
204 Conditions in global financial markets have been very unsettled over recent weeks, due to uncertainty about both the resolution of sovereign debt problems and the prospects for economic growth in Europe and the United States. The uncertainty and financial volatility is reducing confidence and may result in more cautious behaviour by firms and households in major countries. A number of forecasters have scaled back their global growth estimates over the past couple of months, however near-term growth in Australia is still likely to be at trend or higher, unless the world economic outlook continues to deteriorate[52].

Annual growth in credit and GDP



Source: RBA Tables D01 and G10. Credit data are seasonally adjusted and include securitised loans.

205 The uncertainties in Europe are also likely to impact the short-to-medium term cost of funding for ADIs.

206 The spread between the 90 day bank accepted bills rate and the three month overnight indexed swap (OIS) is a key measure of risk and liquidity in the money market in Australia. It is an indicator of the market's willingness to lend and its perception of the creditworthiness of financial institutions. Although both instruments achieve the same end result, being a swap of fixed-to-floating rates, the OIS (unlike the bank accepted bills rate) carries very little credit risk as it does not involve a change of principal. Thus, the premium yield that is evident in the bank accepted bills rate relative to the OIS provides an indication as to the current perceived level of short-term credit risk in the market.

52 Source: RBA speech 6 September 2011.

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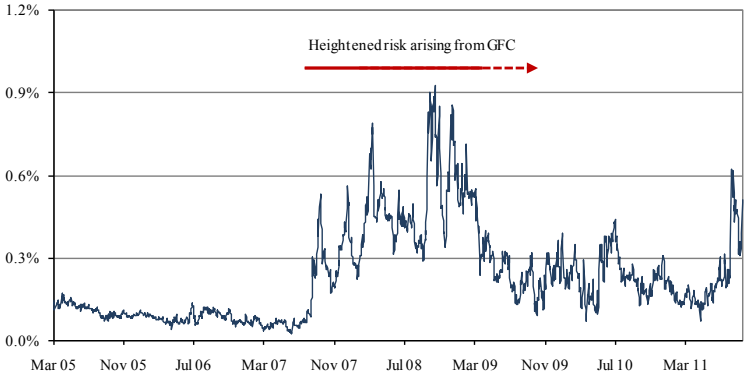
Funding pressure in Australia

Spread between the 90 day bank bill rate and the 3 month OIS



Source: RBA Table F1.

207 For the two years prior to the GFC, the spread between the 3 month BBSW and the 90 day OIS averaged approximately 8 basis points. During the GFC the spread increased significantly and spiked on numerous occasions hitting a high of 93 basis points. Although the spread has trended back toward pre-GFC levels, the gradual decline has been erratic. In more recent weeks the spread has again begun to increase, presumably in response to the uncertainties in Europe.

Regulation

208 Australia's financial regulation framework is based on three separate agencies operating on functional lines:

(a) APRA is responsible for prudential regulation and supervision of ADIs, general and life insurance companies and superannuation funds

(b) ASIC is responsible for market conduct and investor protection; and

(c) the RBA has responsibility for monetary policy, overseeing financial system stability and oversight of the payments system.

209 In addition, the Australian Competition and Consumer Commission (ACCC) has responsibility for competition policy across the entire economy, including the financial sector.

210 Australian legislation provides APRA with strong powers to regulate and intervene in the operations of financial institutions to protect depositors, policy holders and fund members and to maintain the stability of the financial system.

Basel II

211 APRA has developed a regulatory framework for ADIs that is based on the banking supervision principles published by the international Basel Committee on Banking Supervision. The framework for prudential regulation is concerned fundamentally with the quality of a financial institution's systems for identifying, measuring and managing the various risks in its business and, in most cases, with the adequacy of its capital as a buffer against unexpected losses.

212 All ADIs in Australia are subject to Basel II, the framework implemented by APRA on 1 January 2008. The prudential rules under Basel II provide the Australian banking system with an enhanced regulatory framework for the protection of depositors and the maintenance of systemic stability. In implementing Basel II, APRA exercised a number of discretions to make the framework more robust and relevant in the Australian market[53].

Capital adequacy

213 APRA requires an ADI to maintain a level of capital that is adequate for the type of activities it undertakes. The capital adequacy ratio is the eligible capital base divided by risk-weighted assets and off balance sheet exposures.

214 For capital adequacy purposes, an ADI's eligible capital base is assessed within two tiers:

(a) Tier 1 capital, or core capital, comprising the highest quality capital elements, which meet fully all the essential characteristics of capital, such as ordinary shares and reserves. Tier 1 capital must account for at least 50% of the total capital of an ADI

(b) Tier 2 capital, or supplementary capital, includes other elements, which to varying degrees are of a lower quality than Tier 1 capital but nonetheless contribute to the overall strength of an ADI as a going concern, such as asset revaluation reserves and subordinated debt.

215 Current APRA guidelines stipulate that ADIs must maintain a minimum ratio of qualifying capital (being Tier 1 and Tier 2 capital) to risk-weighted assets of 8.0%.

216 In addition, an ADI must inform APRA immediately of any concerns that it has about the overall level of its credit risk where this has the potential to impair the capital adequacy of the institution.

Liquidity

217 Prudential standards in relation to liquidity aim to ensure that all ADIs have sufficient funds available to meet calls on deposits and to meet obligations to depositors as they fall due.

218 ADIs are required to maintain a minimum holding of 9.0% of liabilities (calculated in accordance with the prudential standards) in high-quality liquid assets, which includes cash, bank bills and other types of deposits and securities[54].

53 Source: Commonwealth Government (2010) *Description of the Commonwealth of Australia.*

54 Source: Prudential standard APS 210 – *Liquidity.*

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Supervision of large credit exposures

219 APRA sets limits on the amount of exposure[55] ADIs can have to external parties. The maximum exposure an ADI can have to an unrelated ADI is 50% of its capital base[56]. Prior approval is not required for exposure up to this maximum.

220 The maximum exposure an ADI can have to its foreign parents and their subsidiaries is 50% of its capital base[57]. Prior approval is not required for exposure up to this maximum.

221 The upper limit for exposure to a non-government, non-ADI counterparty is 25% and prior consultation with APRA is required for a proposed exposure of over 10%[58]. The ADI must be able to satisfy APRA that the proposed exposure does not constitute an excess risk to the ADI.

222 Where an ADI has a number of large exposures[59] (excluding those to governments and central banks) or where, in APRA's opinion, the ADI is exposed to a significant level of risk concentration, APRA may require the ADI to increase its capital ratio.

Basel III

223 APRA has released for consultation a discussion paper outlining its proposed implementation of the Basel III capital reforms in Australia, which will apply to all ADIs. Basel III was released by the global Basel Committee on Banking Supervision (Basel Committee) in December 2010. It aims to improve the ability of banks to absorb financial shocks and strengthen transparency and disclosures.

224 APRA proposes to adopt the Basel III definition of regulatory capital, under which common equity is recognised as the highest quality component of capital. APRA proposes that, from 1 January 2013, all ADIs will be required to meet the following minimum requirements:

(a) Common Equity Tier 1[60] must be at least 4.5% of risk-weighted assets

(b) Tier 1 capital must be at least 6.0% of risk-weighted assets (increased from 4.0%); and

(c) Total capital (Tier 1 plus Tier 2) must be at least 8.0% of risk-weighted assets (no change)[61].

55 As defined by APRA in APS 221 – *Large exposures* paragraph 10.

56 Exposure to a non-deposit taking subsidiary of the unrelated ADI is limited to 25%.

57 Exposure to a non-deposit taking subsidiary of the foreign parent is limited to 25%.

58 Source: Prudential standard APS 221 – *Large exposures.*

59 An exposure to a counterparty or a group of related counterparties which is greater than or equal to 10% of an ADI's capital base.

60 Comprising common shares, share premium, retained earnings, accumulated other comprehensive income, other disclosed reserves, minority interests (subject to certain criteria) and regulatory adjustments applied in the calculation of Common Equity Tier 1. APRA proposes to adopt the Basel III definition of Common Equity Tier 1 to replace the current concept of 'Fundamental Tier 1'.

61 Source: APRA (2011) *Discussion paper: implementing Basel III capital reforms in Australia* p 12.

225 APRA also proposes to introduce a capital conservation buffer of up to an additional 2.5% which, if required, will need to be met with Common Equity Tier 1. APRA also proposes to introduce the Basel III countercyclical buffer, which will vary between zero and 2.5% of total risk-weighted assets[62].

226 There is some concern that smaller institutions will be adversely affected by the new capital requirements. APRA comments in its discussion paper that the criteria for classification as common shares in Common Equity Tier 1 is intended to apply to all ADIs, including mutually owned ADIs, taking into account their specific constitutional and legal structure. APRA notes that there are a number of mutually owned ADIs that have issued instruments currently qualifying as Tier 1 capital. APRA has invited submissions from these ADIs as to whether the features of the instruments will comply with the criteria for Common Equity Tier 1.

227 The Basel III liquidity standard, known as the Liquidity Coverage Ratio (LCR), aims to ensure that banking institutions hold a stock of high quality liquid assets sufficient to survive an acute stress scenario lasting for one month. APRA has indicated that when the LCR comes into effect for Australian ADIs on 1 January 2015, they will be able to count only the following assets towards their LCR: cash, balances held with the RBA and Commonwealth Government and semi-government securities. Bonds issued by corporations are unlikely to be accepted by APRA, although this may change.

228 The approach will be applicable only to the larger ADIs (around 40 in number). APRA does not intend to apply the LCR requirement to ADIs that are currently subject to a simple quantitative metric, the minimum liquid holdings regime[63].

Restrictions on shareholdings

229 Commonwealth legislation prevents a person (including a corporation) having control of voting power in financial sector companies under the following acts:

(a) *Financial Sector (Shareholdings) Act 1998 (Cth)* prevents shareholders of financial sector companies from holding a stake of more than 15% without the approval of the Federal Treasurer

(b) *Corporations Legislation Amendment (Financial Services Modernisation) Act 2009 (Cth)* restricts a person from having an interest in more than 15% of the shares in a particular licensed trustee company[64].

Wealth management

230 Australia has the fourth largest fund assets pool in the world and one of the highest managed funds per capita, owing largely to the introduction of compulsory superannuation in 1992. The bulk of the Australian funds management industry is invested in Australian equities, with international equities and fixed interest the next largest segments.

62 Source: APRA (2011) *Discussion paper: implementing Basel III capital reforms in Australia* Chapter 4.

63 Source: APRA media release 17 December 2010.

64 A person may apply for approval to exceed the 15% voting power limit by lodging an application with ASIC (ASIC then passes the application to the Minister).

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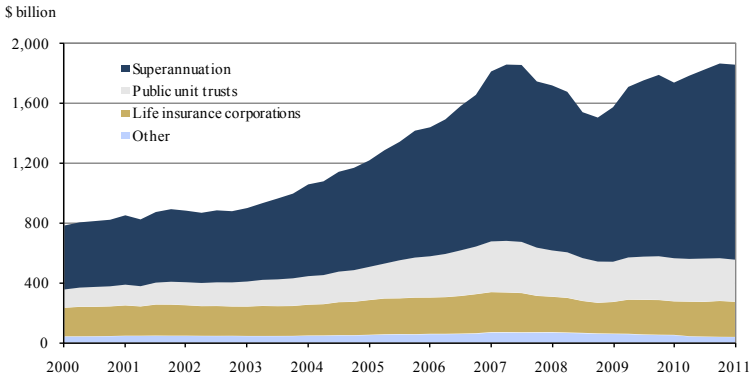
231 Total consolidated assets of Australia's managed funds increased by over $500 billion to $1.8 trillion from 2005 to 2010, giving a compound annual growth rate (CAGR) of 6.9%. Superannuation funds continue to be the largest and fastest growing component of Australian FUM, with 10% growth per annum since 2005 and totalling some $1.3 trillion as at December 2010[65]. The remaining funds are invested through products and structures including public unit trusts, cash management trusts and life insurance products.

Funds under management – Australia



Source: ABS 5655

232 The GFC has significantly impacted world financial markets and resulted in major declines for world stock markets. This, together with the increased attractiveness of other asset classes such as cash, has resulted in a significant decline in FUM globally, including in Australia. However continued growth in superannuation assets has seen Australia's pool of FUM recently approach the pre-GFC level.

233 Fund managers differentiate themselves primarily on the basis of investment returns relative to risk profile. Historical performance is an important point of reference for funds with similar risk profiles, but is naturally no guarantee of future returns. Investment styles and the flexibility and characteristics of the products also form an important basis of competition.

234 Historically, fee competition was low due to high growth in FUM and the concentration of funds managed by larger players. However new entrants to the market have intensified competition, which in turn has placed pressure on fees charged. Competition from industry super funds, which operate on a non-profit basis and have established a sizeable market presence, has been significant[66]. Continued pressure from industry funds is expected as they exploit their low cost structures and sound historical performance to seek greater market shares.

65 Source: Austrade data alert 10 March 2011.

66 For example, HESTA has 700,000 members, who work in health and community services, and $17 billion in assets.

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Outlook

235 There are a number of key issues that will influence the future performance of the Australian credit union and building society industry.

236 The Australian economy is in a strong position however the outlook remains uncertain. Australia's unemployment rate has fallen to around 5%, although it has recently begun to trend upward. Headline inflation is higher than in 2009 or 2010, however underlying inflation[67] has moderated and is currently at around decade lows. Beyond the short-term impact of Australia's recent natural disasters, Australia's real gross domestic product (GDP) growth is forecast to be above trend for the next two years, led by record levels of investment in the resources sector[68].

237 The long-term impact of the GFC on financial markets is still being played out. In Australia households demonstrated a significant shift towards deposits and away from riskier assets such as shares during the GFC. The sharp rise in household savings seen in FY09 was underpinned by a significant fall in consumption and a temporary boost to growth in household income as part of the Government's fiscal stimulus. The ongoing elevated rates of saving over the past two years suggest a more fundamental change in household behaviour[69]. However, the rise in the household savings rate and associated increase in deposits has not reduced competition among financial institutions for deposit funding, as there has been a general move away from riskier short-term wholesale funding to long-term wholesale funding and deposits.

238 Therefore, access to funding will continue to be a key issue. Many credit unions and building societies are heavily reliant upon retail deposits, competition for which is expected to remain high in the current environment (particularly given the impact the current uncertainties in Europe may have on the price of domestic and offshore wholesale debt)[70]. The securitisation markets although recovering slowly have not reached, and are unlikely to return to, pre-GFC levels for some time. Additionally, although the AOFM scheme provides some support for the securitisation programs of the smaller Australian institutions, the scheme is being scaled back and will not continue indefinitely.

239 Credit unions and building societies are also being negatively impacted by the slowing of growth in demand for credit. A tightening of lending standards combined with a moderation in household demand for credit has been reflected in more subdued borrowing. The stock of household debt (both personal and housing) is now growing at much lower rates than in the previous decade[71].

67 Which filters out the effects of unusual price movements, such as the effects of the recent Cyclone Yasi on the price of bananas.

68 Source: Australian Government budget 2011-12 *Economic outlook.* RBA *Statement on monetary policy* May 2011.

69 Source: Treasury *Economic roundup Issue 2, 2011.*

70 Continuation of the Government guarantee on deposits will serve to maintain a level playing field for deposits as it is expected that 99% of retail deposits will remain guaranteed regardless of the size of the financial institution.

71 Source: Treasury *Economic roundup Issue 2, 2011.*

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240 Consolidation activity in the Australian financial services sector has been prevalent in recent years and is expected to continue, particularly at the smaller end of the market as regional banks, credit unions and building societies aim for greater financial strength and the ability to offer a broader range of services and cost savings, particularly in the areas of technology and compliance.

241 The continued success of credit unions and building societies in customer satisfaction surveys suggests that the focus banks are placing on improving customer service is failing to impact the value of the customer relationships developed by non-banks. However, the move by major banks to multi-brand banking (for example, Westpac's retention of the St. George brand and re-introduction of the Bank of Melbourne brand) may erode this distinction.

242 The announcement of the proposed Basel III requirements has added to the uncertainty faced by co-operative and mutually owned institutions. The impact of additional compliance costs will particularly disadvantage smaller institutions, which may also find it difficult to meet more stringent capital adequacy requirements (which could decrease their already relatively low level of profitability / return on equity).

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VI Valuation approach

Valuation approaches

243 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

244 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

245 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

246 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

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247 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

248 The Scheme, if approved and implemented, will result in a change of control of The Rock. Furthermore, the Scheme will also result in The Rock shareholders exchanging their interest in The Rock for a minority interest in the Merged Entity (collectively, The Rock shareholders will assume ownership of some 22% of MyState). In such circumstances, RG 111 requires the expert to compare the value of the securities being offered on a minority interest basis with the value of the target entity's securities, assuming 100% control.

249 Accordingly, we have adopted the following primary valuation methodologies to assess the market value of 100% of the shares in The Rock and the value of the Scheme Consideration, being shares in MyState:

Primary valuation methodologies

Entity	Primary valuation methods	Reason
The Rock	Capitalisation of NPAT	• Relatively stable earnings and no expected significant capital expenditure requirements in the short to medium term • Nature of banking business dictates capitalisation of profits after interest and tax • Availability of PE multiples for listed financial services companies(1) • Significant transaction evidence • Absence of long-term cash flow forecasts
MyState (Merged Entity)	Estimated listed share market price post announcement of Scheme	• Represents the best estimate of value that may be realised by The Rock shareholders if they sold their shares either immediately or in the short-term

Note:

1 We note that Australian financial institutions commonly report and are generally valued by reference to what is referred to as "Cash Profit". Cash Profit typically represents reported NPAT adjusted to exclude significant non-recurring items and goodwill impairment. Other adjustments can also include, inter-alia, accounting adjustments in relation to fair value gains and losses on economic hedges and adjustments for Treasury shares held. These items are excluded in order to better reflect the underlying performance of the banks and enable improved comparison with peer companies(2). Accordingly, our relative valuation multiples have been prepared using cash profit results and forecasts (or the equivalent thereof).

2 Cash Profit does not refer to and should not be confused with cash flow and does not exclude depreciation or amortisation.

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250 We have cross-checked our valuation of The Rock primarily by reference to implied NTA multiples as well as its listed share price prior to the announcement of the Scheme (adjusted for a premium for control). Although we consider NTA multiples to be less reliable than capitalisation of earnings methods we note that, as a result of the nature and composition of the balance sheets of financial institutions, NTA multiples are a widely used and accepted relative valuation measure[72].

251 Although it is customary in scrip-for-scrip transactions to rely upon the listed trading price of the bidder (in this case MyState) as the reference point for estimating the value of the consideration offered, the expert must, in doing so, consider and comment on, inter-alia, the depth of the market for those securities and the volatility of the share price. Put simply, the expert must determine whether the listed market price of the stock represents a reasonable proxy for the value that could be realised by the target's shareholders. Consequently, we have also cross-checked the reasonableness of our assessed value of the MyState shares being offered as consideration by reference to implied PE and NTA multiples.

72 NTA rather than net asset multiples are used in order to remove the distortion that can be caused by the high levels of acquired goodwill that appear on the balance sheets of many of the banks.

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VII Valuation of The Rock

Overview

252 As stated in Section VI we have adopted the capitalisation of earnings after tax (PE) approach as our primary valuation method. In summary, the capitalisation of earnings after tax methodology requires consideration of the following factors:

(a) the selection of an appropriate level of NPAT having regard to historical and forecast operating results adjusting for non-recurring items of income and expenditure and any other known factors likely to affect the future operating performance of the business. Earnings arising from assets (and/or liabilities) considered surplus to the operation of the core business are eliminated and valued separately

(b) the determination of an appropriate PE multiple having regard to the extent and nature of competition in the industry, quality of earnings, future growth opportunities, asset backing and relative investment risk.

253 We have cross-checked our valuation of The Rock primarily by reference to implied NTA multiples as well as its listed share price prior to the announcement of the Scheme (adjusted for a premium for control).

Assessment of NPAT

254 The NPAT adopted for valuation purposes is an exercise of judgement that takes into consideration various factors including the historical (and forecast) level of profitability. Reported profits must be adjusted for non-recurring items, and must include the operating results of current activities only. In most circumstances more weight is given to the most recent results than to historic results.

255 We set out below The Rock's reported NPAT for the four years ended 30 June 2011 together with our adjustments for significant non-recurring items:

The Rock – normalised NPAT[1]				
Year ended 30 June	Audited 2008 $m	Audited 2009 $m	Audited 2010 $m	Audited 2011 $m
Reported profit before tax (PBT)	**6.2**	**6.1**	**6.6**	**7.0**
Profit on sale of rural and commercial insurance broking assets[2]	-	-	-	(1.4)
Consultants and advisory fees[3]	-	-	-	1.3
Restructuring costs[4]	-	-	-	0.3
Loss on sale of RMBS investments[5]	-	-	-	0.2
APRA IT governance review remediation[6]	-	-	-	0.1
Normalised PBT	**6.2**	**6.1**	**6.6**	**7.3**
Statutory income tax expense	(1.7)	(1.8)	(1.6)	(2.1)
Tax on abnormal items[7]	-	-	-	(0.1)
Research &Development tax benefit[8]	-	-	(0.4)	-
Investment allowance benefit[9]	-	(0.0)	(0.1)	-
Normalised NPAT	**4.5**	**4.3**	**4.6**	**5.1**
Normalised performance metrics				
Net interest income	20.5	17.3	19.1	21.8
Non-interest income	7.5	8.8	8.2	7.4

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The Rock – normalised NPAT[1]				
Year ended 30 June	Audited 2008 $m	Audited 2009 $m	Audited 2010 $m	Audited 2011 $m
Total income	28.0	26.2	27.2	29.1
Operating expenses	(21.7)	(20.0)	(20.5)	(21.8)
Growth in net interest income	*14.4%*	*(15.6%)*	*10.0%*	*14.1%*
NIM	*1.66%*	*1.43%*	*1.51%*	*1.70%*
Non-interest income / Total income	*26.6%*	*33.7%*	*29.9%*	*25.3%*
CTI	*77.8%*	*76.6%*	*75.7%*	*74.8%*
Growth in normalised NPAT	*na*	*(4.3%)*	*7.9%*	*10.6%*

Note:
1 Totals may not add due to rounding.
2 Sold on 27 June 2011 for $3.25 million.
3 Concluded ASIC enquiry and costs associated with a comprehensive strategic review of the business.
4 Payments associated with the resignation of the previous Chief Executive Officer in October 2010 and other senior management personnel.
5 Refer to paragraph 76(c) for further description.
6 Costs incurred as a result of APRA review of The Rock's IT systems.
7 Net tax effect of profit on sale of rural and commercial insurance broking assets, consultant and advisory fees, restructuring costs, loss on sale of RMBS investments and APRA IT governance review remediation.
8 Tax allowance associated with the development and implementation of The Rock's core banking system, BaNCS.
9 Non-recurring tax allowance provided to The Rock.
Source: The Rock and LEA analysis.
na – not available.

256 In respect of the historic results we note that:

(a) The Rock's normalised NPAT although being relatively steady at around $4.5 million increased in FY10 and FY11 by some 7.9% and 10.6% (on their prior corresponding periods) respectively

(b) on 27 June 2011 The Rock announced the sale of its rural and commercial insurance broking assets and the expected transition of its domestic and personal insurance broking activities to an agency arrangement. We understand from our discussions with The Rock's management that the full year pre-tax earnings impact of this change in business practice is some $0.3 million.

257 In addition to the above, we have also reviewed a copy of The Rock's FY12 budget[73]. In doing so, we have discussed with management their views on the current future operating conditions that may impact the company's financial performance in FY12. We note that since the budget was prepared a number of key events have occurred, in particular:

(a) the perceived (and actual) level of risk in the market has significantly increased as a result of heightened concerns regarding the European sovereign debt crisis

73 The budget is considered commercially sensitive and for this reason has not been disclosed in this report.

(b) there has been a general slowing in credit growth (particularly in the last two months).

258 Given the occurrence of these events and the potential impact they may have on the budgeted result for FY12, together with the timing of the valuation[74], we consider that more regard should be had to the adjusted normalised results for FY11.

259 Having regard to the above, we have adopted NPAT for valuation purposes of $5.3 million, reflecting normalised NPAT for FY11 adjusted to take into account recent changes made in relation to The Rock's insurance broking activities.

PE multiple

260 The selection of the appropriate PE multiple to apply is a matter of judgement, but normally involves consideration of a number of factors including, but not limited to:

(a) the stability and quality of earnings

(b) the quality of the management and the likely continuity of management

(c) the nature and size of the business

(d) the spread and financial standing of customers

(e) the financial structure of the company and gearing level

(f) the multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors

(g) the multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors

(h) the future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc

(i) the cyclical nature of the industry

(j) expected changes in interest rates

(k) the asset backing of the underlying business of the company and the quality of the assets

(l) the extent to which a premium for control is appropriate

(m) whether the assessment is consistent with historical and prospective earnings.

261 We discuss below specific factors taken into consideration when assessing the appropriate earnings multiple range.

Listed company multiples

262 The PE multiples for listed banks and mutuals operating in Australia are detailed in Appendix C, a summary of which is set out below:

74 As at the date of valuation we considered there to be insufficient year-to-date actual data necessary to rely on the FY12 budget.

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Listed company multiples[1]					
	Market capitalisation $m	FY11 Cash PE x	FY11 CAGR[2] %	FY12 Cash PE x	FY12 CAGR[3] %
The Rock	**46.3**	**9.0**	**9.5%**	**9.1[4]**	**15.2%**
Commonwealth Bank	70,064.2	10.7	5.9%	10.0	5.7%
Westpac Banking Corp	59,119.4	9.7	5.1%	9.1	4.5%
ANZ Banking Group	51,029.5	9.1	5.4%	8.9	6.8%
National Australia Bank	49,393.7	9.5	8.3%	8.6	7.1%
Suncorp Group	10,292.8	14.9	24.6%	9.8	12.5%
Bendigo & Adelaide Bank	2,919.3	9.3	5.1%	9.0	6.0%
Bank of Queensland	1,546.0	10.0	22.2%	7.0	12.6%
Wide Bay Australia	263.3	11.2	3.6%	10.9[4]	4.0%
MyState	236.0	10.5	na	na	na
IMB Building Society	158.8	5.1	na	na	na

Note:
1 Share prices and market capitalisation as at 19 September 2011 (except MyState and The Rock, which are as at 30 August 2011, being the date prior to the announcement of the Scheme). All multiples have been calendarised to a common year end of 30 June.
2 Forecast compound annual growth rate for the period FY11 to FY14.
3 Forecast compound annual growth rate for the period FY12 to FY14.
4 Based on one analyst forecast only (which we adjusted to exclude depreciation and amortisation add-backs).
na – not available.

263 With regard to the above we note that:

(a) the multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control)

(b) Commonwealth Bank, Westpac Banking Corporation, ANZ Banking Group and the National Australia Bank (the Majors) have significantly larger asset bases and profits, have more diverse operations (including substantial wealth management platforms) and have much greater geographical reach than The Rock which operates predominately in Central Queensland. Generally smaller companies trade on lower multiples than larger companies

(c) the two regional banks (Bendigo and Adelaide Bank and Bank of Queensland) are also larger in size and more diverse in their operations than The Rock. Bank of Queensland's results for FY11 are also expected to be significantly impacted by an increase in underlying bad debts caused by the Queensland floods and cyclones that occurred during early 2011

(d) Suncorp Group is a significant Australian insurer and generates the large majority of its profits from insurance, not banking. The high PE multiple for FY11 (and associated CAGR) reflects the impact on net profit of the various natural hazard events which occurred throughout the year (including the Queensland floods in January 2011 and the Christchurch earthquake in February 2011)

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(e) Wide Bay Australia and IMB are the most comparable to The Rock but are still larger and more diverse. It should also be noted that:

(i) analysts have highlighted Wide Bay Australia as a potential takeover target for regional banks seeking to sustain earnings growth in a low credit growth environment. This may provide some explanation for the company's high PE multiple

(ii) IMB shares are exchanged through a facility established and operated by IMB and are not listed on the ASX (significantly adversely impacting their liquidity)

(iii) IMB's Constitution provides that members (e.g. depositors), as well as shareholders, participate in any surplus upon a winding up. In our view there is also a significant risk that IMB members would share in any value created from any future demutualisation of IMB should that occur. Accordingly, in our view, the low PE multiple which IMB trades on reflects these additional uncertainties

(f) The Rock is a relatively illiquid stock and its PE multiple on any given day (as opposed to over a period of time) can be affected by this low level of liquidity. In contrast, the shares of the Majors are significantly more liquid (and the subject of much greater level of research and institutional investment) and their multiples provide a better valuation benchmark prior to necessary adjustments for size, risk and other factors which need to be considered when assessing the appropriate PE multiple for The Rock.

Transaction evidence

264 As set out in Appendix D there have been a number of transactions in the banking sector during the last half decade. In respect of those transactions we note that:

(a) as most cases reflect the acquisition of a controlling interest, the multiples implicitly incorporate a premium for control (albeit the extent of the premium will vary on a case by case basis)

(b) a large majority of the transactions occurred prior to the occurrence of the GFC. The GFC has had a significant impact upon the multiples paid for financial institutions. This is evident in the multiples implied by the St George Bank acquisition which reduced significantly over the course of that transaction as the impact of the GFC on financial stocks began to be reflected in market values

(c) the transactions relating to the financial institutions most comparable to The Rock (including Mackay Permanent, Home, Police & Nurses, Pioneer and StateWest) all occurred prior to the GFC

(d) the transactions do not reflect the current market environment which is being heavily influenced by the European sovereign debt crisis.

265 Given the impact of the GFC on values generally, in our opinion, no significant reliance should be placed on the transaction evidence which took place prior to the GFC when valuing The Rock. Accordingly, we have placed most reliance on the above listed company multiples (adjusted for an appropriate premium for control) and post GFC transaction evidence.

Premium for control

266 As noted above the listed company multiples reflect the value of each company on a portfolio or minority interest basis and therefore do not incorporate a takeover premium.

267 Based upon research undertaken by LEA, takeover premiums generally range, on average, from 30% to 35% above the pre-bid listed market price of the target's shares (assuming no material speculation of a takeover offer). However, as we have separately quantified the value attributable to synergies below, it is appropriate to apply a multiple which reflects only the benefits of "pure" control (i.e. excluding that proportion which reflects a share of synergy benefits).

268 We have conducted a number of studies, covering more than a decade, into premiums for control. These studies include premiums paid in public company takeovers both in Australia and internationally and indicate that:

(a) offers reflecting bid premiums of less than 20% (over and above pre-bid listed market prices unaffected by takeover speculation) are relatively rare and are generally unsuccessful

(b) in most takeovers of larger companies, the value of synergy benefits is generally small relative to the earnings of the target company.

269 As a result we have concluded that the "pure" control premium (i.e. excluding synergies) is substantial, but lower than the 30% to 35% range quoted above. On balance, we believe the "pure" control premium (i.e. excluding that proportion attributable to synergies) is in the range of 20% to 25%.

Conclusion on PE multiple

270 As we have adopted NPAT for valuation purposes based on The Rock's adjusted normalised NPAT for FY11, we have applied a FY11 PE multiple to derive our value of The Rock.

271 Accordingly, we are of the view that a PE multiple range of 10.5 to 11.0 (including an appropriate premium for control recognising that synergy benefits have been separately valued) is appropriate to apply when valuing the shares in The Rock on a controlling interest basis.

Synergies

272 MyState has announced that it expects to generate annual synergy benefits of around $7.5 million to $8.5 million (prior to implementation costs) from the third full year of the merger. These synergy estimates principally arise from IT and other operational cost savings, anticipated funding benefits (due to the enlarged size of the Merged Entity) and revenue benefits (to be achieved through an expansion of The Rock's product offering using MyState products and services and through branch upgrades).

273 As set out in Section VIII we have assessed the value of the synergy benefits expected to arise from the proposed merger of The Rock and MyState at $22.5 million to $27.5 million on a 100% controlling interest basis.

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274 In assessing the appropriate proportion of the synergy value (if any) which should be attributed to The Rock we have considered:

(a) the nature of the synergy benefits assumed and the level of confidence associated with their likelihood of realisation.

In this regard we note that the greater the confidence about the level and availability of potential synergies and their timing, the more likely it is that a higher proportion of those synergies will be reflected in the market value of the target company's shares. For example, there is a high degree of confidence associated with public company cost savings (e.g. share registry and listing costs etc), as such savings can be easily achieved almost immediately, and accordingly a large proportion of such synergies are generally paid away to target company shareholders in takeover situations:

Nature of synergies		
Nature	**Risk**	**Proportion paid away**
Public company costs	Low	High
Other costs savings	Medium	Medium
Revenue synergies	High	Low (or nil)

(b) the extent to which the synergies could be realised by other potential acquirers.

This is because the greater the number of potential purchasers who can generate significant synergies the more likely it is that a higher proportion of those synergies will be reflected in the market value of the target company's shares. This reflects the greater likelihood of competing bids, increasing the proportion of synergies likely to be paid to the target company's shareholders. In contrast, a much smaller proportion[75] of synergies which are unique to a specific purchaser are normally reflected in the offer consideration for the target company

(c) the extent to which synergy benefits have been paid away in other observed transactions involving small ADIs, particularly those where the annual synergy benefits were very high relative to the target ADI's standalone earnings (e.g. Pioneer, MacKay Permanent and Home)

(d) the risks faced by the purchaser, who must ultimately implement the initiatives to achieve the synergies

(e) the fact that the synergy benefits cannot be generated by either The Rock or MyState shareholders as standalone entities.

275 In our opinion, any reasonably large Australian based ADI is likely to be able to generate substantial synergies as a result of acquiring The Rock. Accordingly, in our view, the proportion of synergy value likely to be paid away to The Rock shareholders is high.

75 And in some cases no proportion.

276 Having regard to the nature of the estimated synergies, and the extent to which it is commercially appropriate to pay a proportion of these benefits away, we have therefore concluded that the value of the synergies likely to be paid away to The Rock shareholders in a takeover or other change of control transaction is $9.0 million to $13.8 million. This represents some 40% to 50% of the capitalised value of the synergy benefits ultimately expected to be realised by the Merged Entity, which we consider is reasonable (and consistent with the proportion of synergies paid away in other acquisitions of small ADIs we have been involved in).

Surplus assets

277 The Rock owns two properties, its head office property located on Bolsover Street Rockhampton and the site located on East Street Rockhampton. The properties were independently assessed by Herron Todd White to have a market value of $2.9 million as at 30 June 2010. The Rock's management have indicated that they are exploring the possibility of selling a component of the head office property that they consider surplus (the sale of this land is not expected to impact upon the ongoing operations at The Rock[76]). Our assessment of surplus assets includes an estimated value for this land net of selling costs, tax and a time value of money discount. The remaining properties have not been treated as surplus as we consider the net result of doing so to be immaterial in the context of our overall valuation[77] and because the majority of the comparable companies also own land and buildings[78].

278 As at 30 June 2011, The Rock's total capital adequacy ratio exceeded its own internal target of 12.0% by some 1.35% (or $4.7 million)[79]. After allowing for the payment of the final dividend for the year ending 30 June 2011 (eight cents per share or some $2.0 million), the total capital adequacy ratio still exceeds the internal target by some 0.8% (or approximately $2.7 million). Given this position, the capital impacts caused by current market volatility, the potential for additional capital requirements arising from the introduction of Basel III and our discussions with The Rock's management, we have, for the purposes of this report, assumed that some 25 to 50 basis points of that capital is surplus.

Surplus capital

	Low $m	High $m
RWA as at 30 June 2011	345.1	345.1
Surplus above The Rock's internal total capital target of 12.0%	0.25%	0.50%
Surplus capital(1)	**0.9**	**1.7**

Note:
1 The interest income net of tax generated by surplus capital is considered immaterial. We have therefore not reflected an adjustment in our NPAT adopted for valuation purposes.

76 The Rock does not expect to need to (or be required to) lease back the property.

77 We have been advised by The Rock's management that the properties are fully utilised. Accordingly, a notional rent charge would need to be reflected in the earnings if they were to be treated as surplus. As a consequence, the net proceeds arising from an assumed notional sale of the properties would be offset by a corresponding decrease in the value of the core operations.

78 The carrying value of land and buildings represent a similar proportion of total assets held in each instance.

79 Refer to paragraph 95.

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279 We consider our assumption to be broadly supported by the fact that if the Scheme is successfully implemented, The Rock may pay an interim dividend of not more than 12 cents per share in respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date and 31 December 2011 (or from retained profits if approved if approved by APRA). The cap of 12 cents per share exceeds the interim dividend paid by The Rock in the prior corresponding period by some six cents, or approximately $1.5 million (six cents per share multiplied by 25.2 million shares)[80]. We also note that even after allowing for the payment of the final dividend for FY11 and our assumed level of surplus capital, The Rock continues to retain a total capital buffer (above its internal targets):

Pro forma total capital position	Low $m	High $m
Total capital as at 30 June 2011	46.1	46.1
Less final dividend for FY11	(2.0)	(2.0)
Less assumed surplus capital	(0.9)	(1.7)
Pro forma total capital	43.2	42.4
RWA as at 30 June 2011	345.1	345.1
Pro forma total capital ratio	**12.52%**	**12.29%**

280 Based upon the above, we consider The Rock to have between $1.2 million and $2.1 million in surplus assets. This incorporates the value of the surplus land referred to above.

Fully diluted shares on issue

281 The Rock has 25.161 million fully paid ordinary shares on issue. There are no other securities on issue.

Valuation of The Rock

282 Based upon the above, we have assessed the value of The Rock on a 100% controlling interest basis at $2.62 to $2.94 per share, as shown below:

Value of 100% of The Rock	Low $m	High $m
NPAT adopted for valuation purposes	5.3	5.3
PE multiple	10.5	11.0
Value of The Rock (core business)	55.7	58.3
Synergies	9.0	13.8
Surplus assets	1.2	2.1
Value of The Rock	**65.9**	**74.2**
Number of shares outstanding (millions)	25.2	25.2
The Rock value per share ($)	**2.62**	**2.94**

80 The decision to declare the proposed interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

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Cross-check for reasonableness

Implied NTA multiple

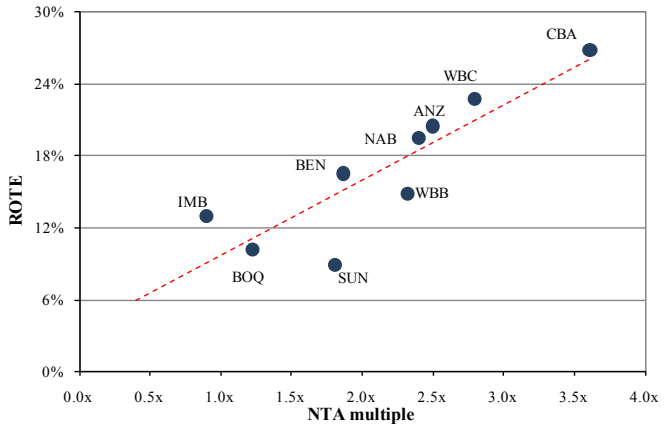
283 We set out below the NTA multiples implied by our valuation. In order to ensure that our cross-check is also referenced back to the relative underlying earnings capability of the business being valued, we also set out the return on tangible equity (ROTE) implied by our valuation of The Rock.

The Rock – implied NTA multiple and ROTE

	Low $m	High $m
NTA as at 30 June 2011	53.3	53.3
Less surplus assets	(1.3)	(2.1)
NTA of core business	52.0	51.2
Value of The Rock (core business)	55.7	58.3
Implied NTA multiple (times)	**1.07**	**1.14**
Normalised NPAT for FY11	5.3	5.3
Value of The Rock (core business)	55.7	58.3
Implied ROTE	**10.2%**	**10.4%**

284 The implied NTA multiples (and ROTE) of the listed companies in the Australian banking industry are detailed in Appendix C, a summary of which is set out below (it should be noted that we have adjusted the NTA multiples to include an assumed control premium of 35% in order to enable a more meaningful comparison to the multiples implied by our valuation):

Comparable companies multiples[1]
ROTE (FY11) and NTA multiples[2]



Note:
1 We have adjusted the market capitalisation of each company to reflect a control premium of 35%. The analysis excludes The Rock and MyState.
2 NTA attributed to ordinary equity, calculated as net assets excluding goodwill, intangibles, minority interests and hybrid equity. Information based upon latest available balance sheet.

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285 The chart above includes a trend (or regression line) based upon the data points provided. This is appropriate as those entities with high returns on NTA should trade on higher NTA multiples. Based upon the trend (or regression) line and the ROTE generated by The Rock in FY11 of circa 10.3%[81], the NTA multiple attributable to The Rock should approximate 1.1 times. This multiple is broadly consistent with the NTA multiples implied by our valuation. In this context, we consider our valuation range to be reasonable and appropriate[82].

Comparison with listed market price

286 Research undertaken by LEA on takeover premiums indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).

287 In the one month and three months prior to the announcement of the proposed transaction, the volume weighted average price (VWAP) of The Rock's shares was $1.94 and $2.09 respectively. Adjusting these share prices for a 30% to 35% control premium would therefore result in a "theoretical" control value of $2.57 to $2.77 per share[83]. While the high end of our valuation range of $2.94 per share[84] exceeds this share price range, in our opinion this is appropriate given the significant synergy value which can be generated from an acquisition of The Rock.

288 Having regard to the above we consider our valuation range is reasonable and appropriate.

81 Mid-point of range.

82 Although not set out in this report, we have also cross-checked our valuation range on a similar basis using return on equity and price to net asset multiples. This cross-check also indicated that our assessed valuation range appeared reasonable.

83 Based upon the mid-point of observed control premiums.

84 It should be noted that our assessed valuation range of $2.62 to $2.94 per share has been assessed on an "ex-final FY11 dividend" basis, whereas the VWAPs are stated on a "cum-final FY11 dividend" basis.

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VIII Valuation of consideration offered

Approach

289 If the Scheme is approved and implemented, The Rock shareholders will exchange their interest in The Rock for a minority interest in the Merged Entity (collectively, The Rock shareholders will assume ownership of some 22% of MyState). In such circumstances RG 111 requires the expert to the value the securities being offered as consideration on a minority interest basis.

290 As stated in Section VI although it is customary in scrip-for-scrip transactions to rely upon the listed trading price of the bidder (in this case MyState) as the reference point for estimating the realisable value of the consideration offered, the expert must, in doing so, consider and comment on, inter-alia, the depth of the market for those securities and the volatility of the share price. Put simply, the expert must determine whether the listed market price of the stock represents a reasonable proxy for the value that could be realised by the target's shareholders. Consequently, we have also cross-checked the reasonableness of our assessed value of the MyState shares being offered as consideration by reference to implied PE and NTA multiples.

Recent share prices

291 When assessing the value of the MyState share consideration we believe it is reasonable to have regard to the recent prices at which MyState shares have traded. This is principally because the listed market prices of MyState shares are likely to represent a reasonable proxy for the amount that The Rock shareholders could expect to realise if they sold any MyState shares received as consideration either immediately or in the short-term.

292 This is because any decision to continue to hold MyState shares beyond the immediate to short-term is, in our opinion, a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. It is also not possible to accurately predict future share price movements.

293 Furthermore, whilst there may be a future opportunity for The Rock shareholders to share in a control premium in the event MyState was acquired, this is not a scenario that we consider likely in the short-term.

Recent share trading history (pre and post announcement)

294 The share price performance of MyState is set out in Section IV. More recent trading in MyState shares prior to the announcement of the Scheme is shown below:

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MyState – share price history (pre announcement)			
Time periods up to and including 30 Aug 2011[1]	**Low $**	**High $**	**VWAP $**
1 day	3.50	3.55	3.55
1 week	3.50	3.58	3.55
1 month	3.28	3.61	3.52
3 months	3.28	3.75	3.56
6 months	3.28	3.85	3.67
1 year	3.01	3.90	3.58

Note:
1 Shares prices have not been adjusted for the impact of dividends.

295 Although MyState has traded in a fairly wide range during the last 12 months, the VWAP has remained relatively stable. We further note that the VWAP prices reasonably approximate (albeit are slightly higher than) the last closing price prior to the announcement of the Scheme, being $3.50 (on 30 August 2011).

296 For the purpose of assessing the value of the MyState shares offered as consideration we believe more regard should be given to the price of MyState shares since the Scheme was announced on 31 August 2011. This is because we consider the MyState share price subsequent to and including 31 August 2011 to be more representative of the share price assuming the Scheme proceeds than the prices pre 31 August 2011. However, due to the short period of post-announcement trading we have considered both pre and post announcement trading in MyState shares.

297 The following table sets out the prices at which MyState shares have traded in the short period subsequent to the announcement of the Scheme.

MyState – share price history (post announcement)			
Time periods up to and including 23 Sep 2011	**Low $**	**High $**	**VWAP $**
1 day	3.55	3.58	3.57
1 week	3.53	3.58	3.55
2 weeks	3.50	3.60	3.55
3 weeks[1]	3.50	3.67	3.55
31 Aug 2011[2] to 23 Sep 2011[1]	3.35	3.67	3.54

Note:
1 MyState shares prices have been shown on an "ex-final FY11 dividend" basis. MyState shares traded on an ex-final FY11 dividend basis (of 15 cents on 5 September 2011).
2 Being the first full day of trading subsequent to the announcement of the Scheme.

298 We note that MyState has, post the announcement of the Scheme, continued to trade within a narrower and marginally higher range to that observed in the 12 months prior to the announcement. We further note that the VWAPs are largely consistent with that observed prior to the announcement of the Scheme.

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Share trading restrictions and liquidity

299 Aside from the shareholding restrictions placed upon Australian financial institutions[85] there are no other significant restrictions on trading in MyState which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price.

300 We note however, that the volume of shares traded in MyState is relatively low compared to ASX companies generally (the implied levels of liquidity prior to the announcement of the Scheme are set out in Section IV). The level of liquidity subsequent to the announcement has remained relatively similar, albeit marginally higher, than that evidenced in the six months prior to the announcement of the Scheme:

MyState – liquidity analysis (post announcement)

	No of shares traded	WANOS outstanding(1)	Implied level of liquidity Period(2)	Annual(3)
Up to and including 23 Sep 2011	**000**	**000**	**%**	**%**
1 day	8	67,439	0.01	2.99
1 week	143	67,439	0.21	11.02
2 weeks	399	67,439	0.59	15.38
3 weeks	618	67,439	0.92	15.88
31 Aug 2011(4) to 23 Sep 2011	753	67,439	1.12	15.63

Note:
1 Weighted average number of shares outstanding during the month (or period as the case may be).
2 Number of shares traded during month (or period as the case may be) divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the month (or period as the case may be).
4 Being the first full day of trading subsequent to the announcement of the Scheme.
Source: Bloomberg.

Information disclosures

301 As MyState is considerably smaller than other comparative listed financial institutions, it is not well researched and analysed by share broking firms and institutional investors.

302 However, significant information has been disclosed in relation to MyState's operations in its financial reports and ASX announcements. Further, MyState has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning MyState which a reasonable person would expect to have a material effect on the price or value of MyState shares.

303 MyState management has also confirmed with LEA that it is not, to the best of its knowledge, aware of any information that has not been publicly disclosed in respect of its existing business that would have a material impact on its share price. Furthermore, The Rock's management have confirmed that their due diligence investigation did not reveal any items that were not already in the public domain and which would have a material impact on MyState's share price.

85 Shareholders are prevented from acquiring an interest in more than 15% of the issued capital without prior approval.

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Number of MyState shares to be issued as consideration

304 As at 26 September 2011 MyState had 67.4 million ordinary shares on issue.

305 The number of shares to be issued by MyState as consideration will therefore represent 22.4% of the enlarged capital base of MyState:

Consideration as a % of existing and enlarged capital base

		Millions
No. of existing MyState ordinary shares on issue		67.4
No. of shares to be issued pursuant to the Scheme(1)	(A)	19.5
Enlarged capital base	(B)	86.9
The Rock's interest(2) in the enlarged MyState	(A) / (B)	22.4%

Note:
1 Being 25.2 million shares in The Rock converted to MyState shares at the exchange ratio of 7.75 MyState shares for every 10 shares in The Rock.
2 Representing the collective interest of The Rock shareholders.

306 Given the number of new MyState shares to be issued under the Scheme, if a significant number of The Rock shareholders elect not to retain the shares in MyState received as consideration there may be an oversupply of MyState shares which may have an adverse effect on the MyState share price in the short-term.

307 However, we note that this potential oversupply may be offset by ongoing demand from substantial shareholders such as Mecu Limited[86] (Mecu) that have recently been acquiring shares in MyState[87]. Mecu became a substantial shareholder in MyState on 18 May 2011 and as at the date of its last substantial shareholding notice (7 September 2011) held some 7.4% of the issued shares in MyState. The following table sets out the acquisition of MyState shares by Mecu:

MyState share volume represented by Mecu (indicative)

	Shares purchased in MyState		
	Mecu	Total volume	Mecu / Total
Date ranges (inclusive)	**000**	**000**	**%**
10 May 2010 to 18 May 2011(1)	3,372	9,331	36.1
19 May 2011 to 23 June 2011	-	266	-
24 June 2011 to 6 September 2011	1,131	1,294	87.4
Total	**4,503**	**10,891**	**41.3**

Note:
1 Shares were acquired between prices ranging from $2.99 to $3.75.
Source: ASX announcements and LEA analysis.

86 And its associated parties.
87 We note that we have not discussed with Mecu its future intentions in respect of its shareholding in MyState.

308 Given that Mecu have acquired a substantial proportion of the total volume of MyState shares over the above periods we note that Mecu is likely to have supported the MyState share price. Accordingly, in the absence of this buying support, the MyState share price could fall[88]. In this regard we note that the MyState share price declined during the period from 19 May 2011 to 23 June 2011when Mecu did not acquire shares (albeit the S&P/ASX 200 Financials Index also declined by a similar percentage[89]).

309 We further note that FirstMac Limited[90] (FirstMac) became a substantial shareholder in The Rock on 2 December 2010 and as at the date of its last substantial shareholding notice (8 September 2011) held a relevant interest in some 12.7% of the issued shares in The Rock. The following table sets out the acquisition of The Rock shares by FirstMac:

The Rock share volume represented by FirstMac (indicative)(1)

	Shares purchased in FirstMac		
	FirstMac	Total volume	FirstMac / Total
Date range (inclusive)	000	000	%
9 Nov 2010 to 8 Sep 2011(1)	1,575	3,563	44.2

Note:
1 It is not known as to when FirstMac acquired their first 0.6 million shares. These shares are excluded from the above analysis as are the shares acquired via options (1.0 million) and shares acquired through dividend reinvestment (0.1 million).

Source: ASX announcements and LEA analysis.

310 As was the case with Mecu in respect of MyState, FirstMac has also acquired a substantial proportion of the total volume of The Rock shares during the observed period. Should the Scheme proceed and FirstMac continue to acquire stock (in the Merged Entity, i.e. MyState), then this ongoing level of demand may provide some support for the MyState share price. The opposite may also apply in the absence of this buying support[91].

Current equity market conditions

311 Due to concerns regarding the European sovereign debt crisis and its impact on funding costs and global economic growth, world stock markets have been very volatile and have declined significantly over recent months. While the MyState share price has been relatively unaffected to date, in our view, the recent stock market volatility and outlook means it is appropriate to allow for some downside risk when assessing the value of MyState shares offered as consideration.

88 We note that we have not discussed with Mecu its future intentions in respect of its shareholding in MyState.

89 MyState declined by some 6.7% while the S&P/ASX 200 Financials Index declined by some 4.9%.

90 And its associated parties.

91 We note that we have not discussed with FirstMac its future intentions in respect of its shareholding in The Rock or MyState (post merger).

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Conclusion

312 In summary, in assessing the value of the MyState shares offered as consideration we have had regard to:

(a) the recent trading range of MyState shares

(b) the number of shares to be issued by MyState under the Scheme compared to the enlarged number of MyState shares on issue post implementation of the Scheme

(c) the likely level of on-market trading in MyState shares subsequent to completion of the Scheme, having regard to factors including:

(i) any potential oversupply of MyState shares from those shareholders in The Rock not wishing to retain the MyState shares received as consideration

(ii) the recent acquisition of shares in both MyState and The Rock by substantial shareholders

(iii) general stock market conditions (in particular, the influence of the European sovereign debt crisis and the further potential deterioration of this situation).

313 Accordingly, based on the above we have assessed the realisable value of the MyState shares offered as consideration at between $3.25 and $3.60 per share.

Implied PE and NTA multiple cross-check

314 As stated above we have cross-checked our assessment of the realisable value of MyState shares by reference to the FY11 PE multiple and NTA multiple implied for the core business of the Merged Entity (excluding synergies), compared to the comparative multiples of the other Australian listed financial institutions.

315 To determine the value of the core business (excluding synergies) implied by our assessed realisable value of MyState shares we have determined the Merged Entity's implied market capitalisation and deducted the value of expected synergies and surplus assets.

Implied value of synergy benefits

Overview

316 If the Scheme proceeds, MyState is expected to realise significant revenue and cost synergy benefits. MyState has provided us with a detailed breakdown of the synergy benefits that it expects to arise from the acquisition of The Rock, which we have reviewed and consider to be based on reasonable assumptions. The synergies fall into three broad categories:

(a) **revenue –** revenue benefits (to be achieved through an expansion of The Rock's product offering using MyState products and services and through branch upgrades)

(b) **cost –** reduction in corporate costs, operations and IT

(c) **funding –** funding synergies and treasury benefits (including ADI licence consolidation[92]), driving increased NIM.

92 Which remains subject to APRA approval.

317 MyState management have estimated ongoing total synergy benefits to be in the order of $7.5 million to $8.5 million (pre-tax) per annum prior to taking into account implementation costs, with the benefits expected to be gradually realised (i.e. phased in) over a three year time frame. Net one-off implementation costs associated with the realisation of the synergy benefits are anticipated to be some $3.5 million (pre tax). The anticipated synergies as a percentage of the cost base of both The Rock and the Merged Entity are set out in the following table:

Anticipated synergy benefits as a percentage of cost base

	$m	$m
Normalised operating expenses for FY11		
The Rock	21.8	21.8
MyState	66.7	66.7
Pro forma Merged Entity	**88.5**	**88.5**
Anticipated synergy benefits (pre tax)	**7.5**	**8.5**
Synergies / The Rock's normalised operating expenses	34.4%	39.0%
Synergies / Merged Entity's pro forma normalised operating expenses	8.5%	9.6%

Source: LEA analysis.

Valuation

318 We have valued the synergy benefits using the DCF methodology. In doing so, we have had regard to:

(a) our review of the detailed calculations that support the anticipated range of synergy benefits (including the sensitivity analysis undertaken by MyState)[93]

(b) MyState's proposed integration plan

(c) our discussions with the management of both The Rock and MyState

(d) our review of the announced estimated cost synergies in recent banking transactions:

93 The detailed calculations are commercially sensitive and for this reason have not been disclosed in this report.

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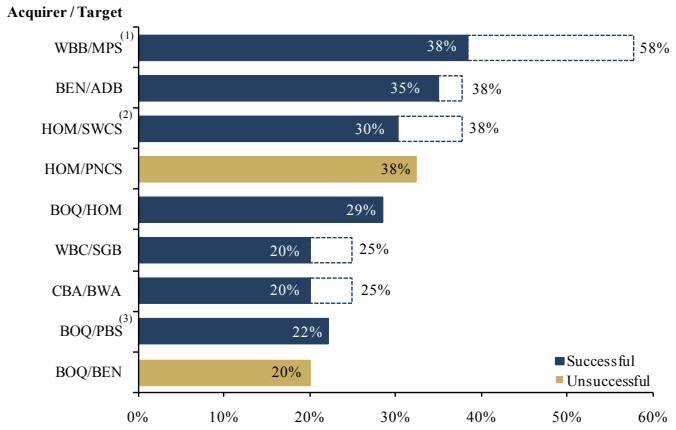
Announced cost synergies in recent transactions

Expected cost synergies as a percentage of target's cost base



Note:
1 The nature of the announced synergies relating to the Wide Bay / Mackay transaction were not specified, and may not be cost synergies alone.
2 The synergies provided above in the Home Building Society / StateWest Credit Society transaction are based on management estimations. However, it should be noted that management applied a discount of 20% to the range of synergy benefits specified above in order to reflect the fact detailed planning to derive the synergy benefits had not been undertaken at the time of estimation.
3 The nature of the announced synergies relating to the Bank of Queensland / Pioneer Permanent Building Society transaction were not specified, and may not be cost synergies alone.

Source: Company announcements, LEA analysis.

Although the synergies expected to arise from the Scheme are greater than the average of the transactions set out above (being some 30%), we note that the transaction evidence is limited to cost synergies only[94]. We further note that many of the transactions also involved targeted ADIs which had lower CTI ratios than that of The Rock. Based upon the above market evidence, synergy benefits were also generally expected to be realised 15% to 33% in year 1, 50% to 80% in year 2 and 100% by the end of year 3[95].

(e) the market's perception of (and preparedness to pay for) anticipated revenue synergies.

94 MyState's estimate includes both revenue and cost synergies.

95 The range of expected one-off implementation costs was much wider (range of 20% to 135% of the ongoing annual synergy benefit).

319 Our DCF valuation assumes that the benefits (net of tax) will begin to be realised from 1 January 2012 and phase in over three years on a 20%, 80%, 100% basis. Implementation costs have been assumed to occur over a three year timeframe. We have discounted the synergy benefits (net of implementation costs and tax) to reflect their present value using a cost of equity (discount rate) of 15% per annum[96]. Our terminal value at the end of the three year period reflects an implied PE multiple of 8 times the ongoing annual synergy benefit adopted for valuation purposes. The lower implied multiple relative to that applied to our valuation of The Rock reflects the lower growth in future cost savings relative to the growth that is anticipated in the underlying business.

320 On the basis of the above, we have, for the purposes of this report, valued the synergy benefits (net of implementation costs and tax) on a 100% controlling interest basis at between $22.5 million and $27.5 million. As the value of MyState shares offered as consideration must be assessed on a portfolio or minority interest basis we have then discounted these values by 25% (consistent with empirical evidence on the discount appropriate for minority interests). On this basis the portfolio interest value of the synergy benefits has been assessed at $16.9 million to $20.6 million.

Surplus assets

321 Based upon our review of the MyState balance sheet and discussions with MyState management, we have identified two freehold properties (located in Hobart) as being the only material surplus assets. The properties are currently held for sale and have been recognised at their fair value less costs to sell (being $5.6 million). An impairment charge has already been recognised in the accounts in relation to the write down from their prior carrying value. Consistent with our reasoning in respect of The Rock, we have not treated the remaining properties owned by MyState as surplus as we consider the net result of doing so to be immaterial in the context of our overall valuation and because the majority of the comparable companies also own land and buildings[97].

322 We note that although MyState holds total capital in excess of its minimum Board requirement, MyState management do not consider the excess to be surplus to its ongoing requirements.

323 We have identified in Section VII that The Rock has surplus assets ranging in value between $1.2 million and $2.1 million.

Conclusion

324 Given the above, we have assessed the implied value of the Merged Entity's core business as follows:

[96] In our opinion, a potential purchaser would consider the risks associated with the realisation of the synergy benefits (such as implementation risk and over estimation) to be higher than the risks associated with the general operations of either The Rock or MyState.

[97] The carrying value of land and buildings represent a similar proportion of total assets held in each instance.

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Implied value of Merged Entity's core business	Low $m	High $m
Estimated realisable value of MyState shares ($)	3.25	3.60
Enlarged number of shares on issue (millions)	86.9	86.9
Implied market capitalisation	282.4	312.8
Less assessed value of synergies (on a minority interest basis)	(16.9)	(20.6)
Less surplus assets in MyState	(5.6)	(5.6)
Less surplus assets in The Rock	(1.2)	(2.1)
Implied value of Merged Entity's core business	**258.7**	**284.5**

Implied PE and NTA multiples

Implied PE multiple

325 We have reviewed and discussed with MyState management the company's historical and budgeted results. As set out in Section IV MyState reported NPAT in FY11 of $22.0 million. We have adjusted the reported NPAT for the following material non-recurring items, which result in normalised adjusted NPAT of $21.8 million in FY11 as set out below:

MyState – normalised NPAT for FY11	$m
Reported NPAT for FY11	22.0
Special dividend from Cuscal Ltd	(0.7)
Termination payments	0.1
Depreciation write-offs	0.6
Contractually committed lease payments	0.3
Impairment loss on "held for sale" properties	0.2
Normalised NPAT for FY11	**22.5**
Surplus property adjustment(1)	(0.7)
Normalised NPAT for FY11 (adjusted)	**21.8**

Note:
1 We note that as MyState's surplus properties are occupied, their eventual sale will have an impact on MyState's future earnings (loss of rent and additional rental charges). We have been advised by MyState management that the net impact of this will be to reduce earnings by some $1.0 million (pre-tax).

Source: MyState and LEA analysis.

326 As set out in Section VII we have adopted normalised NPAT for valuation purposes for The Rock as a standalone entity in FY11 at $5.3 million.

327 On the basis of the above, the pro-forma normalised NPAT of the core business of the Merged Entity (prior to taking into account any synergy benefits and related implementation costs) and the implied PE multiple for FY11 is as follows:

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Merged Entity – pro forma normalised NPAT and implied PE multiple	Low $m	High $m
Normalised NPAT for FY11 (as adjusted)		
MyState	21.8	21.8
The Rock	5.3	5.3
Pro forma Merged Entity	**27.1**	**27.1**
Implied value of Merged Entity core business (pre synergies)	258.7	284.5
Implied PE multiple (times)	**9.5**	**10.5**

328 The PE multiples for listed banks and mutuals operating in Australia are detailed in Appendix C. We note that the above FY11 PE multiple range is:

(a) marginally below the FY11 PE multiple at which MyState shares were trading prior to the announcement of the Scheme; and

(b) consistent with the FY11 PE multiples of other Australian listed financial institutions (on a portfolio interest basis).

329 Having regard to the above, we therefore consider our assessed realisable range of values for MyState shares to be reasonable and appropriate.

Implied NTA multiple

330 We set out below the NTA multiples and ROTE implied by our assessment.

Merged Entity – implied pro forma NTA, NTA multiple and ROTE	Low $m	High $m
NTA of core business as at 30 June 2011		
MyState[(1)]	150.2	150.2
The Rock	52.0	51.2
Pro forma Merged Entity	**202.2**	**201.4**
Implied value of Merged Entity's core business (pre synergies)	258.7	284.5
Implied NTA multiple (times)	**1.28**	**1.41**
Merged Entity pro forma normalised NPAT for FY11 (as adjusted)	27.1	27.1
Implied return on NTA	**13.4%**	**13.5%**

Note:
1 Being MyState NTA as at 30 June 2011 (of $155.8 million) less the carrying value of the surplus properties being $5.6 million.

331 The implied NTA multiples (and ROTE) of the listed companies in the Australian banking industry are detailed in Appendix C, a summary of which is set out below:

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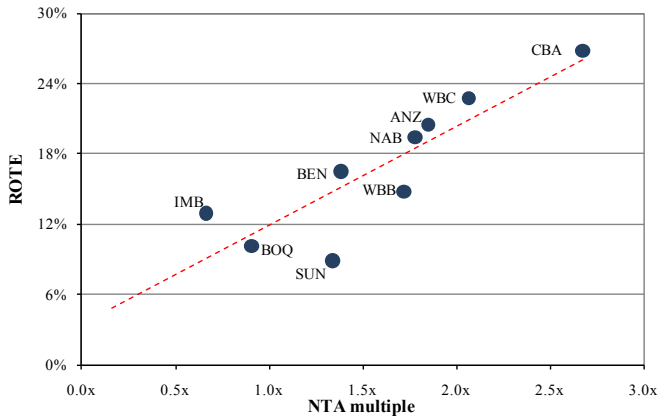
Comparable companies multiples[1]
ROTE (FY11) and NTA multiples[2]



Note:
1 The analysis excludes The Rock and MyState.
2 NTA attributed to ordinary equity, calculated as net assets excluding goodwill, intangibles, minority interests and hybrid equity. Information based upon latest available balance sheet.

332 The chart above includes a trend (or regression line) based upon the data points provided. This is appropriate as those entities with high returns on NTA should trade on higher NTA multiples. Based upon the trend (or regression) line and the pro forma ROTE generated by the Merged Entity in FY11 circa 13.4%[98], the NTA multiple attributable to the Merged Entity should approximate 1.2 times. This multiple is broadly consistent with the NTA multiples implied by our valuation. In this context, we consider our valuation range to be reasonable and appropriate[99].

Assessed value of Total Consideration

333 Under the terms of the Deed, The Rock shareholders may also receive an interim dividend for FY12 of no more than 12 cents per share in addition to the Scheme Consideration (but will not receive MyState's interim dividend for the same period). Accordingly, it is necessary to take into account these interim dividends when assessing the Scheme.

98 Mid-point of range.

99 Although not set out in this report, we have also cross-checked our valuation range on a similar basis using return on equity and price to net asset multiples. This cross-check also indicated that our assessed valuation range appeared reasonable.

334 Based upon the above, we have assessed the value of the Total Consideration payable under the Scheme at between $2.47 to $2.82 per share (after deducting the estimated MyState interim dividend for the six months to 31 December 2011 and adding the estimated interim dividend The Rock is expected to pay[100] should the Scheme be successfully implemented[101]), as follows:

Value of Total Consideration	Low $ per share	High $ per share
Assessed realisable value of MyState shares	3.25	3.60
Less estimate of MyState interim dividend per share for FY12(1)	(0.14)	(0.12)
Assessed realisable value of MyState shares (net of dividend)	3.11	3.48
Exchange ratio	0.775	0.775
Scheme Consideration pre The Rock's interim dividend for FY12	2.41	2.70
Add estimate of The Rock's interim dividend per share for FY12(1)(2)	0.06	0.12
Assessed value of Total Consideration	**2.47**	**2.82**

Note:
1 Refer below.
2 The Rock may declare an interim dividend of not more than 12 cents per share in respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA). However, it should be noted that the decision to declare the interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Accordingly, the quantum of the actual interim dividend declared (if at all) remains uncertain and may be less than our estimated range. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

Interim dividends for FY12

MyState's interim dividend for FY12

335 We have made an allowance for the fact that The Rock shareholders will not (if the Scheme is successfully implemented) be entitled to the MyState interim dividend for the six months ending 31 December 2011. Although the MyState Board has not declared its intention as to the likely quantum of this dividend, we note that pursuant to the Deed, the interim dividend can be no more than 15 cents per MyState share.

336 The MyState Board has a stated dividend policy of generally paying ordinary dividends within the range of 70% to 90% of net profit after tax[102]. The dividends declared in FY10 and FY11 are as follows:

MyState – dividend payout ratios(1)		
Year ended 30 June	**Audited FY10**	**Audited FY11**

[100] In respect of the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA).

[101] The decision to declare the proposed interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

[102] Actual dividend is determined after also taking into account the capital requirements of the business.

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	1H $m	2H $m	Total $m	1H $m	2H $m	Total $m
Reported net profit after tax	8.2	9.1	17.3	11.6	10.4	22.0
Interim dividend declared	6.7	8.4	15.2	8.1	10.1	18.2
Payout ratio (%)	81.7	92.2	87.5	69.7	97.2	82.7
Interim dividend per share (cents per share)	10.0	12.5	22.5	12.0	15.0	27.0

Note:
1 Totals may not add due to rounding.
Source: MyState and LEA analysis.

337 The interim dividends declared in FY10 and FY11 were 10 and 12 cents per MyState share respectively and based upon payout ratios that were much lower than the (corresponding) final dividend[103]. We note, in particular, that the payout ratio on the interim dividend for FY10 was much lower than that in the prior corresponding period. More generally, we also note that companies tend to operate 'sticky' dividend policies, in that they tend to maintain dividends (on a per share basis) even when there are minor period-to-period fluctuations in underlying profit.

338 On the basis of the above we have, for the purposes of this report, adopted an assumed range for the interim dividend of 12 to 14 cents per MyState share (the high end of the range allows for an increase in the relatively low payout ratio in respect of the FY11 interim dividend and some growth in earnings).

The Rock's interim dividend for FY12

339 As shown in the table in paragraph 0 above, we have assumed that The Rock will pay an interim dividend for FY12 of between six and 12 cents per share if the Scheme is implemented. The low end of this range is consistent with the interim dividend paid by The Rock in the last 2 years. However, in our opinion, The Rock is likely (based on current expectations) to pay an interim dividend for FY12 at the upper end of our adopted range. This is because:

(a) the Deed allows The Rock to pay a FY12 interim dividend of up to 12 cents per share (provided certain criteria are met) without impacting the terms of the Scheme. Accordingly, provided the conditions are met it is appropriate to assume that The Rock will declare and pay the maximum dividend possible (as Directors would not be acting in the best interests of shareholders if they had the capacity to pay the maximum dividend but did not do so)

(b) although The Rock is yet to determine the quantum of this interim dividend, we understand that the Board's current intention is to pay an interim dividend towards the upper end of the maximum amount allowed

(c) given the level of surplus capital held by The Rock we believe that The Rock should be able to pay a FY12 interim dividend at the upper end of our adopted range (being a 4 to 6 cent per share increase in the interim dividend paid by The Rock in the previous two

103 Interim dividends declared by a company are typically based upon much lower payout ratios than the final dividend, generally for reasons of conservatism (i.e. to allow for the occurrence of unforeseen developments in the second half of the financial year).

years).

340 However, it should be noted that the actual interim dividend to be paid by The Rock is uncertain and could be less than the six to 12 cents per share range adopted. Under the terms of the Scheme Implementation Deed, the Directors of The Rock will announce the quantum of the proposed interim dividend prior to the date of the Scheme Meeting.

Other considerations

341 The Rock shareholders should note that the listed market price of MyState shares is subject to daily fluctuation. The price at which MyState shares may be sold may therefore be greater or less than our assessed realisable value of MyState shares (net of the estimated interim dividend for FY12) of $3.11 to $3.48 per share.

342 The Rock shareholders should also note that any decision to hold MyState shares beyond the short-term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold MyState shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

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IX Evaluation of the Scheme

343 In our opinion, the Scheme is fair provided The Rock's interim dividend for FY12 is at least six cents per share, and is reasonable and in the best interests of The Rock shareholders in the absence of a superior proposal. In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme.

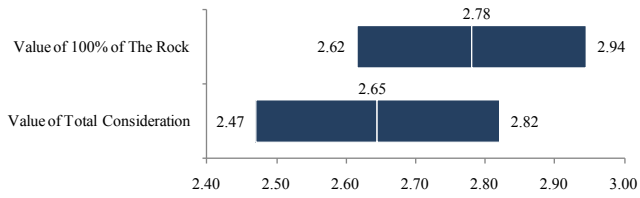
344 We have formed this opinion for the following reasons.

Assessment of the Scheme

Fairness

345 Pursuant to RG 111 the Scheme is "fair" if the value of the Total Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Total Consideration to value of The Rock
$ per The Rock share



346 The mid-point of our assessed value of the Total Consideration ($2.65 per share) falls within our valuation range of The Rock shares on a 100% controlling interest basis (albeit at the low end).

347 As noted above we believe it is appropriate to assume that The Rock will pay an interim dividend for FY12 of between six and 12 cents per share if the Scheme is implemented. While the Directors' of The Rock have indicated that they have no reason to consider that a FY12 interim dividend of less than six cents per share will be paid, it should be noted that the actual interim dividend is uncertain at this time. However, under the terms of the Scheme Implementation Deed, the Directors of The Rock will announce the quantum of the proposed interim dividend prior to the date of the Scheme Meeting.

348 In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme.

349 Having regard to the above we have therefore concluded that the Scheme is fair to The Rock shareholders provided The Rock's interim dividend for FY12 is at least six cents per share.

Other qualitative factors

350 Pursuant to RG 111, a transaction is reasonable if it is fair. A transaction may also be reasonable if, despite not being fair, there are sufficient reasons for shareholders to approve the transaction. Further, in our opinion, if the Scheme is "fair and / or reasonable" it must also be "in the best interests" of shareholders in the absence of a superior proposal.

351 Consequently, in our opinion, the Scheme is also "reasonable" and "in the best interests" of The Rock shareholders in the absence of a superior proposal.

352 In assessing whether the Scheme is reasonable and in the best interests of The Rock shareholders LEA has also considered, in particular:

(a) the extent to which a control premium is being paid to The Rock shareholders

(b) the extent to which The Rock shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction

(c) the listed market price of the shares in The Rock, both prior to and subsequent to the announcement of the Scheme

(d) the likely market price of The Rock shares if the Scheme is not approved

(e) the value of The Rock to an alternative offeror and the likelihood of a higher alternative offer being made for The Rock prior to the date of the Scheme meeting

(f) the advantages and disadvantages of the Scheme from the perspective of The Rock shareholders

(g) other qualitative and strategic issues associated with the Scheme.

353 These issues are discussed in detail below.

Extent to which a control premium is being paid

354 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

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(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

355 We have calculated the premium implied by the Total Consideration by reference to the market prices of The Rock shares (as traded on the ASX) for periods up to and including 30 August 2011 (being the trading day prior to the announcement of the Scheme).

356 We note that The Rock shareholders will receive a final dividend of eight cents per share on 30 September 2011 and that the share prices prior to the ex-date of 5 September 2011 (including the periods over which we have measured the premiums implied by the Total Consideration) traded with an entitlement to this dividend. Consequently, our assessment of the total value (including dividends) which will be received by The Rock shareholders if the Scheme is implemented is as follows:

Total consideration for offer premium calculations

	Low $ per share	High $ per share
Assessed value of Total Consideration[(1)]	2.47	2.82
The Rock's FY11 final dividend (paid on 30 September 2011)	0.08	0.08
Total Consideration (including The Rock's FY11 final dividend)[(1)]	2.55	2.90

Note:

1 Includes estimate of The Rock's interim dividend for FY12 which, if the Scheme is successfully implemented, The Rock is expected to declare. The interim dividend must be no more than 12 cents per share and be paid from the profit generated in the period commencing 1 July 2011 and ending the earlier of the Implementation Date or 31 December 2011 (or from retained profits if approved by APRA). However, it should be noted that the decision to declare the interim dividend is (as detailed in the Scheme Booklet) subject to a number of conditions including, in particular, The Rock's total capital adequacy ratio not falling below 12.0%. Payment of the dividend will be contingent on the approval of the Scheme by Shareholders in The Rock and the Court.

357 For the purposes of ascertaining the implied offer premium relative to The Rock share prices prior to 31 August 2011 we have adopted the mid-point of the above values.

Implied offer premium relative to The Rock's recent share prices

	The Rock share price $	Implied offer premium %
Total Consideration (including The Rock's FY11 final dividend)	2.73[(1)]	
Closing share price on 30 August 2011[(2)]	1.84	48.4%
VWAP:		
1 month to 30 August 2011	1.94	40.7%
3 months to 30 August 2011	2.09	30.6%

Note:
1 Mid-point value.
2 The last trading day prior to the announcement. Based upon the close as at 29 August 2011 (noting that The Rock shares did not trade on the ASX on 30 August 2011).

358 Based on the above, we have concluded that the Total Consideration implies an offer premium which is consistent with the average premiums paid in successful takeovers generally.

Extent to which The Rock shareholders are being paid a share of synergies

359 As set out in Section VIII MyState is likely to generate significant synergies as a result of acquiring The Rock.

360 In our opinion, our valuation of The Rock and the value of the consideration under the Scheme reflects a significant share of the value of synergies which MyState expects to generate as a result of the Scheme.

Recent share prices subsequent to the announcement of the Scheme

361 We note that the Rock share prices subsequent to the announcement of the Scheme are less than the equivalent value of the MyState shares to be issued as consideration. This suggests that the market consensus view is that a superior offer or proposal is unlikely to emerge and that the Scheme is likely to be successful.

Likely price of The Rock shares if the Scheme is not approved

362 If the Scheme is not approved by The Rock shareholders and the Court and no higher offer or alternative proposal emerges, we would expect that, at least in the short-term, The Rock shares would trade at a significant discount to our valuation and the Total Consideration (consistent with the difference between the value of The Rock on a portfolio basis and the value on a 100% controlling interest basis).

363 We also note that current equity market conditions are extremely volatile and that share market indices have fallen appreciably since the announcement of the Scheme[104].

364 Accordingly, if the Scheme is not implemented those shareholders in The Rock who wish to sell their shares are therefore likely, at least in the short-term, to realise a significantly lower price than will be payable under the Scheme.

[104] Between 31 August 2011 and 23 September 2011 (inclusive) the S&P/ASX 200 Financial Index and the S&P/ASX 200 Index have fallen by some 9.0% and 8.6% respectively.

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Likelihood of an alternative offer

365 The Rock in its 2010 Annual Report indicated that the Board had resolved to pursue a number of strategic opportunities to further address The Rock's lack of scale and deliver increasingly diversified products and services. The opportunities were said to include the prospect of merging with similar scale ADIs, to pursue economies of scale and expand market penetration, or the provision of complementary products and services through the acquisition, or some other combination, with other businesses.

366 Since that time, we understand that The Rock has undertaken a comprehensive review of the Australian banking and credit union/building society landscape with a view to identifying preferred merger partners (and has remained quite vocal with respect to its intentions). We further understand that although The Rock engaged with a number of parties other than MyState, these exploratory discussions never led to the receipt of a formal proposal.

367 Although, as a condition of the Scheme, The Rock has undertaken not to solicit, initiate, invite, encourage or participate in any potential competing transaction, this undertaking is subject to normal fiduciary duty carve-outs that allow The Rock to appropriately respond to a bona fide unsolicited offer. Accordingly, there has effectively been (and remains) an opportunity therefore for third-parties contemplating an acquisition of The Rock to table a proposal before The Rock Board.

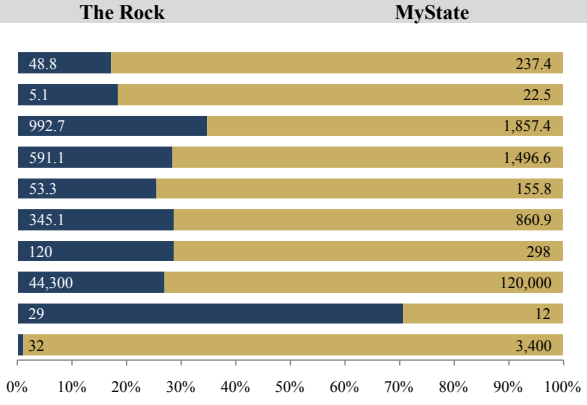
368 We have been advised by the Directors of The Rock that no formal alternative offer or proposal has been received subsequent to the announcement of the Scheme on 31 August 2011.

Relative contributions

369 In our opinion, the aggregated 22% interest that The Rock shareholders are to acquire in the Merged Entity broadly corresponds with the relative contribution of The Rock to the Merged Entity.

Relative contributions to the Merged Entity – select metrics

Metric		Relative contributions to the Merged Entity	
		The Rock	MyState
Market capitalisation[1]	$m	48.8	237.4
FY11 normalised NPAT	$m	5.1	22.5
GLA[2]	$m	992.7	1,857.4
Deposits[2][3]	$m	591.1	1,496.6
NTA[2]	$m	53.3	155.8
RWA[2]	$m	345.1	860.9
Employees	#	120	298
Customers	#	44,300	120,000
Branches[4]	#	29	12
ATMs[5]	#	32	3,400



Note:
1 Based upon one month VWAP up to and including 30 August 2011.
2 As at 30 June 2011.
3 Includes loan and deposit customers. Net of provisions (where relevant).
4 Includes 20 mini-branches.
5 MyState figure based upon rediATM network which MyState customers are entitled to use without charge.

Source: The Rock, MyState and LEA analysis.

Liquidity

370 As set out in Sections III and IV, the number of shares traded in both The Rock and MyState is relatively low compared to the ASX generally (each have an implied annual level of liquidity of approximately 10%). Accordingly, although we do not anticipate any material improvement in liquidity, in our view, it is unlikely that the shares in the Merged Entity would be any less liquid to that currently prevailing in The Rock shares.

Summary of opinion on the Scheme

371 We summarise below the likely advantages and disadvantages for The Rock shareholders if the Scheme proceeds.

Advantages

372 The Scheme has the following benefits for The Rock shareholders:

(a) the mid-point of our assessed value for the Total Consideration ($2.65 per share) falls within our valuation range of The Rock shares on a 100% controlling interest basis (albeit at the low end) and is therefore considered fair pursuant to RG 111 provided The Rock's interim dividend for FY12 is at least six cents per share. In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme

(b) the Total Consideration represents a significant premium to the recent market prices of The Rock shares prior to the announcement of the Scheme on 31 August 2011

(c) in our opinion, The Rock shareholders are being paid a significant share of the synergy benefits which MyState expects to generate as a result of the Scheme. In addition, The Rock shareholders will (in aggregate) own around 22% of the Merged Entity and will therefore participate in the expected realisation of the synergies

(d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of The Rock shares is likely to trade at a significant discount to our valuation and the Total Consideration (consistent with the portfolio nature of individual shareholdings)

(e) as The Rock shareholders receive MyState shares as consideration under the Scheme they will therefore, if the Scheme proceeds, hold an interest in a much larger entity with greater diversification.

373 It should also be noted, although The Rock is unable to solicit, encourage or initiate any competing transaction (as a condition of the Scheme), it does remain entitled to appropriately

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respond to a bona fide unsolicited offer. Despite this no alternative proposal has emerged subsequent to the announcement of the Scheme.

Disadvantages

374 The Rock shareholders should note that if the Scheme is approved they will no longer hold a direct interest in The Rock. However, as noted above, The Rock shareholders (in aggregate) will own approximately 22% of the Merged Entity and will therefore participate (albeit only on a pro rata basis) in any future value created by The Rock as a result of ongoing operations over and above that reflected in the Total Consideration.

Conclusion

375 Given the above analysis, we consider the acquisition of The Rock shares by MyState under the Scheme is fair provided The Rock's interim dividend for FY12 is at least six cents per share, and is reasonable and in the best interests of The Rock shareholders in the absence of a superior proposal. In the unlikely event that the interim dividend declared by The Rock is less than six cents per share we will need to ascertain the reasons for the lower dividend and update our opinion on the fairness of the Scheme.

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Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to The Rock shareholders in connection with the Scheme.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $180,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

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Appendix A

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

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Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.

2 This report was prepared by Mr Craig Edwards and Mr Nathan Toscan, who are each authorised representatives of LEA. Mr Edwards and Mr Toscan have over 17 years and 7 years experience respectively in the provision of valuation advice.

Declarations

3 This report has been prepared at the request of the Directors of The Rock to accompany the Scheme Booklet to be sent to The Rock shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of The Rock shareholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Toscan have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 LEA has had no prior business or professional relationship with The Rock or MyState prior to the preparation of this report.

Indemnification

6 As a condition of LEA's agreement to prepare this report, The Rock agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of The Rock which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

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Appendix C

Comparable company trading multiples

1 The implied profit after tax (PE) multiples, NTA multiples and other relative valuation metrics for listed companies in the Australian banking industry based on share market trading are set out below. These multiples provide some guidance as to the value of the equity in MyState and The Rock:

Listed company multiples[1]								
	Market capitalisation[1]	Cash PE multiple[2]				Price to NTA[3]	ROE[4]	ROTE[5]
		FY11	FY12	FY13	FY14		FY11	FY11
	$m	x	x	x	x	x	%	%
MyState	236.0	10.5	na	na	na	1.5	11.0	14.4
The Rock[6]	46.3	9.0	9.1	8.4	6.8	0.9	8.5	9.6
Other Australian banks and mutuals								
Commonwealth Bank	70,064.2	10.7	10.0	9.5	9.0	2.7	19.6	26.8
Westpac Banking Corp	59,119.4	9.7	9.1	8.8	8.4	2.1	16.2	22.7
ANZ Banking Group	51,029.5	9.1	8.9	8.4	7.8	1.9	16.5	20.5
National Australia Bank	49,393.7	9.5	8.6	8.1	7.5	1.8	15.5	19.4
Suncorp Group	10,292.8	14.9	9.8	8.5	7.7	1.3	4.9	8.9
Bendigo & Adelaide Bank	2,919.3	9.3	9.0	8.5	8.0	1.4	9.3	16.5
Bank of Queensland	1,546.0	10.0	7.0	6.0	5.5	0.9	7.6	10.2
Wide Bay Australia[6]	263.3	11.2	10.9	10.6	10.1	1.7	11.6	14.8
IMB Building Society	158.8	5.1	na	na	na	0.7	12.9	13.0

Note:

1 Share prices and market capitalisation as at 19 September 2011 (except MyState and The Rock, which are as at 30 August 2011, being the date prior to the announcement of the Scheme).
2 Calculated using Bloomberg consensus earnings forecasts as at 19 September 2011 (except MyState and The Rock, calculated as at 30 August 2011). Earnings forecasts have been calendarised to a common year end of 30 June.
3 NTA attributed to ordinary equity, calculated as net assets excluding goodwill, intangibles, minority interests and hybrid equity. Information based upon latest available balance sheet.
4 Return on Equity (ROE) is calculated as cash NPAT (FY11) divided by shareholder equity. Shareholder equity is based upon the latest available balance sheet and has been adjusted to exclude minority interests and hybrid equity. Cash NPAT (FY11) is based on reported data for year ending 30 June 2011, other than Westpac, ANZ and National Australia Bank and Bank of Queensland, for which Bloomberg consensus forecast NPAT for FY11 has been used.
5 ROTE is calculated on the same basis as ROE, however, shareholder equity also excludes all balance sheet intangibles.
6 Forecasts based on one analyst forecast only (which we adjusted to exclude depreciation and amortisation add-backs).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.
na – not available.

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Appendix C

Australian listed banks and mutuals

Commonwealth Bank of Australia

2 With a market capitalisation of approximately $70 billion, CBA is Australia's largest bank, providing a range of financial services including retail banking, premium banking, business banking, institutional banking, funds management, superannuation, insurance, investment and sharebroking products and services. The Group conducts its operations primarily in Australia, New Zealand and the Asia Pacific region, but also operates in a number of other countries including the United Kingdom and the United States. CBA brands include Colonial First State, Bankwest and CommSec.

Westpac Banking Corporation

3 Founded in 1817, Westpac was the first bank established in Australia. It is Australia's second largest bank by market capitalisation, with a market capitalisation of approximately $60 billion. Westpac has branches and controlled entities throughout Australia, New Zealand and the Pacific region, and has offices in London, New York, Hong Kong and Singapore. Westpac has five primary operating divisions, including Westpac Retail and Business Banking, Westpac Institutional Bank, St. George Bank, BT Financial Group, and Westpac New Zealand. Whilst the focus of Westpac's business is banking, the BT Financial Group division provides wealth management services.

Australia & New Zealand Banking Group Ltd

4 ANZ is a leading Australian bank, and is New Zealand's largest bank. The company provides a range of banking and financial products and services to retail, small business, corporate and institutional clients. The Group conducts its operations primarily in Australia and New Zealand and the Asia Pacific region. It also operates in a number of other countries including the United Kingdom and the United States. The company also offers wealth management services via its OnePath business.

National Australia Bank Limited

5 National Australia Bank is an Australian financial services organisation with more than 1,800 branches and service centres and is one of Australia's largest banks. It operates major financial services franchises in Australia, as well as businesses in New Zealand, Asia, the United Kingdom (UK) and the United States of America (USA). The company's principal activities include banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance and custodian, trustee and nominee services. Brands operating under National Australia Bank in Australia include MLC and UBank, whilst international brands include Clydesdale Bank and Yorkshire Bank in the UK, and Great Western Bank in the USA.

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Appendix C

Suncorp Group Limited

6 Suncorp Group is a financial services company that offers a range of services including banking, general and life insurance, superannuation and funds management products and related services to the retail, corporate and commercial sectors in Australia and New Zealand. Suncorp Group's banking division operates under Suncorp Bank, which is Australia's fifth largest bank. Brands operating under Suncorp Group include AAMI, GIO, Vero and Apia and Asteron.

Bendigo and Adelaide Bank Limited

7 The Bendigo and Adelaide Bank Group, formed in November 2007 as a result of the merger between Bendigo Bank and Adelaide Bank, is a leading Australian regional bank with a market capitalisation of $3 billion. The Bendigo Bank division of the group provides banking and wealth management services to individuals and small to medium businesses, while the Adelaide Bank division operates a wholesale banking business, providing mortgages to a large number of Australians via a network of brokers and mortgage managers. In addition, Adelaide Portfolio Lending funds aged care and third party credit providers. Other notable brands operating under Bendigo and Adelaide Bank include Sandhurst Trustees, Leveraged Equities, Rural Bank and Oxford Funding.

Bank of Queensland Limited

8 The Bank of Queensland operates predominantly across three lines of business, being banking, finance and insurance. The banking line of business includes both retail banking (provision of banking accounts, savings and investment products, credit cards and personal and home loans) and business banking (business loans, transaction accounts, business charge cards and investment and statutory trust accounts). The company's finance division incorporates the vendor finance businesses acquired in 2010, CIT Group (Australia) Limited and CIT Group (New Zealand) Limited, as well as its existing equipment finance and debtor finance businesses. The insurance division provides consumer credit insurance products via its subsidiary, St Andrew's Insurance.

Wide Bay Australia Ltd

9 The principal activities of Wide Bay are the provision of banking facilities and financial services, including raising of funds on deposits and the provision of finance for housing. Wide Bay operates throughout Brisbane, Sydney, Melbourne, Adelaide and across regional Queensland.

IMB Building Society

10 IMB is one of Australia's largest building societies, providing banking and financial services, including lending, savings, insurance and investment products to members. In addition, IMB provides advice on financial planning. IMB is not listed on the ASX, but provides a share market (operated by IMB) for investors for the purpose of the trading and transfer of IMB ordinary shares.

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Appendix D

Transaction multiples

Multiples implied by recent Australian transaction evidence

Announced	Target	Acquirer	Value $m	PE multiple Historic x	PE multiple Forecast x	Price to NTA x
Post GFC						
26 Oct 10	Elder's Rural Bank	Bendigo & Adelaide Bank	165.0[1]	7.4	na	1.2
8 Oct 08	BankWest and St Andrew's	Commonwealth Bank	2,126.0	11.2	na	0.8
13 May 08	St George Bank[2]	Westpac				
	• Date of completion		12,270.6	9.3	9.0	2.7
Pre GFC						
13 May 08	St George Bank[2]	Westpac				
	• Post announcement		18,155.8	13.7	13.4	4.0
29 Oct 07	Mackay Permanent Building Society	Wide Bay Australia	67.6[3]	38.8	32.2[4]	3.3
31 Aug 07	Home Building Society	Bank of Queensland	552.8[5]	27.0	22.0	3.9
25 Sep 06	Police & Nurses Credit Society (unsuccessful offer)	Home Building Society	243.0	23.0[6]	na	1.9
15 Aug 06	Pioneer Building Society	Bank of Queensland	49.6	29.6[4]	na	2.3
23 Aug 05	StateWest[7]	Home Building Society				
	• Post announcement		174.8	27.2[4]	na	2.5
	• Pre announcement		136.1	21.3[4]	na	2.0

Note:

1 Acquisition of the remaining 40% that Bendigo and Adelaide Bank did not already own.
2 Consideration largely comprised Westpac shares, the value of which was significantly affected by the GFC. Consequently, we have calculated the value of the transaction based upon the independent expert's assessed mid-point value of Westpac shares as well as the value as at the date of completion for accounting purposes.
3 Based upon the successful offer made by Wide Bay Australia (with shares valued based upon the one month VWAP prior to the announcement of the successful offer).
4 Based on maintainable earnings as assessed by the independent expert.
5 Consideration largely comprised Bank of Queensland shares (which we have valued based on the one month VWAP prior to the announcement of the proposal).
6 Historical PE multiple as reported in Home's ASX announcement dated 25 September 2006.
7 Consideration largely comprised Home shares which increased significantly following the announcement of the proposal and Home's FY05 results which showed profit growth above market expectations together with a significant improvement in the value of Home's property assets. Consequently, we have calculated the PE multiple based on the VWAP of Home shares one month prior and one month post announcement of the offer.
8 The transaction multiple implied by Bendigo Bank's acquisition of Adelaide Bank has not been shown above as the transaction was a merger of equals with no significant control premium being paid.

Source: ASX announcements, IERs and other publicly available information and LEA analysis.
na – not available.

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Appendix E

Glossary

Term	Meaning
ACCC	Australian Competition and Consumer Commission
ADI	Authorised Deposit-taking Institution
ADI Guarantee Scheme	Guarantee scheme for large deposits and wholesale funding
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
Basel Committee	Global Basel Committee on Banking Supervision
BBSW	Bank bill swap reference rate
CAGR	Compound annual growth rate
Connect Financial	Connect Credit Union of Tasmania Limited
Corporations Act	*Corporations Act 2001 (Cth)*
Corporations Regulations	*Corporations Regulations 2001*
CTI	Cost to income ratio
DCF	Discounted cash flow
Deed	Scheme Implementation Deed dated 30 August 2011
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELTIP	Executive Long Term Incentive Plan
ESS	Employee Share Scheme
FirstMac	FirstMac Limited
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FUA	Funds under advice
FUM	Funds under management
FY	Financial year
GDP	Gross domestic product
GFC	Global financial crisis
GLA	Gross loans and advances
GRCL	General reserve for credit losses
HQLA	High quality liquid assets
IER	Independent expert's report
Island State	Island State Credit Union Limited
IT	Information Technology
LCR	Liquidity coverage ratio
LEA	Lonergan Edwards & Associates Limited
LVR	Loan to valuation ratio
Majors	Commonwealth Bank, Westpac Banking Corporation, ANZ Banking Group and the National Australia Bank
Mecu	Mecu Limited
MSF	MyState Financial Limited
MyState	MyState Limited
NCD	Negotiable Certificate of Deposit
NIM	Net interest margin
NLA	Net loans and advances
NPAT	Net profit after tax

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Term	Meaning
NPV	Net present value
NSW	New South Wales
NTA	Net tangible assets
OIS	Overnight indexed swap
PBT	Profit before tax
PE	Price earnings
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – *Content of expert reports*
RMBS	Residential mortgage-backed securities
RockSure	RockSure Insurance Broking Services
ROTE	Return on tangible equity
RWA	Risk-weighted assets
Scheme	The proposed Scheme of arrangement between The Rock and MyState
Scheme Consideration	7.75 MyState shares for every 10 shares held in The Rock
SPIN	Standard & Poor's mortgage performance index
The Rock	The Rock Building Society Limited
Total Consideration	Scheme Consideration plus The Rock's expected interim dividend for FY12
TPT	Tasmanian Perpetual Trustees Limited
VWAP	Volume weighted average price
WANOS	Weighted average number of shares

B

Investigating Accountant's report by Wise Lord & Ferguson

17 October 2011

The Directors
MyState Limited
PO Box 1002
LAUNCESTON TAS 7250

Wise Lord & Ferguson
advice to advantage
Chartered Accountants

Dear Directors

Investigating Accountant's Report on Historical Pro-Forma Financial Information

Introduction

We have prepared this Investigating Accountant's report (the "Report") at the request of the Directors of MyState Ltd and its controlled entities (MyState) for inclusion in a Scheme of Arrangement Booklet (Scheme Booklet) to be dated on or about 18 October 2011, which is to be issued by The Rock Building Society Ltd (The Rock) in connection to the proposed acquisition of the entire share capital of The Rock by MyState.

Expressions defined in the Scheme Booklet have the same meaning in this report.

Scope

We have been requested to prepare an Investigating Accountant's Report covering the following financial information:

MyState Historical Financial Information

- Historical financial information, as set out in Section 5.4 of the Scheme Booklet, comprising the historical Balance Sheet as at 30 June 2011 and the historical Income Statement for the year ended 30 June 2011.

The MyState historical financial information has been extracted from the audited 30 June 2011 statutory financial statements of MyState which were audited by Wise Lord & Ferguson and on which an unqualified audit opinion was issued. No adjustments have been made to the audited statutory financial statements.

The MyState historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

The Rock Historical Financial Information

- Historical financial information, as set out in Section 4.8 of the Scheme Booklet, comprising the historical Balance Sheet as at 30 June 2011 and the historical Income Statement for the year ended 30 June 2011.

The Rock historical financial information has been extracted from the audited 30 June 2011 statutory financial statements of The Rock which were audited by another auditor and on which an unqualified audit opinion was issued. No adjustments have been made to the audited statutory financial statements.

The Rock historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

Merged Entity Pro-Forma Financial Information

1st floor 160 Collins Street Hobart 7000, PO Box 1083 Hobart TAS 7001
Tel: (03) 6223 6155 Fax: (03) 6223 8993 Email: email@wlf.com.au Internet: www.wlf.com.au

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

- Pro-forma historical Income Statement for the year ended 30 June 2011 of the Merged Entity, as set out in Section 6.7 of the Scheme Booklet, adjusted to reflect the pro-forma adjustments described in Section 6.7 of the Scheme Booklet, assuming the merger had occurred as at 1 July 2010.
- Pro-forma historical Balance Sheet as at 30 June 2011 of the Merged Entity, as set out in Section 6.9 of the Scheme Booklet, adjusted to reflect the pro-forma adjustments described in Section 6.9 of the Scheme Booklet, assuming the merger had occurred as at 30 June 2011.

The Merged Entity pro-forma financial information assumes completion of the proposed transaction as outlined in Section 2 and the pro-forma adjustments disclosed in Section 6 of the Scheme Booklet. MyState and The Rock have not had the opportunity to perform a full assessment of any changes in the fair values of the assets, liabilities and contingent liabilities of The Rock since its latest published accounts, which disclosed The Rock's assets, liabilities and contingent liabilities as at 30 June 2011. If the merger had occurred in the past, the Merged Entity's financial position and financial performance would have been different from that presented in the pro-forma financial information in Section 6 of the Scheme Booklet.

The Merged Entity pro-forma financial information is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

Directors' Responsibility for the Historical and Pro Forma Financial Information

The Directors of MyState are responsible for the MyState historical financial information and the Directors of The Rock are responsible for The Rock historical financial information. The Directors of MyState and The Rock are responsible for the inputs to the pro-forma historical financial information. We disclaim any responsibility for any reliance on this report or on the financial information to which it relates for any purposes other than that for which it was prepared. This report should be read in conjunction with the full Scheme Booklet.

Audit of Historical and Pro-forma Financial Information

MyState Historical Financial Information

We have audited the accuracy of the extraction of the MyState historical financial information in order to provide reasonable assurance as to whether the historical financial information as set out in Section 5.4 of the Scheme Booklet, has been accurately extracted from MyState's audited financial statements.

We have audited the consistency of MyState's historical financial information as set out in the Merged Entity section of the Scheme Booklet with the historical financial information as included in Section 5.4 of this Scheme Booklet in order to provide reasonable assurance as to whether the historical financial information as set out in Section 6 is consistent with the historical financial information of MyState outlined in Section 5.4 of the Scheme Booklet.

The Rock Historical Financial Information

We have audited the accuracy of the extraction of The Rock historical financial information in order to provide reasonable assurance as to whether the historical financial information as set out in Section 4.8 of the Scheme Booklet, has been accurately extracted from The Rock's audited financial statements.

We have audited the consistency of The Rock's historical financial information as set out in the Merged Entity section of the Scheme Booklet with the historical financial information as included in Section 4.8 of this Scheme Booklet in order to provide reasonable assurance as to whether the historical financial information as set out in Section 6 is consistent with the historical financial information of The Rock outlined in Section 4.8 of the Scheme Booklet.

Merged Entity Pro-forma historical financial information

We have audited the compilation of the Merged Entity pro-forma historical financial information in order to provide reasonable assurance as to whether the pro-forma Balance Sheet as at 30 June 2011 and the pro-forma Income Statement for the year ended 30 June 2011 as set out in Section 6 of the Scheme Booklet have been properly and accurately prepared on the basis of the:

- MyState and The Rock historical financial information; and
- Pro-forma adjustments described in Section 6 of the Scheme Booklet.

We do not express any opinion as to whether the Merged Entity pro-forma historical information contained in the Scheme Booklet is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia and accounting policies adopted by MyState.

Opinion and Statement

MyState Historical Financial Information

In our opinion, the historical financial information of MyState as set out in Section 5.4 of the Scheme Booklet, has been accurately extracted or derived from MyState's audited financial statements.

The Rock Historical Financial Information

In our opinion, the historical financial information of The Rock as set out in Section 4.8 of the Scheme Booklet, has been accurately extracted or derived from The Rock's audited financial statements.

Pro-forma Historical Financial Information of the Merged Entity

In our opinion, the Merged Entity historical financial information, as set out in Section 6 of the Scheme Booklet, has been properly prepared on the basis of the:

- MyState historical financial information described in Section 5.4 of the Scheme Booklet;
- The Rock historical financial information described in Section 4.8 of the Scheme Booklet; and
- Pro-forma adjustments described in Section 6 of the Scheme Booklet.

Subsequent Events

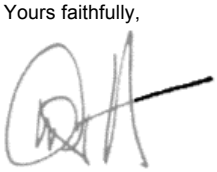
Apart from the matters dealt with in this Report and having regard to the scope of our Report, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of MyState and/or The Rock subsequent to 30 June 2011 have come to our attention which require comment on or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Disclosure

Wise Lord & Ferguson does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in this matter. Wise Lord & Ferguson provides audit and other advisory services to MyState, and will receive a professional fee for the preparation of this Report.

Consent to the inclusion of the Investigating Accountant's Report in the Scheme Booklet in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully,



DANNY MCCARTHY
PARTNER

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Date 30 August 2011

Between the parties	
MYS	**MyState Limited (ABN 26 133 623 962)** of 23 Paterson Street, Launceston, Tasmania 7250 (**MYS**)
ROK	**The Rock Building Society Limited (ABN 16 067 765 717)** of 102 Bolsover Street, Rockhampton, Queensland 4700 (**ROK**)
Background	MYS and ROK have agreed that MYS (or a subsidiary of MYS) will acquire ROK by means of a scheme of arrangement under Part 5.1 of the Corporations Act between ROK and Scheme Shareholders. The parties have agreed to implement the scheme of arrangement on the terms of this deed.
The parties agree as follows:	

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this deed are set out below.

Term	Meaning
Announcement Date	31 August 2011.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691).
Business Day	a business day as defined in the Listing Rules.
Competing Proposal	a proposed transaction or arrangement pursuant to which a third person will, if the transaction or arrangement is entered into or completed substantially in accordance with its terms: 1 acquire (whether directly or indirectly) a relevant interest in, become the holder of, or have the right to acquire a legal, beneficial or economic interest in, or control of, 15% or more of ROK's voting shares or of the securities of any of its subsidiaries; 2 acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an economic interest in all or a material part of the business of ROK and its subsidiaries; 3 acquire control (as determined in accordance with section 50AA of the Corporations Act) of ROK; 4 otherwise acquire or merge with ROK; or 5 enter into any agreement, arrangement or understanding with ROK requiring ROK to abandon, or otherwise fail to proceed with, the Transaction, whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement. For this purpose, a material part of the business of ROK and its subsidiaries is where: 6 the business contributes 20% or more of the consolidated net profit after tax of ROK; or 7 the business represents 20% or more of the total consolidated assets of ROK.
Corporations Act	The *Corporations Act 2001* (Cth).
Corporations Regulations	The *Corporations Regulations 2001* (Cth).
Court	The Supreme Court of Queensland or such other court of competent jurisdiction under the Corporations Act agreed to in writing by ROK and MYS.
Deed Poll	The deed poll to be entered into by MYS in favour of the Scheme Shareholders in the form set out in Attachment B or such other form as agreed in writing between the parties.

Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
End Date	28 February 2012.
Financial Advisor	any financial advisor retained by ROK in relation to the Scheme or a Competing Proposal from time to time.
First Court Date	the first day on which an application made to the Court for an order under section 411(1) of the Corporations Act convening the Scheme Meeting is heard.
Government Agency	any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State.
Implementation Date	the fifth Business Day after the Scheme Record Date.
Independent Expert	the independent expert appointed by ROK in respect of the Scheme.
Ineligible Foreign Shareholder	means a Scheme Shareholder whose address shown in the ROK Registry as at the Scheme Record Date is a place outside Australia and its external territories and New Zealand, unless MYS and ROK agree in writing that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New MYS Shares when the Scheme becomes Effective.
Investigating Accountant	the investigating accountant appointed by MYS in respect of the Scheme.
Key Management Personnel	those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
Listing Rules	the official Listing Rules of the ASX.
Material Business Service	a good or service which is critical to the continued operation of ROK's business such that if the good or service was not available ROK would not be able to carry on business in substantially the same manner as at the date of this deed.
Material Contract	any agreement or arrangement that requires or may require payments in excess of $500,000 in aggregate per annum.
Material Liability	any liability (whether actual, contingent or otherwise) which requires or may require payments in excess of $500,000 in aggregate per annum.
Material Safe Premises	Shop 4, Centro Gladstone.

Merged Entity	the MYS Group after implementation of the Scheme.
Mutual Confidentiality Agreement	the confidentiality agreement between ROK and MYS entered into in connection with the Transaction.
MYS Board	the board of directors of MYS.
MYS Group	MYS and each of its Related Bodies Corporate and a reference to a "MYS Group Member" or "a member of the MYS Group" is to MYS or any of its Related Bodies Corporate.
MYS Indemnified Parties	MYS and its Related Bodies Corporate and their respective directors, officers and employees.
MYS Information	information regarding the MYS Group provided by MYS to ROK in writing for inclusion in the Scheme Booklet, being: 1 information about MYS, its Related Bodies Corporate, businesses and interests and dealings in ROK Shares, its intentions for ROK and ROK's employees, and funding; and 2 any other information required under the Corporations Act, Corporations Regulations or RG 60 to enable the Scheme Booklet to be prepared that the parties agree is "MYS Information" and that is identified in the Scheme Booklet as such.
MYS Material Adverse Change	a matter, event or circumstance that occurs, is announced or becomes known to MYS where that matter, event or circumstance: 1 has, has had, or is reasonably likely to have, either individually, or when aggregated with any other matters, events or circumstances the effect of: ▸ diminishing the anticipated consolidated net profits after tax of the MYS Group (excluding costs incurred by any member of the MYS Group in respect of the Transaction which are not to exceed $2 million) by $2.4 million or more against what it would reasonably have been expected to have been but for that matter, event or circumstance or matters, events or circumstances; ▸ diminishing the consolidated net tangible assets of the MYS Group (excluding the impact of the MYS 2H "Final" 2011 Permitted Dividend and the MYS 1H "Early Interim" 2012 Permitted Dividend) by $10 million or more against what it would reasonably have been expected to have been but for that matter, event or circumstance or matters, events or circumstances; or ▸ the MYS Group being unable to carry on its business in substantially the same manner as at the date of this deed; or 2 is, or is reasonably likely to be, materially adverse to: ▸ the ability of MYS to perform its obligations under this deed; or ▸ the status of any Regulatory Approvals which have been granted and affect the Scheme, in each case other than matters, events or circumstances: ▸ required or specifically permitted by this deed or the Scheme; ▸ resulting from changes in rates of taxation or general economic conditions; ▸ fully and fairly disclosed to ASX or to ROK in writing prior to the date of this deed; or ▸ that occur with the written consent of ROK.

MYS Prescribed Occurrence	other than: 1 as required by this deed or the Scheme; 2 as fully and fairly disclosed to ASX or to ROK prior to the date of this deed; or 3 with the written consent of ROK, the occurrence of any of the following between the date of this deed and 8.00 am on the Second Court Date: 4 MYS converting all or any of its shares into a larger or smaller number of shares; 5 a member of the MYS Group resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares; 6 a member of the MYS Group: ▸ entering into a buy-back agreement; or ▸ resolving to approve the terms of a buy-back agreement under the Corporations Act; 7 other than on exercise of performance rights or convertible securities existing as at the date of this deed, a member of the MYS Group issuing shares, or granting a performance right or an option over its shares, or agreeing to make such an issue or grant such a right or an option; 8 a member of the MYS Group issuing, or agreeing to issue, securities convertible into shares or debt securities; 9 other than the payment of the MYS 2H "Final" 2011 Permitted Dividend and the MYS 1H "Early Interim" 2012 Permitted Dividend, any member of the MYS Group declaring, paying or distributing, or agreeing to declare, pay or distribute, any dividend, special dividend, bonus or other share of its profits or assets or agreeing to return any capital to its members; 10 any member or members of the MYS Group acquiring or agreeing to acquire, disposing of or agreeing to dispose of, or irrevocably offering, proposing, announcing a bid or tendering for, any share capital of any third party or third parties valued in excess of $10 million (individually or in aggregate), other than any share capital in a member of the MYS Group; 11 any member or members of the MYS Group disposing, or agreeing to dispose, of the whole, or a substantial part or substantial parts, of the MYS Group's business and/or property, with a value in excess of $10 million (individually or in aggregate) other than where such actions are in the ordinary course of MYS's treasury or banking operations and consistent with past practices; 12 any member or members of the MYS Group acquiring, or agreeing to acquire, a business or undertaking or businesses or undertakings, with a value in excess of $10 million (individually or in aggregate) other than where such actions are in the ordinary course of MYS's treasury or banking operations and consistent with past practices; 13 a member of the MYS Group creating, or agreeing to create, any mortgage, charge, lien or other material encumbrance over any material asset of the MYS Group; 14 any member or members of the MYS Group acquiring or agreeing to acquire, disposing of or agreeing to dispose of, or tendering for, any assets, with a value in excess of $10 million (individually or in aggregate) other than where such actions are in the ordinary course of MYS's treasury or banking operations and consistent with past practices;

	15 any member or members of the MYS Group entering into, terminating or varying any agreement, arrangement or commitment or any agreements, arrangements or commitments which would require the MYS Group to have expenditure of greater than $5 million per annum, incur a liability of greater than $10 million per annum or forgo revenue of greater than $10 million per annum (individually or in aggregate), other than in the ordinary course of business; 16 any member or members of the MYS Group waiving, releasing, granting or transferring any rights, or accepting as a compromise of a matter or matters less than the full compensation due to the MYS Group, where the financial impact on the MYS Group will be in excess of $10 million (individually or in aggregate); 17 a member of the MYS Group entering into a contract or commitment which materially restrains a member of the MYS Group from competing with any person or conducting activities in any material market; 18 a member of the MYS Group entering into or resolving to enter into a transaction with any related party of MYS (other than a related party which is a member of the MYS Group) as defined in section 228 of the Corporations Act which would require shareholder approval under Chapter 2E or under Chapter 10 of the Listing Rules; 19 a member of the MYS Group making any change to its constitution; 20 MYS breaching a material term of this deed; 21 a member of the MYS Group resolving that it be wound up; 22 a liquidator or provisional liquidator of a member of the MYS Group being appointed; 23 the Court making an order for the winding up of a member of the MYS Group; 24 an administrator of a member of the MYS Group being appointed under the Corporations Act; 25 a member of the MYS Group executing a deed of company arrangement; 26 a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of the MYS Group; or 27 a member of the MYS Group being deregistered as a company or otherwise dissolved.
MYS Representations and Warranties	the representations and warranties of MYS set out in Schedule 1.
MYS Share	a fully paid ordinary share of MYS.
MYS Subsidiary	a subsidiary of MYS in respect of which MYS has made an election under clause 4.1(b) that that subsidiary acquire the Scheme Shares under the Scheme and in accordance with this deed.
MYS 1H "Early Interim" 2012 Permitted Dividend	MYS's interim dividend for the half year ending 31 December 2011 which: 1 is declared and paid in the ordinary course of business; 2 is in an amount not exceeding 15.0 cents per MYS Share; 3 has a record date that is prior to the Scheme Record Date; 4 is paid prior to the Implementation Date; and 5 does not result in a liability for franking deficit tax under the *New Business Tax System (Franking Deficit Tax) Act 2002*.

MYS 2H "Final" 2011 Permitted Dividend	MYS's final dividend for the financial year ending 30 June 2011 which: ▸ is declared and paid in the ordinary course of MYS's business; ▸ is in an amount not exceeding 15.0 cents per MYS Share; ▸ has a record date that is prior to 30 September 2011; ▸ is paid prior to 31 October 2011; and ▸ does not result in a liability for franking deficit tax under the *New Business Tax System (Franking Deficit Tax) Act 2002*.
New MYS Share	MYS Shares to be issued pursuant to the Scheme as Scheme Consideration.
Registered Address	in relation to a ROK Shareholder, the address shown in the Share Register.
Regulator's Draft	the draft of the Scheme Booklet which is provided to ASIC for approval pursuant to section s411(2) of the Corporations Act.
Regulatory Approval	the approvals and consents as set out in clauses 3.1(a), 3.1(f), 3.1(g), 3.1(h), 3.1(i) and 3.1(k).
Reimbursement Amount	$500,000 (exclusive of GST, if any).
Related Bodies Corporate	has the meaning set out in the Corporations Act.
Representative	in respect of a party, its Related Bodies Corporate and each director, officer, employee, advisor, agent or representative of that party and its Related Bodies Corporate.
Restricted Period	the period from and including the time of this deed to the earlier of: 1 the termination of this deed; and 2 the End Date.
RG 60	Regulatory Guide 60 issued by ASIC on 11 December 2009 (as amended).
ROK Board	the board of directors of ROK.
ROK Group	ROK and each of its Related Bodies Corporate and a reference to a "ROK Group Member" or a "member of the ROK Group" is to ROK or any of its Related Bodies Corporate.
ROK Indemnified Parties	ROK and its Related Bodies Corporate and their respective directors, officers and employees.

ROK Material Adverse Change	a matter, event or circumstance that occurs, is announced or becomes known to ROK where that matter, event or circumstance: 1 has, has had, or is reasonably likely to have, either individually, or when aggregated with any other matters the effect of: ▸ diminishing the anticipated consolidated net profits after tax of the ROK Group (excluding costs incurred by any member of the ROK Group in respect of the Transaction which are not to exceed $2.1 million) by $700,000 or more against what it would reasonably have been expected to have been but for that matter, event or circumstance or matters, events or circumstances; or ▸ diminishing the consolidated net tangible assets of the ROK Group (excluding the impact of the ROK 2H "Final" 2011 Permitted Dividend and the ROK 1H "Early Interim" 2012 Permitted Dividend) by $2 million or more against what it would reasonably have been expected to have been but for that matter, event or circumstance or matters, events or circumstances; or ▸ the ROK Group being unable to carry on its business in substantially the same manner as at the date of this deed; or 2 is, or is reasonably likely to be, materially adverse to: ▸ the ability of ROK to perform its obligations under this deed; or ▸ the status of any Regulatory Approvals which have been granted and affect the Scheme. ▸ in each case other than matters, events or circumstances: ▸ required or specifically permitted by this deed or the Scheme; ▸ resulting from changes in rates of taxation or general economic conditions; ▸ fully and fairly disclosed to ASX or to MYS in writing prior to the date of this deed; or ▸ that occur with the written consent of MYS.
ROK Prescribed Occurrence	other than: 1 as required by this deed or the Scheme; 2 as fully and fairly disclosed to ASX or to MYS prior to the date of this deed; or 3 with the written consent of MYS, the occurrence of any of the following between the date of this deed and 8.00 am on the Second Court Date: 4 ROK converting all or any of its shares into a larger or smaller number of shares; 5 a member of the ROK Group resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares; 6 a member of the ROK Group: ▸ entering into a buy-back agreement; or ▸ resolving to approve the terms of a buy-back agreement under the Corporations Act; 7 other than on exercise of performance rights or convertible securities existing as at the date of this deed, a member of the ROK Group issuing shares, or granting a performance right or an option over its shares, or agreeing to make such an issue or grant such a right or an option; 8 a member of the ROK Group issuing, or agreeing to issue, securities convertible into shares or debt securities; 9 other than the payment of the ROK 2H "Final" 2011 Permitted Dividend and the ROK 1H "Early Interim" 2012 Permitted Dividend, any member of the ROK Group declaring, paying or distributing, or agreeing to declare, pay or distribute, any dividend, special dividend, bonus or other share of its profits or assets or agreeing to return any capital to its members;

ROK Prescribed Occurrence	10	any member or members of the ROK Group acquiring or agreeing to acquire, disposing of or agreeing to dispose of, or irrevocably offering, proposing, announcing a bid or tendering for, any share capital of any third party or third parties valued in excess of $5 million (individually or in aggregate), other than any share capital in a member of the ROK Group;
	11	any member or members of the ROK Group disposing, or agreeing to dispose, of the whole, or a substantial part or substantial parts, of the ROK Group's business and/or property, with a value in excess of $5 million (individually or in aggregate) other than where such actions are in the ordinary course of ROK's treasury or banking operations and consistent with past practices;
	12	any member or members of the ROK Group acquiring, or agreeing to acquire, a business or undertaking or businesses or undertakings, with a value in excess of $5 million (individually or in aggregate) other than where such actions are in the ordinary course of ROK's treasury or banking operations and consistent with past practices;
	13	a member of the ROK Group creating, or agreeing to create, any mortgage, charge, lien or other material encumbrance over any material asset of the ROK Group;
	14	any member or members of the ROK Group acquiring or agreeing to acquire, disposing of or agreeing to dispose of, or irrevocably offering, proposing, announcing a bid or tendering for, any assets, with a value in excess of $5 million (individually or in aggregate) other than where such actions are in the ordinary course of ROK's treasury or banking operations and consistent with past practices;
	15	any member or members of the ROK Group entering into, terminating or varying any agreement, arrangement or commitment or any agreements, arrangements or commitments which would require the ROK Group to have expenditure of greater than $2 million per annum, incur a liability of greater than $5 million per annum or forgo revenue of greater than $5 million per annum, (individually or in aggregate), other than in the ordinary course of business;
	16	any member or members of the ROK Group waiving, releasing, granting or transferring any rights, or accepting as a compromise of a matter or matters less than the full compensation due to the ROK Group, where the financial impact on the ROK Group will be in excess of $5 million (individually or in aggregate);
	17	a member of the ROK Group entering into a contract or commitment which materially restrains a member of the ROK Group from competing with any person or conducting activities in any material market;
	18	a member of the ROK Group entering into or resolving to enter into a transaction with any related party of ROK (other than a related party which is a member of the ROK Group) as defined in section 228 of the Corporations Act which would require shareholder approval under Chapter 2E or under Chapter 10 of the Listing Rules;
	19	a member of the ROK Group making any change to its constitution;
	20	ROK breaching a material term of this deed;
	21	a member of the ROK Group resolving that it be wound up;
	22	a liquidator or provisional liquidator of a member of the ROK Group being appointed;
	23	the Court making an order for the winding up of a member of the ROK Group;
	24	an administrator of a member of the ROK Group being appointed under the Corporations Act;
	25	a member of the ROK Group executing a deed of company arrangement;
	26	a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of the ROK Group; or
	27	a member of the ROK Group being deregistered as a company or otherwise dissolved.

ROK Registry	Link Market Services.
ROK Representations and Warranties	The representations and warranties of ROK set out in Schedule 2.
ROK Share	a fully paid ordinary share of ROK.
ROK Shareholders	each person who is registered as the holder of ROK Shares from time to time.
ROK 1H "Early Interim" 2012 Permitted Dividend	ROK's interim dividend for the half year ending 31 December 2011 which: 1 is declared and paid in the ordinary course of business; 2 is declared, and the record date announced, at least 7 Business Days prior to the final day of trading in ROK Shares, on the basis that payment of the dividend is conditional on: ▸ ROK Shareholders agreeing to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act; and ▸ the Court approving the Scheme in accordance with section 411(4)(b) of the Corporations Act; 3 is in an amount not exceeding 12.0 cents per ROK Share; 4 has a record date that is prior to the final day of trading in ROK Shares; 5 is paid within 7 days of the Implementation Date; 6 is to be paid from the profit of ROK for the period from 1 July 2011 to the earlier of 31 December 2011 and the Implementation Date (or from retained profits subject to APRA approval), after deducting allowances for all expected costs and expenses associated with the Transaction and expected costs and expenses associated with the redundancies and termination of Key Management Personnel in respect of the half year ended 31 December 2011 and in connection with the Transaction, which must include: ▸ $2.1m (excluding GST) in respect of expected advisory and transaction costs and expenses in connection with the Transaction; and ▸ $750,000 (excluding any GST but including any related on-costs such as payroll tax and superannuation guarantee costs) in respect of the expected costs and expenses associated with the redundancy or termination of Key Management Personnel of ROK in respect of the half year ended 31 December 2011 and in connection with the Transaction; 7 does not reduce ROK's capital adequacy ratio below the Board approved minimum threshold of 12% (after including as deductions the allowances in paragraph 6 above); and 8 does not result in a liability for franking deficit tax under the *New Business Tax System (Franking Deficit Tax) Act 2002*.
ROK 2H "Final" 2011 Permitted Dividend	ROK's final dividend for the financial year ending 30 June 2011 which: 1 is declared and paid in the ordinary course of ROK's business; 2 is in an amount not exceeding 8.0 cents per ROK Share; 3 has a record date that is prior to 30 September 2011; 4 is paid prior to 31 October 2011; and 5 does not result in a liability for franking deficit tax under the *New Business Tax System (Franking Deficit Tax) Act 2002*.

Scheme	The scheme of arrangement under Part 5.1 of the Corporations Act between ROK and the Scheme Shareholders, the form of which is attached as Attachment A or such other form as agreed in writing between the parties.
Scheme Booklet	the information described in clause 5.2(b) to be approved by the Court and despatched to the ROK Shareholders and which must include the Scheme, an explanatory statement complying with the requirements of the Corporations Act and the Corporations Regulations, an independent expert's report, an investigating accountant's report, notices of meeting and proxy form.
Scheme Consideration	the consideration to be provided by MYS (or if applicable, MYS Subsidiary) in consideration for the transfer of the ROK Shares held by a Scheme Shareholder to MYS (or if applicable, MYS Subsidiary), as described in clause 4.2 of this deed, being, 7.75 New MYS Shares for every 10 Scheme Shares.
Scheme Meeting	the meeting of ROK Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.
Scheme Record Date	7.00 pm Sydney time on the fifth Business Day after the Effective Date.
Scheme Share	a ROK Share held by a Scheme Shareholder.
Scheme Shareholders	ROK Shareholders as at the Scheme Record Date.
Second Court Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.
Share Register	the register of members of ROK maintained in accordance with the Corporations Act.
Superior Proposal	a bona fide Competing Proposal (and not resulting from a breach by ROK of its obligations under this deed) which in the determination of the ROK Board, acting in good faith and in accordance with its fiduciary and statutory duties, is more favourable to ROK Shareholders than the Transaction, taking into account, among other things: 1 the terms and conditions of the Competing Proposal, which if relevant shall include the anticipated completion date, the certainty of obtaining financing, execution risk, tax leakage (both at the corporate and shareholder level), required regulatory approvals and the impact of the time value of money; and 2 all aspects of the Transaction, which if relevant shall include the value of scrip for scrip rollover relief for Scheme Shareholders and the implied value of the Scheme Consideration at the relevant time, with this determination being supported by written advice from the ROK Board's financial and legal advisers.
Taxes	means: 1 all past, present and future taxes of any name, kind or description imposed by Australia, or any of its States or Territories or any Australian Tax Authority (including income tax and stamp duty); and 2 any interest, fine, penalty, charge or additional amount payable in relation to a tax.

Term Sheet	the term sheet between ROK and MYS dated 4 July 2011.
Trading Day	has the meaning given in the Listing Rules.
Transaction	the acquisition of ROK by MYS or MYS Subsidiary through implementation of the Scheme.
YE12 Board Approved Budget	in the case of: 1 MYS, means the MYS operating and capital budget for the financial year ending 30 June 2012 approved by the MYS Board and as provided to ROK before the date of this deed; and 2 ROK, means the ROK operating and capital budget for the financial year ending 30 June 2012 approved by the ROK Board together with adjustments for changed circumstances, each as provided to MYS before the date of this deed.

1.2 Interpretation

In this deed, headings are for convenience only and do not affect interpretation and, unless the context requires otherwise:

a words importing the singular include the plural and vice versa;

b words importing a gender include any gender;

c other parts of speech and grammatical forms of a word or phrase defined in this deed have a corresponding meaning;

d a reference to a person includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture, a partnership, a trust and any Government Agency;

e a reference to a clause, party, Attachment, exhibit or schedule is a reference to a clause of, and a party, Attachment, exhibit and schedule to this deed, and a reference to this deed includes any Attachment, exhibit and schedule;

f a reference to a statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances or by laws amending, consolidating or replacing it, whether passed by the same or another Government Agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;

g a reference to any document (including this deed) is to that document as varied, novated, ratified or replaced from time to time;

h the word "includes" in any form is not a word of limitation;

i a reference to "$" or "dollar" is to Australian currency;

j a reference to any time relating to the First Court Date or the Second Court Date is a reference to Brisbane time and any other reference to time is, unless otherwise indicated, a reference to Victorian time;

k a term defined in or for the purposes of the Corporations Act has the same meaning when used in this deed; and

l a reference to the Listing Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.4 Contra proferentem excluded

No term or condition of this deed will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this deed or a provision of it.

1.5 Consents and approvals

If the doing of any act, matter or things under this deed is dependent on the consent or approval of a party or is within the discretion of a party, such consent or approval may be given or such discretion may be exercised conditionally or unconditionally or withheld by the party in its absolute discretion (unless this deed specifies otherwise).

2 Agreement to proceed with the Transaction

a ROK agrees to propose the Scheme on and subject to the terms of this deed.

b MYS agrees with ROK to assist ROK to propose the Scheme on and subject to the terms of this deed.

3 Conditions precedent and pre-implementation steps

3.1 Conditions precedent

Subject to this clause 3, the Scheme will not become Effective, and the respective obligations of MYS under clause 4.3 and of ROK under clauses 5.2(h) and 5.2(j) are not binding, until each of the following conditions precedent are satisfied or waived to the extent and in the manner set out in clauses 3.2 and 3.3.

a **Quotation of New MYS Shares:** before 8.00 am on the Second Court Date, the New MYS Shares are approved for official quotation by ASX, such approval providing that:

1 on the Trading Day immediately following the Effective Date, the New MYS Shares will commence trading on a deferred settlement basis; and

2 on the day which is 3 Business Days immediately following the Implementation Date, the New MYS Shares that represent the Scheme Consideration will commence trading on a normal settlement basis;

b **No ROK Prescribed Occurrence:** no ROK Prescribed Occurrence occurs between the date of this deed and 8.00 am on the Second Court Date;

c **No MYS Prescribed Occurrence:** No MYS Prescribed Occurrence occurs between the date of this deed and 8.00 am on the Second Court Date;

d **Legal proceedings:** between the date of this deed and 8.00 am on the Second Court Date, no litigation, arbitration proceedings or other legal proceedings are commenced, instituted or threatened to be commenced, other than that which is in the public domain prior to the date of this deed, and which if successful would result in:

a MYS Material Adverse Change; or

a ROK Material Adverse Change;

e **No ROK change of control rights:** between the date of this deed and 8.00 am on the Second Court Date, as a result directly or indirectly of the Transaction, no person becomes entitled to exercise, exercises or purports to exercise, or states an intention to exercise, any rights under any provision of any Material Contract or instrument to which ROK or any member of the ROK Group, or by or to which ROK or any member of the ROK Group or any of its assets may be bound or be subject, which results, or could reasonably be expected to result in a ROK Material Adverse Change;

f **Financial Sector (Shareholdings) Act:** before 8.00 am on the Second Court Date, all necessary approvals are provided in respect of the Transaction under the *Financial Sector (Shareholdings) Act 1998* (Cth) (if such approvals are subject to conditions those conditions must be acceptable to MYS and ROK);

g **Banking Act:** before 8.00 am on the Second Court Date, all necessary approvals are provided in respect of the Transaction under the *Banking Act 1959* (Cth) (if such approvals are subject to conditions those conditions must be acceptable to MYS and ROK);

h **ASIC and ASX approval:** before 8.00 am on the Second Court Date, ASIC and ASX issue or provide any consents or approvals or do other acts which the parties agree are reasonably necessary or desirable to implement the Transaction (if such approvals are subject to conditions those conditions must be acceptable to MYS and ROK);

i **Other regulatory approvals:** before 8.00 am on the Second Court Date, all approvals or consents that are required by law, or by any public authority, as are necessary to permit the Transaction, are granted, given, made or obtained on an unconditional basis, remain in full force and effect in all respects, and do not become subject to any notice, intimation or indication of intention to revoke, suspend, restrict, modify or not renew the same;

j **Independent Expert:** the Independent Expert issues a report which concludes that the Scheme is in the best interests of ROK Shareholders before the date on which the Scheme Booklet is lodged with ASIC;

k **Tax Ruling:** before 8:00 am on the Second Court Date, the ATO has:

1 provided to ROK a draft of the class ruling confirming that the Scheme Shareholders who are eligible may elect to obtain scrip for scrip rollover in accordance with Subdivision 124-M of the Income Tax Assessment Act 1997 in relation to the exchange of their Scheme Shares for MYS Shares; and

2 provided to ROK a draft of the class ruling in connection with the ROK employee share plan confirming that MYS Shares provided to applicable employees in connection with the Scheme are treated for the purposes of Division 83A of the Income Tax Assessment Act 1997 as a continuation of the ROK Shares and other interests issued under the ROK employee share plan;

l **ROK approvals:**

1 ROK Shareholders agree to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act; and

2 the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;

m **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Transaction is in effect at 8.00 am on the Second Court Date;

n **ROK Representations and Warranties:** the ROK Representations and Warranties are true and correct in all material respects as at the time they are given; and

o **MYS Representations and Warranties:** the MYS Representations and Warranties are true and correct in all material respects as at the time they are given.

3.2 Best endeavours

a ROK undertakes to MYS to use its best endeavours to procure that the conditions precedent in clauses 3.1(b), 3.1(d)(2), 3.1(e) and 3.1(n) are satisfied in accordance with their terms.

b MYS undertakes to ROK to use its best endeavours to procure that the conditions precedent in clauses 3.1(a), 3.1(c), 3.1(d)(1) and 3.1(o) are satisfied in accordance with its terms.

c Each party undertakes to use its best endeavours to procure that:

1 the conditions precedent in clauses 3.1(f), 3.1(g), 3.1(h), 3.1(i), 3.1(j), 3.1(k), 3.1(l) and 3.1(m) are satisfied in accordance with their terms; and

2 there is no occurrence within the control of ROK or MYS (as the context requires) that would prevent the conditions precedent in clause 3.1, which such party must use best endeavours to satisfy, being satisfied in accordance with their terms.

d Without limiting clause 3.2(c), each party must:

1 promptly apply for all relevant Regulatory Approvals (as applicable) and provide to the other a copy of all those applications (provided that any commercially sensitive information may be redacted from the copy provided);

2 take all steps it is responsible for as part of the Regulatory Approval process, including responding to requests for information at the earliest practicable time;

3 provide the other party with all information reasonably requested in connection with the applications for Regulatory Approvals including drafts of applications for review a reasonable time before lodgement; and

4 consult with the other in advance in relation to the progress of obtaining Regulatory Approvals.

3.3 Waiver of conditions precedent

a The conditions precedent in clauses 3.1(i) and 3.1(l) cannot be waived.

b The conditions precedent in clauses 3.1(a), 3.1(f), 3.1(g), 3.1(h), 3.1(j), 3.1(k) and 3.1(m) are for the benefit of MYS and ROK and any non-fulfilment of those conditions may only be waived with the written consent of MYS and ROK (in their absolute discretion, but only to the extent such waiver is lawful).

c The conditions precedent in clauses 3.1(b), 3.1(d)(2), 3.1(e), and 3.1(n) are for the sole benefit of MYS and may only be waived by MYS (in its absolute discretion) in writing.

d The conditions precedent in clauses 3.1(c), 3.1(d)(1) and 3.1(o) are for the sole benefit of ROK and may only be waived by ROK (in its absolute discretion) in writing.

e If a party waives the non-fulfilment of any of the conditions precedent in clause 3.1, that waiver does not prevent it from suing the other party for any breach of this deed that resulted in the non-fulfilment of the condition precedent.

f Waiver of non-fulfilment in respect of one condition precedent does not constitute:

1 a waiver of non-fulfilment of any other condition precedent resulting from the same event; or

2 a waiver of non-fulfilment of that condition precedent resulting from any other event.

3.4 Termination on failure of condition precedent

a If:

1 the Scheme has not become Effective by the End Date; or

2 any event occurs which would, or in fact does, prevent a condition precedent in clause 3.1 being satisfied and that condition precedent is not waived by ROK or MYS or both (as applicable) in accordance with clause 3.3,

the parties must consult in good faith to:

3 determine whether the Transaction may proceed by way of alternative means or methods;

4 change the date of the application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed by ROK and MYS

(being a date no later than 5 Business Days before the End Date); or

5 extend the End Date.

b If the parties are unable to reach agreement under clause 3.4(a) within 5 Business Days of becoming aware of the relevant occurrence or by the End Date, then unless that condition precedent is waived by ROK, MYS or both as provided in clause 3.3, either party may terminate this deed without any liability (except under clause 12, if applicable) to the other party because of that termination, unless the relevant occurrence or the failure of the condition precedent to be satisfied, or of the Scheme to become Effective, arises out of a breach by the terminating party of clause 5 or this clause 3.

c Subject to any rights or obligations arising under or pursuant to clauses that are expressed to survive termination, on termination of this deed, no party shall have any rights against or obligations to any other party under this deed except for those rights and obligations which accrued prior to termination.

d If the condition in clause 3.1(l)(1) is not satisfied only because of a failure to obtain the majority required by section 411(4)(a)(ii)(A) of the Corporations Act, then either party may by written notice within 3 Business Days after the date of the conclusion of the Scheme Meeting require the approval of the Court to be sought, pursuant to the Court's discretion in that section, provided the party has in good faith formed the view that the prospect of the Court exercising its discretion in that way is reasonable.

3.5 Certain notices

a If ROK or MYS becomes aware that any condition precedent has been satisfied, it must promptly notify the other in writing of this fact.

b If, before the time specified for satisfaction of a condition precedent, an event that will prevent that condition precedent being satisfied occurs, the party with knowledge of that event must immediately give the other party written notice of that event.

c ROK and MYS (as the case may be) must promptly advise each other orally and in writing of any change or event causing, or which, so far as can reasonably be foreseen, would cause:

1 a representation or warranty provided in this deed by a relevant party to be false;

2 a breach or non-fulfilment of any of the conditions precedent;

3 the occurrence of a ROK Prescribed Occurrence (in the case of ROK) or a MYS Prescribed Occurrence (in the case of MYS);

4 the occurrence of a ROK Material Adverse Change (in the case of ROK) or a MYS Material Adverse Change (in the case of MYS); or

5 a material breach of this deed by a relevant party,

and must as part of such oral and written advice include reasonable details of the relevant change or event.

4 Transaction steps

4.1 Scheme

a ROK must propose a scheme of arrangement under which all of the Scheme Shares will be transferred to MYS or, where MYS makes an election in accordance with clause 4.1(b), MYS Subsidiary, and the Scheme Shareholders will be entitled to receive the Scheme Consideration.

b The parties agree that MYS may elect under this clause 4.1(b) that a subsidiary of MYS will acquire the Scheme Shares under the Scheme by giving written notice to ROK of the relevant subsidiary of MYS which will acquire those Scheme Shares on or before the First Court Date.

c If MYS makes an election in accordance with clause 4.1(b), MYS must procure that where an obligation is expressed to be imposed on MYS under this deed, the MYS Subsidiary complies with that obligation if MYS does not do so.

4.2 Scheme Consideration

a Subject to clauses 4.2(b) and 4.2(d), the Scheme Consideration is 7.75 New MYS Shares for every 10 Scheme Shares.

b Any fractional entitlement to a part of a New MYS Share:

1 which is 0.5 or greater will be rounded up to the nearest whole number of New MYS Shares; and

2 which is less than 0.5 will be rounded down to the nearest whole number of New MYS Shares.

c MYS covenants in favour of ROK (in its own right and on behalf of the Scheme Shareholders) that, upon issue:

1 the New MYS Shares will rank equally in all respects with all existing MYS Shares, other than with respect to the MYS 2H "Final" 2011 Permitted Dividend and the MYS 1H "Early Interim" 2012 Permitted Dividend, to which holders of New MYS Shares will not be entitled; and

2 each New MYS Share will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.

d The New MYS Shares to which an Ineligible Foreign Shareholder would otherwise have become entitled will be issued to a nominee appointed by MYS who will, in accordance with the Scheme, sell those New MYS Shares and pay the net proceeds received, after deducting any applicable brokerage, Taxes and charges, to the Ineligible Foreign Shareholder. MYS agrees to appoint the nominee at least 2 weeks prior to the Scheme Meeting. The identity of the nominee and the terms and conditions of the appointment of the nominee are subject to ROK's prior approval, acting reasonably.

4.3 Payment of Scheme Consideration

MYS undertakes and warrants to ROK (in its own right and separately as trustee or nominee for each of the Scheme Shareholders) that, in consideration of the transfer to MYS (or, where an election is made under clause 4.1(b), MYS Subsidiary) of each ROK Share held by a Scheme Shareholder at the Scheme Record Date under the terms of the Scheme, MYS will on the Implementation Date:

a accept, or where an election is made under clause 4.1(b), procure that MYS Subsidiary accepts, that transfer; and

b issue or procure the issue of the Scheme Consideration in accordance with the Scheme.

4.4 No amendment to Scheme without consent

ROK must not consent to any modification of, or amendment to, or the making or imposition by the Court of any condition in respect of, the Scheme without the prior written consent of MYS, such consent not to be unreasonably withheld or delayed.

5 Implementation

5.1 Obligations of both parties

Without limiting the general nature of clause 2, each party must:

a **Certificate:** at the hearing on the Second Court Date, provide to the Court a certificate confirming whether or not the conditions precedent in clause 3.1 (other than the condition in clause 3.1(l)(2)) have been satisfied or waived in accordance with this deed. A draft of such certificate shall be provided by each party to the other party by 5.00 pm on the Business Day prior to the Second Court Date;

b **Removal of ROK from official list of ASX:** if directed by MYS, take all steps necessary for ROK to be removed from the official list of the ASX on a day after the Implementation Date;

c **Promotion:** subject to this deed, provide such efforts reasonably required by the other party to promote the merits of the Transaction, including meeting with shareholders, advisors and clients; and

d **Timing:** consult with each other regularly in relation to the timetable set out in Attachment C (**Timetable**) for performing their respective obligations and use their best endeavours to comply with the timetable. The parties acknowledge that the Timetable has been prepared on the basis of the parties' best estimate of the timing of key events for the Transaction, and that certain events may be delayed for reasons outside of the control of the parties, such as:

1 the period of consideration by ASIC of the Regulator's Draft; and

2 the First Court Hearing or the Second Court Hearing may occur after the time specified in the Timetable.

In the case of any delay, the parties will endeavour in good faith to agree to a substitute timetable (to the extent possible, with the same relative timing between the events), while having regard to (amongst other things) the desire of each party to complete the Transaction as soon as is practicable.

5.2 ROK's obligations

Without limiting the general nature of clause 2, ROK must execute all documents and do all acts and things within its power as may be necessary or desirable for the implementation of the Transaction on a basis consistent with this deed and as expeditiously as possible, including doing any acts on behalf of ROK Shareholders, and in particular ROK must:

a **Investigating Accountant's report:** subject to the Investigating Accountant entering into arrangements with ROK including in relation to confidentiality in a form reasonably acceptable to ROK, provide any assistance or information reasonably requested by the Investigating Accountant in connection with the preparation of the Investigating Accountant's report to be sent together with the Scheme Booklet;

b **preparation of Scheme Booklet:** subject to clause 5.2(k), as soon as practicable after the date of this deed, prepare and despatch the Scheme Booklet in accordance with all applicable laws and in particular with the Corporations Act, the Corporations Regulations, RG 60 and the Listing Rules;

c **directors' recommendation:** unless there has been a change of recommendation permitted

by clause 5.6, include in the Scheme Booklet a statement by the ROK Board:

1 unanimously recommending that ROK Shareholders vote in favour of the Scheme in the absence of any superior proposal; and

2 that each ROK Board member intends (in the absence of a superior proposal) to vote, or procure the voting of any ROK Shares held by or on their behalf at the time of the Scheme Meeting in favour of the Scheme at the Scheme Meeting;

d **section 411(17)(b) statement:** apply to ASIC for the production of:

1 an indication of intent letter stating that it does not intend to appear at the First Court Date; and

2 a statement under section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;

e **Court direction:** promptly apply to the Court for orders directing ROK to convene the Scheme Meeting;

f **Scheme Meeting:** convene the Scheme Meeting to agree to the Scheme in accordance with the orders made by the Court pursuant to section 411(1) of the Corporations Act;

g **Court approval:** subject to all conditions precedent in clause 3.1, other than the condition in clause 3.1(l)(2), being satisfied or waived in accordance with this deed promptly apply to the Court for orders approving the Scheme as agreed to by the ROK Shareholders at the Scheme Meeting;

h **lodge copy of Court order:** lodge with ASIC an office copy of the Court order approving the Scheme as agreed to by the ROK Shareholders at the Scheme Meeting on the day such office copy is received (or such later date as agreed in writing by MYS);

i **Scheme Consideration:** close the Share Register as at the Scheme Record Date and determine entitlements to the Scheme Consideration in accordance with the Scheme and the Deed Poll;

j **registration:** subject to the Scheme Consideration having been issued to Scheme Shareholders in accordance with the Scheme, register all transfers of ROK Shares held by Scheme Shareholders to MYS or MYS Subsidiary on or as soon as practicable after, the Implementation Date;

k **consultation with MYS:** consult with MYS as to the content and presentation of the Scheme Booklet including:

1 providing to MYS drafts of the Scheme Booklet for the purpose of enabling MYS a reasonable opportunity to review and comment on those drafts;

2 taking all comments made by MYS into account in good faith when producing a revised draft of the Scheme Booklet;

3 providing to MYS a revised draft of the Scheme Booklet within a reasonable time before the Regulator's Draft is finalised; and

4 obtaining written approval from MYS for the form and content in which the MYS Information appears in the Scheme Booklet;

l **information:** provide all necessary information, or procure that the ROK Registry provides all necessary information, in each case in a form reasonably requested by MYS, about the Scheme and ROK Shareholders to MYS and its authorised Representatives which MYS reasonably requires in order to:

1 canvass agreement to the Scheme by ROK Shareholders; or

2 facilitate the provision by, or on behalf of, MYS of the Scheme Consideration;

m **ASIC review:** keep MYS informed of any matters raised by ASIC in relation to the Scheme Booklet, and use reasonable endeavours to take into consideration in resolving such matters any issues raised by MYS;

n **Independent Expert:** promptly appoint the Independent Expert and provide assistance and information reasonably requested by the Independent Expert to enable it to prepare its report for the Scheme Booklet as soon as practicable;

o **listing:** not do anything to cause ROK Shares to cease being quoted on the ASX or to become permanently suspended from quotation prior to completion of the Transaction unless MYS has agreed in writing;

p **dividend reinvestment plan:** suspend operation of its dividend reinvestment plan from the date of this deed, keep it suspended until the Implementation Date and notify holders of ROK Shares of such suspension as soon as practicable after the date of this deed;

q **directors and officers insurance:** subject to the Scheme becoming Effective, prepay before the Implementation Date directors and officers run-off insurance cover for the benefit of all directors and officers of the ROK Group for a period of 7 years from the retirement date of each of those directors and officers (Cover), provided such Cover is on commercially reasonable terms with a reputable insurer at current coverage levels as disclosed to MYS prior to entry into this deed. The Cover must include a term that it cannot be cancelled unless the insured party consents to its cancellation; and

r **ROK 1H "Early Interim" 2012 Permitted Dividend:** declare and pay the ROK 1H

"Early Interim" 2012 Permitted Dividend in accordance with its definition.

5.3 MYS's obligations

Without limiting the general nature of clause 2, MYS must execute all documents and do all acts and things within its power as may be necessary or desirable for the implementation of the Transaction on a basis consistent with this deed and as expeditiously as possible, and in particular MYS must:

a **Investigating Accountant:** promptly appoint the Investigating Accountant and provide assistance and information reasonably requested by the Investigating Accountant to enable it to prepare its report for the Scheme Booklet as soon as practicable;

b **MYS Information:** prepare and promptly provide to ROK the MYS Information for inclusion in the Scheme Booklet and consent to the inclusion of that information in the Scheme Booklet;

c **Update MYS Information:** promptly provide to ROK any information that arises after the Scheme Booklet has been despatched and until the date of the Scheme Meeting that may be necessary to ensure that the Scheme Booklet, in relation to the MYS Information in it, does not contain any material misstatement that is false, misleading or deceptive in a material respect including because of any material omission from the MYS Information;

d **review of Scheme Booklet:** review the drafts of the Scheme Booklet prepared by ROK and provide comments promptly on those drafts in good faith;

e **Independent Expert's report:** subject to the Independent Expert entering into arrangements with MYS including in relation to confidentiality in a form reasonably acceptable to MYS, provide any assistance or information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's report to be sent together with the Scheme Booklet;

f **representation:** procure that (if it wishes to be represented) it is separately represented at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act, at which hearings MYS will undertake (if requested by the Court) to do all such things and take all such steps within its power as are necessary in order to ensure the fulfilment of its obligations under this deed and the Scheme;

g **Deed Poll:** on or before the Business Day prior to the First Court Date, enter into the Deed Poll;

h **accuracy of MYS Information:** before a draft of the Scheme Booklet is lodged with ASIC, and again before the Scheme Booklet is despatched to ROK Shareholders, confirm to ROK the accuracy and completeness of the MYS Information in the Scheme Booklet, including that it does not contain any material misstatement that is false, misleading or deceptive in a material respect including because of any material omission from the MYS Information;

i **Ineligible Foreign Shareholder Nominee:** appoint a nominee to sell the New MYS Shares of Ineligible Foreign Shareholders in accordance with the terms of the Scheme as referred to in clause 4.2(d);

j **Share transfer:** if the Scheme becomes Effective, accept or, where an election is made under clause 4.1(b), procure that MYS Subsidiary accepts, a transfer of the ROK Shares as contemplated by clause 4.3(a);

k **MYS 1H "Early Interim" 2012 Permitted Dividend:** declare and pay the MYS 1H "Early Interim" 2012 Permitted Dividend in accordance with its definition; and

l **MYS Scheme Consideration:** if the Scheme becomes Effective, procure the provision of the Scheme Consideration in the manner and amount contemplated by clause 4 and in accordance with the terms of the Scheme.

5.4 Content of Scheme Booklet

a The parties agree that the Scheme Booklet will contain statements to the effect that:

1 ROK is responsible for the content of the Scheme Booklet other than, to the maximum extent permitted by law, the MYS Information, the Independent Expert's report and the Investigating Accountant's report; and

2 MYS is responsible for the MYS Information (and no other part of the Scheme Booklet).

b If the parties disagree on the form or content of the Scheme Booklet, they must consult in good faith to try to settle an agreed form of the Scheme Booklet.

c If within five Business Days of the consultation referred to in clause 5.4(b) having commenced there is still no agreement between the parties, the final form and content of the Scheme Booklet shall be determined by ROK, acting reasonably and if MYS disagrees with such final form and content:

1 ROK must include a statement to that effect in the Scheme Booklet; and

2 if ROK's concerns relate to MYS Information, ROK must include a statement that MYS takes no responsibility for the relevant form or content to the extent that MYS disagrees with the final form and content.

5.5 Conduct of business

a From the date of this deed up to and including the Implementation Date, each party must conduct, and must ensure that its Related

Bodies Corporate conduct, their businesses in the ordinary and proper course of business (and must only incur capital expenditure in respect of any individual item in excess of $100,000 in accordance with their respective YE12 Board Approved Budgets), in substantially the same manner and at the same locations as previously conducted and, to the extent inconsistent, use reasonable efforts to:

1 preserve intact current business organisations;

2 keep available the services of its current officers and employees;

3 consult with, and obtain the views of the other party, prior to the replacement or removal of any Key Management Personnel;

4 maintain and preserve its relationships with customers, suppliers, licensors, licensees and others having business dealings with it; and

5 maintain its business and assets, including maintaining at least its current level of insurance,

except to the extent that:

6 it is required to do, permitted to do or is permitted not to do, that thing under or in accordance with this deed; or

7 the other party consents otherwise (such consent not to be unreasonably withheld or delayed).

b Without limiting paragraph 5.5(a), from the date of this deed up to and including the Implementation Date, ROK must not, and must ensure that its Related Bodies Corporate do not, other than with the prior written consent of MYS, such consent not to be unreasonably withheld or delayed or, as required by law or provided under any superannuation scheme in effect on the date of this deed:

1 enter into or agree to enter into any new contract of service (including to vary any existing contract of service) with any Key Management Personnel or, except in the ordinary course of business, hire any employee or engage any contractor;

2 pay or agree to pay any retirement benefit or allowance to any Key Management Personnel which is not already contracted for;

3 accelerate the rights of any director or employee to compensation or benefits of any kind (including under any ROK executive or employee share plans);

4 make or agree to make any substantial change in the basis or amount of remuneration of any Key Management Personnel; or

5 pay any of its Key Management Personnel or other officer or employee a termination or retention payment.

c Without limiting paragraph 5.5(a), from the date of this deed up to and including the Implementation Date, ROK must notify MYS (together with reasonable details) as soon as practicable after it becomes aware that any supplier of a Material Business Service notifies ROK that such Material Business Service will not continue to be supplied or will only be supplied on materially less favourable terms.

d ROK will use its best endeavours to obtain before 8.00 am on the Second Court Date any necessary landlord consent in a form acceptable to MYS (acting reasonably) which provides all necessary consents so as to enable the lessee to install and use safes in respect of each of the Material Safe Premises, or continue to use any safe which has already been installed on the Material Safe Premises, without giving rise to any termination rights or entitlement for damages (or any other rights which may accrue in the landlord) in connection with the Material Safe Premises.

5.6 ROK Board recommendations

a Subject to clause 5.6(b), the ROK Board must unanimously recommend that ROK Shareholders vote in favour of:

1 the Scheme in the absence of a Superior Proposal and subject to the Independent Expert opining that the Scheme is in the best interests of ROK Shareholders; and

2 all of the resolutions in the Scheme Booklet,

at the Scheme Meeting and the Scheme Booklet must include a statement by the ROK Board to that effect (without the qualification regarding the Independent Expert's opinion).

b The ROK Board collectively, and the members of the ROK Board individually, must not change, withdraw or modify its, his or her recommendation in favour of the Scheme unless:

1 the Independent Expert does not conclude that the Transaction is in the best interests of the ROK Shareholders; or

2 ROK receives a Superior Proposal, has notified MYS under clause 11.5 and either MYS has not made a Matching Proposal in accordance with clause 11.5 or the ROK Board has determined in accordance with clause 11.5 that a Matching Proposal which has been made is not more favourable to ROK Shareholders than the Competing Proposal.

5.7 MYS Board

On the Implementation Date, subject to the terms of the constitution of MYS (which allows a shareholder

or shareholders to elect directors to the MYS Board and imposes a maximum limit on MYS Board members):

a 1 ROK non-executive director as nominated by agreement between ROK and MYS will be appointed to the MYS Board; and

b it is the intention of the MYS Board that the remainder of the MYS Board will comprise 7 non-executive directors and the Managing Director as nominated by MYS.

5.8 ROK Board

On the Implementation Date and subject to the Scheme Consideration having been issued to Scheme Shareholders, ROK must procure that unless otherwise agreed by MYS and except for the ROK non-executive director contemplated in clause 5.7(a) (who will remain on the board of each ROK Group member if appointed to the MYS Board), all directors on each board of a ROK Group member resign and that contemporaneously nominees of MYS are appointed to each ROK Group member board in their stead.

6 Implementation Committee

6.1 Establishment and membership

a As soon as practicable after the date of this deed, the parties must establish an implementation committee to act as a forum for consultation and planning between the parties in relation to the implementation of the Scheme and integration planning (**Implementation Committee**).

b The Implementation Committee, once established, shall remain in existence until the earlier of the Scheme Record Date and the termination of this deed in accordance with its terms (the **Disbandment Date)**.

c The Implementation Committee shall comprise up to 5 members of the management team of ROK and up to 5 members of the management team of MYS, and such other persons as the parties may agree from time to time.

6.2 Functions

The specific functions of the Implementation Committee shall be as follows:

a to develop a framework or broad set of protocols to facilitate communications between the parties in relation to the Transaction from the Announcement Date until the Effective Date;

b to act as the primary forum for the parties to agree on the form and content of the Scheme Booklet, and this will include consultation to resolve any dispute regarding the content of the draft Scheme Booklet as contemplated by clause 5.4;

c to act as the primary forum for the parties to consult and/or agree on the matters requiring consultation and/or agreement;

d to act as a forum for consultation and planning for the transition of the ownership of ROK and its businesses to MYS and the smooth implementation of MYS's plans for those businesses following the Implementation Date; and

e such other matters as the Implementation Committee sees fit to carry out its role as a forum for consultation and planning between the parties in relation to the implementation of the Scheme and the integration of MYS and ROK.

6.3 Meetings of Implementation Committee

The Implementation Committee must meet as often as is reasonably required and at least once per fortnight until the Disbandment Date.

6.4 No partnership

Subject to this deed, nothing in this clause 6 requires either party to act at the direction of the other. The business of each party and its Related Bodies Corporate will continue to operate independently of the other until the Implementation Date. The parties agree that nothing in this deed shall constitute the relationship of a partnership or joint venture between the parties.

6.5 Integration planning

Without limiting the generality of clause 6.2(d), after the date of this deed, both parties will co-operate with each other in good faith and use their respective best endeavours to progress the planning for the integration of MYS and ROK with the objective of bringing forward the realisation of the merger benefits as soon as reasonably possible after the Implementation Date. As part of this process, MYS and ROK agree to jointly develop a strategy to minimise the risk of attrition of employees, customers and outsourced service providers occurring as a result of the Transaction.

6.6 Access to information

a From the date of this deed up to and including the Implementation Date, ROK must, if requested by MYS:

1 provide to MYS:

- monthly financial information consistent with the information which has been customarily provided to the ROK Board;
- minutes and board papers of any member of the ROK Group; and
- asset and liability committee papers of any member of the ROK Group,

promptly after the relevant meetings have taken place or promptly after the relevant document has been made available within the ROK Group (as the case may be); and

2 subject to ROK considering the request for information to be reasonable, provide to MYS such further materials as MYS requires to implement the Transaction.

b Nothing in this clause 6.6 requires ROK to provide information to MYS about a Competing Proposal, the assessment of a Competing Proposal or any advice in relation to a Competing Proposal except as required under clauses 11.4 and 11.5. Information of this nature may be withheld or redacted.

7 Representations and warranties

7.1 MYS's representations

MYS represents and warrants to ROK (in its own right and separately as trustee or nominee for each of the other ROK Indemnified Parties) each of the MYS Representations and Warranties.

7.2 MYS's indemnity

MYS agrees with ROK (in its own right and separately as trustee or nominee for each of the other ROK Indemnified Parties) to indemnify the ROK Indemnified Parties against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising which ROK or any of the other ROK Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the MYS Representations and Warranties.

7.3 ROK's representations

ROK represents and warrants to MYS (in its own right and separately as trustee or nominee for each of the other MYS Indemnified Parties) each of the ROK Representations and Warranties.

7.4 ROK's indemnity

ROK agrees with MYS (in its own right and separately as trustee or nominee for each MYS Indemnified Party) to indemnify MYS and each of the other MYS Indemnified Parties from any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising which MYS or any of the other MYS Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the ROK Representations and Warranties.

7.5 Survival of representations

Each representation and warranty referred to in clauses 7.1 and 7.3:

a is severable; and

b survives the termination of this deed.

7.6 Survival of indemnities

Each indemnity in this deed (including those in clauses 7.2 and 7.4):

is severable;

is a continuing obligation;

c constitutes a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this deed; and

d survives the termination of this deed.

7.7 Timing of warranties

Each representation and warranty made or given under clauses 7.1 and 7.3 is given:

a at the date of this deed;

b at the date the Scheme Booklet is despatched to ROK Shareholders;

c at 8.00 am on the date of the Scheme Meeting; and

d at 8.00 am on the Second Court Date,

or where expressed to be given at a particular time, at that time.

8 Releases

8.1 ROK directors and officers

a MYS releases its rights, and agrees with ROK that it will not make a claim, against any ROK Indemnified Party (other than ROK) as at the date of this deed in connection with:

1 any breach of any representations, covenants and warranties of ROK or any member of the ROK Group in this deed; or

2 any disclosures containing any statement which is false, misleading or deceptive whether in content or by omission,

except where the ROK Indemnified Party has not acted in good faith, has been negligent or has engaged in wilful misconduct or fraudulent conduct.

b This clause is subject to any Corporations Act restriction and will be read down accordingly. ROK receives and holds the benefit of this clause to the extent it relates to each ROK Indemnified Party as trustee for each of them.

8.2 MYS directors and officers

a ROK releases its rights, and agrees with MYS that it will not make a claim, against any MYS Indemnified Party (other than MYS) as at the date of this deed in connection with:

1 any breach of any representations, covenants and warranties of MYS or any member of the MYS Group in this deed; or

2 any disclosure containing any statement which is false, misleading or deceptive whether in content or by omission,

except where the MYS Indemnified Party has not acted in good faith, has been negligent or has engaged in wilful misconduct or fraudulent conduct.

b This clause is subject to any Corporations Act restriction and will be read down accordingly. MYS receives and holds the benefit of this clause to the extent it relates to each MYS Indemnified Party as trustee for each of them.

9 Public announcement

Immediately after the execution of this deed, ROK and MYS must issue public announcements in a form agreed between the parties.

10 Confidentiality

10.1 Mutual Confidentiality Agreement

ROK and MYS acknowledge and agree that they continue to be bound by the Mutual Confidentiality Agreement and accept that, for so long as this deed remains on foot, the terms of this deed will prevail over the Mutual Confidentiality Agreement to the extent of any inconsistency.

10.2 Survival of obligations

The rights and obligations of the parties under the Mutual Confidentiality Agreement survive termination of this deed.

10.3 Joint presentations

a Subject to clause 10.3(b), ROK and MYS acknowledge and agree that any announcement or presentation to any third party in relation to the Transaction must be made:

1 jointly by ROK and MYS; or

2 by a party with the prior written approval of the other party,

and that an announcement or presentation which complies with this clause 10.3 will not breach this deed or the Mutual Confidentiality Agreement.

b Notwithstanding any provision of the Mutual Confidentiality Agreement or this deed, either party may make an announcement or disclosure in relation to the Transaction in a form not approved by the other party if:

1 immediate disclosure is required by law; and

2 before making such disclosure, to the extent practicable the disclosing party has given the other party reasonable written notice of the full circumstances of the required disclosure together with the information which the disclosing party proposed to disclose, and consults with the other party to the extent practicable as to the form of the disclosure except that ROK is not required to provide such notice or to consult with MYS if a required disclosure by ROK relates to a Competing Proposal or a change of recommendation permitted by clause 5.6.

10.4 Disclosure documents

Notwithstanding any provision of the Mutual Confidentiality Agreement or this deed, either party (**Requesting Party**) may request that the other (**Other Party**) authorise and consent to the inclusion of confidential information in a disclosure document or securities or product offering document prepared by the Requesting Party, whether issued in this jurisdiction or otherwise, and the Other Party must act reasonably in deciding whether or not to approve such inclusion.

11 No-talk and no-shop obligations

11.1 No-talk

Subject to clause 11.3, during the Restricted Period, ROK must not, and must ensure that none of its Representatives, Related Bodies Corporate and none of their Representatives (including for the avoidance of doubt any Financial Advisors):

a directly or indirectly participate in or continue any discussions or negotiations;

b provide or make available any information (including by way of providing information and access to perform due diligence);

c enter into any agreement, arrangement or understanding; or

d communicate any intention to do any of these things,

in relation to, or which may reasonably be expected to lead to, a Competing Proposal.

11.2 No-shop

During the Restricted Period, ROK must not, and must ensure that none of its Representatives, Related Bodies Corporate and none of their Representatives (including for the avoidance of doubt any Financial Advisors):

a solicit (including by way of providing information concerning ROK to any person) or invite, directly or indirectly, enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal; or

b communicate to any person an intention to do any of the things referred to in clause 11.2(a).

11.3 Limitation to No-talk

a ROK, its Related Bodies Corporate and their Representatives may undertake any action that would otherwise be prohibited by clause 11.1 in relation to a bona fide Competing Proposal which was received after the date of this deed and which was not solicited by it and was not otherwise brought about as a result of any breach by it of its obligations under this clause 11, where the Competing Proposal constitutes, or would be likely to constitute, a Superior Proposal and:

1 the Board of ROK, acting in good faith and after having obtained written advice from its legal advisers, determines, that not undertaking that act would be likely to involve a breach of the fiduciary or statutory duties owed by any ROK director; or

it would otherwise be unlawful.

11.4 Notification of approaches

During the Restricted Period, ROK must notify MYS in writing if it, or any of its Related Bodies Corporate or any of their Representatives becomes aware of any:

a negotiations or discussions, approach or attempt to initiate any negotiations or discussions, or intention to make such an approach or attempt to initiate any negotiations or discussions of a kind referred to in clause 11.1 or 11.2 including details of the party making the expression of interest, offer or proposal, their terms and any updates to the expression of interest, offer or proposal;

b proposal whether written or otherwise made to ROK or any of its Related Bodies Corporate or Representatives, in connection with, or in respect of any exploration or consummation of, a Competing Proposal or a proposed or potential Competing Proposal, whether unsolicited or otherwise, including details of the party making the proposal, the terms of the proposal and any updates to the proposal;

c provision by ROK, Related Bodies Corporate or Representatives of any information relating to ROK or any of its Related Bodies Corporate or any of their businesses or operations to any person in connection with or for the purposes of a current or future Competing Proposal; and

d action by ROK, or any intention of it to take any action, in reliance on clause 11.3.

11.5 Matching right

a ROK:

1 must not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) pursuant to which a third party and/or ROK proposes to undertake or give effect to a Competing Proposal; and

2 must use its best endeavours to procure that none of its directors change their recommendation in favour of the Transaction to publicly recommend a Competing Proposal,

unless,

3 the ROK Board acting in good faith determines that the Competing Proposal would be or would be likely to be a Superior Proposal;

4 ROK has provided MYS with the material terms and conditions of the Competing Proposal, including price and the identity of the party making the Competing Proposal; and

5 ROK has given MYS at least 5 Business Days after the provision of the information referred to in clause 11.5(a)(4) to provide a matching or superior proposal to the terms of the Competing Proposal (the **Matching Proposal**).

b If the ROK Board determines in good faith that the Matching Proposal is more favourable to ROK Shareholders than the Competing Proposal, then:

1 the parties will use their best endeavours to pursue an announcement of the Matching Proposal as soon as reasonably practicable;

2 the ROK Board will recommend the Matching Proposal in the absence of a more favourable proposal and subject to the Independent Expert opining that the Matching Proposal is in the best interests of ROK Shareholders;

3 if the Matching Proposal contemplates an amendment to the Scheme, the parties must enter into a deed amending this deed in relation to the Scheme and reflecting the Matching Proposal; and

4 ROK must not take any of the steps referred to in clauses 11.5(a)(1) and 11.5(a)(2).

12 Payment of costs

12.1 Background to Reimbursement Fee

a MYS and ROK acknowledge that, if they enter into this deed and the Transaction is subsequently not implemented, each of MYS and ROK will incur significant costs.

b In these circumstances, provision has been made for the payments outlined in clauses 12.3 and 12.4 (as applicable), without which MYS and ROK would not have entered into this deed or otherwise agreed to implement the Transaction.

c The boards of MYS and ROK each believes, having taken advice from their respective external lawyers and financial advisers, that the Transaction will provide benefits to each of MYS and ROK and that it is appropriate for MYS and ROK to agree to the payments referred to in clauses 12.3 and 12.4 (as applicable) in order to secure MYS and ROK participation in the Transaction.

12.2 Nature of payment

The payment outlined in either clauses 12.3 or 12.4 (as applicable) is intended to be an amount to compensate MYS or ROK (as applicable) for:

a advisory costs (including costs of advisors other than success fees);

b costs of management and directors' time;

c out-of-pocket expenses; and

d reasonable opportunity costs incurred by MYS or ROK (as applicable) in pursuing the Scheme or in not pursuing other alternative acquisitions or strategic initiatives which MYS or ROK (as applicable) could have developed to further its business and objectives.

12.3 Payment by ROK to MYS

If:

a prior to the earlier of the Effective Date or the End Date, any member of the ROK Board fails to recommend or withdraws or adversely modifies his or her support of the Scheme or his or her recommendation that ROK Shareholders vote in favour of the Scheme, or makes a public statement indicating that they no longer support the Scheme or that they support a Competing Proposal, other than:

1 as a result of the Independent Expert opining that the Scheme is not in the best interests of Scheme Shareholders (other than where the reason for that opinion is a Competing Proposal);

2 as a result of any matter or thing giving ROK the right to terminate under clauses 14.1(a)(1), 14.1(a)(2) or 14.1(a)(4); or

3 as a result of a failure of a condition precedent in clause 3.1 (except the conditions precedent in clauses 3.1(b), 3.1(e) or 3.1(n)), other than as a result of a breach by ROK of clause 3.2;

b a Competing Proposal is announced or made prior to the earlier of the Effective Date or the End Date (whether or not such proposal is stated to be subject to any pre-conditions) and, within 12 months after the date of this deed, a person other than MYS (or its associates) completes a Competing Proposal; or

c at any time prior to the earlier of the Effective Date or the End Date, a person, other than a member of the MYS Group, acquires or agrees to acquire the whole or a substantial part of the ROK Group's assets, business or property (whether by way of acquisition, amalgamation, scheme of arrangement or otherwise),

then ROK must pay MYS the Reimbursement Amount in accordance with clause 12.5.

12.4 Payment by MYS to ROK

If MYS is in material breach of any clause of this deed (including a material breach of a MYS Representation and Warranty) and ROK terminates this deed pursuant to clause 14.1(a)(2) as a result, then MYS must pay ROK the Reimbursement Amount in accordance with clause 12.5.

12.5 Satisfaction of payment obligation

a The offending party must pay the amount claimed under clauses 12.3 and 12.4 (as applicable) within 14 days after receipt by that party of a demand for payment from the other party unless a finding has been made by a court, Takeovers Panel, regulatory authority or tribunal as described in clause 12.6, or an application has been made to such a body seeking such a finding.

b A party's obligation to make the payment referred to in clause 12.5(a) will be satisfied by the payment of the relevant amount in immediately available funds to the account nominated by the other party for the purposes of this clause.

12.6 Compliance with law

a No amount shall be payable by a party under clause 12.5 if the Scheme becomes Effective, notwithstanding the occurrence of any event in clauses 12.3 and 12.4. To the extent that any amounts have already been paid under this clause 12 and the Scheme becomes Effective, such amounts shall be immediately refunded to that party.

b This clause 12 does not impose an obligation to make the payment referred to in clause 12.5(a) to the extent (and only to the extent) that the obligation to pay the amount:

1 constitutes unacceptable circumstances as declared by the Takeovers Panel; or

2 is held to be unenforceable by one party against the other as determined by a court,

after all proper avenues of appeal and review, whether judicial or otherwise, have been exhausted. The parties must take all reasonable steps to ensure that any such determination applies to the minimum extent possible. To the extent any amounts have been paid by a party which it is not obliged to pay because of this clause 12.6(b), such amounts shall be immediately refunded to that party.

c The parties must not make or cause or permit to be made, any application to a court or the Takeovers Panel for or in relation to a determination referred to in clause 12.6(b).

12.7 Limit on liability

Despite anything contained in this deed:

a a party can only ever be liable to pay the Reimbursement Amount once; and

b where the Reimbursement Amount becomes payable by ROK under clause 12.3 or MYS under clause 12.4, and is actually paid, MYS or ROK (as applicable) cannot make any claim against the other party for payment of any subsequent Reimbursement Amount.

12.8 Exclusion of certain losses

No party is liable to any other party for any loss or damage resulting from a breach of this deed:

a which does not arise naturally or in the usual course of things from that breach; or

b which constitutes, or arises from or in connection with, a loss of revenue, profit or opportunity, loss of goodwill or loss of business reputation, even if that loss arises naturally or in the usual course of things from that breach.

13 Conduct of Court proceedings

a ROK and MYS are entitled to separate representation at all Court proceedings affecting the Transaction.

b This deed does not give ROK or MYS any right or power to give undertakings to the Court for or on behalf of the other party without that party's written consent.

c ROK and MYS must give all undertakings to the Court in all Court proceedings which are reasonably required to obtain Court approval and confirmation of the Transaction as contemplated by this deed.

14 Termination

14.1 Termination

a Without prejudice to any other rights of termination under this deed, ROK may terminate this deed by written notice to MYS at any time before 8.00 am on the Second Court Date if:

1 there is a MYS Material Adverse Change;

2 MYS is in breach of this deed (including a breach of a MYS Representation and Warranty under clause 7) and:

i that breach is material;

ii ROK has given written notice to MYS setting out the breach and stating an intention to terminate this deed if the breach is not remedied; and

iii the breach is not remedied by MYS within 5 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time the notice is given in accordance with clause 14.1(a)(2)(B);

3 a majority of the ROK Board changes or withdraws their recommendation to ROK Shareholders to vote in favour of the Scheme, or recommends a Competing Proposal in each case in accordance with, and without breaching, clause 5.6; or

4 a Court or Government Agency has taken any action permanently restraining or otherwise prohibiting the Transaction, or has refused to do any thing necessary to permit the Transaction, and the action or refusal has become final and cannot be appealed or the parties' respective external legal advisers have advised that there is no reasonable prospect of a successful appeal.

b Without prejudice to any other rights of termination under this deed, MYS may terminate this deed by written notice to ROK at any time before 8.00 am on the Second Court Date if:

1 there is a ROK Material Adverse Change;

2 ROK is in breach of this deed (including a breach of a ROK Representation and Warranty under clause 7) and:

i that breach is material;

ii MYS has given written notice to ROK setting out the breach and stating an intention to terminate this deed if the breach is not remedied; and

iii the breach is not remedied by ROK within 5 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time the notice is given in accordance with clause 14.1(b)(2)(B);

3 a majority of the ROK Board changes or withdraws their recommendation to ROK Shareholders to vote in favour of the Scheme, or recommends a Competing Proposal in each case whether in accordance with clause 5.6 or not; or

4 a Court or Government Agency has taken any action permanently restraining or otherwise prohibiting the Transaction, or has refused to do any thing necessary to permit the Transaction, and the action or refusal has become final and cannot be appealed or the parties' respective external legal advisers have advised that there is no reasonable prospect of a successful appeal.

14.2 Effect of termination

If this deed is terminated by either party under clauses 3.4(b) or 14.1 except to the extent that the termination results from a breach by either party of its obligations under this deed, this deed will become void and have no effect, without any liability or obligation on the part of any party, other than in relation to rights and obligations that accrued prior to termination and other than in relation to the provisions of this clause 14 and of clauses 1 (Definitions and interpretation), 7.5 to 7.7 (Representations and warranties), 8 (Releases) 10 (Confidentiality), 12 (Payment of costs), 15 (Duty, costs and expenses), 16 (GST) and 17 (General), which will remain in force after termination.

14.3 Remedies

The parties acknowledge that damages may not be a sufficient remedy for breach of this deed. Specific performance, injunctive relief or any other remedies which would otherwise be available in equity or law are available as a remedy for a breach or threatened breach of this deed by any party, notwithstanding

the ability of any party to terminate this deed or seek damages for such a breach or threatened breach.

15 Duty, costs and expenses

15.1 Stamp duty

MYS must pay all stamp duties and any fines and penalties with respect to stamp duty in respect of this deed or the Scheme or the steps to be taken under this deed or the Scheme.

15.2 Costs and expenses

Except as otherwise provided in this deed, each party must pay its own costs and expenses in connection with the negotiation, preparation, execution and performance of this deed and the proposed, attempted or actual implementation of this deed and the Transaction.

16 GST

a Any consideration or amount payable under this deed, including any non-monetary consideration (as reduced in accordance with clause 16(e) if required) (**Consideration**) is exclusive of GST.

b If GST is or becomes payable on a Supply made under or in connection with this deed, an additional amount (**Additional Amount**) is payable by the party providing consideration for the Supply (**Recipient**) equal to the amount of GST payable on that Supply as calculated by the party making the Supply (**Supplier**) in accordance with the GST Law.

c The Additional Amount payable under clause 16(b) is payable at the same time and in the same manner as the Consideration for the Supply, and the Supplier must provide the Recipient with a Tax Invoice. However, the Additional Amount is only payable on receipt of a valid Tax Invoice.

d If for any reason (including the occurrence of an Adjustment Event) the amount of GST payable on a Supply (taking into account any Decreasing or Increasing Adjustments in relation to the Supply) varies from the Additional Amount payable by the Recipient under clause 16(b):

1 the Supplier must provide a refund or credit to the Recipient, or the Recipient must pay a further amount to the Supplier, as appropriate;

2 the refund, credit or further amount (as the case may be) will be calculated by the Supplier in accordance with the GST Law; and

3 the Supplier must notify the Recipient of the refund, credit or further amount within 14 days after becoming aware of the variation to the amount of GST payable. Any refund or credit must accompany such notification or the Recipient must pay any further amount within 7 days after receiving such notification, as appropriate. If there is an Adjustment Event in relation to the Supply, the requirement for the Supplier to notify the Recipient will be satisfied by the Supplier issuing to the Recipient an Adjustment Note within 14 days after becoming aware of the occurrence of the Adjustment Event.

e Despite any other provision in this deed:

1 if an amount payable under or in connection with this deed (whether by way of reimbursement, indemnity or otherwise) is calculated by reference to an amount incurred by a party, whether by way of cost, expense, outlay, disbursement or otherwise (**Amount Incurred**), the amount payable must be reduced by the amount of any Input Tax Credit to which that party is entitled in respect of that Amount Incurred; and

2 no Additional Amount is payable under clause 16(b) in respect of a Supply to which s 84-5 of the GST Law applies.

f Any reference in this clause to an Input Tax Credit to which a party is entitled includes an Input Tax Credit arising from a Creditable Acquisition by that party but to which the Representative Member of a GST Group of which the party is a member is entitled.

g Any term in this clause 16 starting with a capital letter that is not defined in this deed has the same meaning as the term has in the *A New Tax System (Goods & Services Tax) Act 1999* (Cth).

17 General

17.1 No representation or reliance

a Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed and (to the maximum extent permitted by law) all other representations, warranties and conditions implied by statute or otherwise in relation to any matter relating to this deed, the circumstances surrounding the parties' entry into it and the transactions contemplated by it are expressly excluded.

b Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this deed.

c Each party acknowledges and confirms that clauses 17.1(a) and 17.1(b) do not prejudice any rights a party may have in relation to information which has been filed by the other party with ASIC or the ASX.

17.2 No merger

The rights and obligations of the parties do not merge on completion of the Transaction. They survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transaction.

17.3 Notices

Any communication under or in connection with this deed:

a must be in legible writing;

b must be addressed as shown below:

Party	MYS
Address	23 Paterson Street, Launceston, Tasmania, 7250
Addressee	Paul Viney, Chief Financial Officer and Company Secretary
Email	paul.viney@mystatelimited.com.au

Party	ROK
Address	102 Bolsover Street, Rockhampton, Queensland 4700
Addressee	Stuart McDonald Managing Director
Email	stuart.mcdonald@therock.com.au

(or as otherwise notified by that party to the other party from time to time);

c must be signed by the party making the communication or by a person duly authorised by that party;

d must be delivered to the address, or sent by email to the email address, of the addressee, in accordance with clause 17.3(b); and

e is regarded as received by the addressee:

1 if emailed, when a delivery confirmation report is received by the sender which records the time that email was delivered to the addressee's email address (unless the sender receives a delivery failure notification indicating that the email has not been delivered to the addressee), unless it is not a Business Day, or is after 5.00 pm on a Business Day, when that communication will be regarded as received at 9.00 am on the next Business Day; and

2 if delivered by hand, on delivery at the address of the addressee as provided in clause 17.3(b), unless delivery is not made on a Business Day, or after 5.00 pm on a Business Day, when that communication will be regarded as received at 9.00 am on the next Business Day.

17.4 Governing law and jurisdiction

a This deed is governed by the laws of Queensland.

b Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Queensland and courts competent to hear appeals from those courts.

17.5 Waivers

a Failure to exercise or enforce, a delay in exercising or enforcing, or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed by any party does not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.

b Any waiver or consent given by any party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.

c No waiver of a breach of any term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

17.6 Variation

This deed may only be varied by a document signed by or on behalf of each of the parties.

17.7 Assignment

A party may not assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior written consent of the other party.

17.8 Further action

Each party will do all things and execute all further documents necessary to give full effect to this deed.

17.9 Entire agreement

This deed supersedes all previous agreements, understandings, negotiations or deeds (including the Term Sheet but excluding the Mutual Confidentiality Agreement) in respect of its subject matter and, it and the Mutual Confidentiality Agreement, embody the entire agreement between the parties.

17.10 Counterparts

This deed may be executed in any number of counterparts. All counterparts, taken together, constitute one instrument. A party may execute this deed by signing any counterpart.

Schedule 1

MYS Representations and Warranties

MYS represents and warrants to ROK (in its own right and separately as trustee or nominee for each of the other ROK Indemnified Parties) that:

a **MYS Information:** the MYS Information contained in the Scheme Booklet:

1 will be prepared and included in the Scheme Booklet in good faith;

2 will comply in all material respects with the requirements of the Corporations Act, Corporations Regulations, Listing Rules and relevant ASIC regulatory guides;

b **Information provided to the Independent Expert:** all information provided by MYS to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing its report for inclusion in the Scheme Booklet;

c **Information provided to the Investigating Accountant:** all information provided by MYS to the Investigating Accountant will be provided in good faith and on the understanding that the Investigating Accountant will rely on that information for the purpose of preparing its report for inclusion in the Scheme Booklet;

d **Not misleading:** the MYS Information provided for inclusion in the Scheme Booklet, as at the date the Scheme Booklet is despatched to ROK Shareholders, will not contain any statement which is materially misleading or deceptive including by way of omission from that MYS Information;

e **Updating MYS Information:** it will, as a continuing obligation, provide to ROK all such further or new information which comes to the attention of MYS Key Management Personnel after the Scheme Booklet has been despatched until the Scheme Meeting which is necessary to ensure that the MYS Information is not misleading or deceptive in any material respect (including because of any material omission);

f **Conduct of business:** MYS has complied with clause 5.5(a) in relation to the conduct of the businesses of MYS and its Related Bodies Corporate;

g **Continuous disclosure:** MYS has complied in all material respects with its continuous disclosure obligations under Listing Rule 3.1 and, other than as fairly disclosed to ROK, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure;

h **Untrue statements:** MYS and the MYS Group (including their Representatives) have not filed any document with ASX, ASIC or APRA which contains a statement which is incorrect or misleading in a material particular or from which there is a material omission which has resulted in or could reasonably be expected to result in a MYS Material Adverse Change;

i **Validly existing:** it is a validly existing corporation registered under the laws of its place of incorporation;

j **Authority:** the execution and delivery of this deed has been properly authorised by all necessary corporate action of MYS;

k **Power:** it has full corporate power and lawful authority to execute, deliver and perform this deed;

l **No default:** this deed does not conflict with or result in the breach of or a default under:

1 MYS's constitution or other constituent documents; or

2 any writ, order or injunction, judgment, law, rule or regulation to which it is party or by which it is bound;

m **Capital structure:** there are 67,439,158 MYS Shares on issue and, with the exception of issues required to be made pursuant to employee incentive plans as disclosed to ROK prior to the date of this deed, MYS has not issued or agreed to issue any other securities, options, performance rights or instruments which are still outstanding (or become outstanding) and may convert into MYS Shares;

n **Due diligence information:**

1 all information that MYS has provided to ROK under the due diligence process or otherwise (the **MYS Due Diligence Information**) is not materially inaccurate and not misleading or deceptive (including because of material omissions) in any material respect;

2 MYS has not withheld from the MYS Due Diligence Information any information that is known to MYS to be material to ROK;

3 the MYS Due Diligence Information has been

4 collated with all reasonable care and skill;

0 MYS has provided to ROK true and complete copies of all Material Contracts and all material details (in writing) of all Material Liabilities as at the date of this deed;

p **Payment of MYS 2H "Final" 2011 Permitted Dividend and MYS 1H "Early Interim" 2012 Permitted Dividend:** the MYS 2H "Final" 2011 Permitted Dividend and the MYS 1H "Early Interim" 2012 Permitted Dividend will be declared and paid in accordance with this deed;

Franking of MYS 2H "Final" 2011 Permitted Dividend and MYS 1H "Early Interim" 2012 Permitted Dividend: neither the MYS 2H "Final" 2011 Permitted Dividend nor the MYS 1H "Early Interim" 2012 Permitted Dividend will be over-franked so as to cause MYS to be liable to pay franking deficit tax imposed by the New Business Tax System (Franking Deficit Tax) Act 2002;

q **No default:** except as disclosed in the MYS Due Diligence Information, no member of the MYS Group is in default under any material document, agreement or instrument binding on it nor has anything occurred which is or would with the giving of notice or lapse of time constitute an event of default, prepayment event or similar event, or give another party thereto a termination right or right to accelerate any right or obligation, under any such material document or agreement with such an effect; and

r **Related Party transactions:** the MYS Due Diligence Information contains copies of all material agreements or arrangements between any member of the MYS Group and any Key Management Personnel of the MYS Group or person with a substantial holding in MYS.

Schedule 2

ROK Representations and Warranties

ROK represents and warrants to MYS (in its own right and separately as trustee or nominee for each of the other MYS Indemnified Parties) that:

a **Information in Scheme Booklet:** the information contained in the Scheme Booklet (other than the MYS Information and the Independent Expert's report):

1 will be prepared and included in the Scheme Booklet in good faith;

2 will comply in all material respects with the requirements of the Corporations Act, Corporations Regulations, Listing Rules and relevant ASIC regulatory guides;

b **Information provided to the Independent Expert:** all information provided by ROK to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing its report for inclusion in the Scheme Booklet;

c **Information provided to the Investigating Accountant:** all information provided by ROK to the Investigating Accountant will be provided in good faith and on the understanding that the Investigating Accountant will rely on that information for the purpose of preparing its report for inclusion in the Scheme Booklet;

d **Scheme Booklet:** no information (other than the MYS Information and the Independent Expert's report) contained in the Scheme Booklet, as at the date the Scheme Booklet is despatched to ROK Shareholders, will contain any statement which is materially misleading or deceptive, including by way of omission from that statement;

e **Updating information:** it will, as a continuing obligation, ensure that the Scheme Booklet (but in respect of MYS Information, subject to MYS complying with its obligations to update MYS Information) will be updated by all such further or new information which comes to the attention of ROK Key Management Personnel after the Scheme Booklet has been despatched until the Scheme Meeting which is necessary to ensure that the Scheme Booklet is not misleading or deceptive in any material respect (including because of any material omission);

f **Conduct of business:** ROK has complied with clause 5.5 in relation to the conduct of the businesses of ROK and its Related Bodies Corporate;

g **Continuous disclosure:** ROK has complied in all material respects with its continuous disclosure obligations under Listing Rule 3.1 and, other than as fairly disclosed to MYS, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure;

h **Untrue statements:** ROK and the ROK Group (including their Representatives) have not filed any document with ASX, ASIC or APRA which contains a statement which is incorrect or misleading in a material particular or from which there is a material omission which has resulted in or could reasonably be expected to result in a ROK Material Adverse Change;

i **Validly existing:** it is a validly existing corporation registered under the laws of its place of incorporation;

j **Authority:** the execution and delivery of this deed has been properly authorised by all necessary corporate action of ROK;

k **Power:** ROK has full corporate power and lawful authority to execute and deliver this deed;

l **No default:** this deed does not conflict with or result in the breach of or a default under:

1 ROK's constitution or other constituent documents; or

2 any writ, order or injunction, judgment, law, rule or regulation to which it is party or by which it is bound;

m **Capital structure:** there are 25,161,601 ROK Shares on issue and ROK has not issued or agreed to issue any other securities, options, performance rights or instruments which are still outstanding (or become outstanding) and may convert into ROK Shares;

n **Information:** if, after the date of this deed, ROK has provided written information about the ROK Group to a third party (in reliance on clause 11.3) and that information was not disclosed to MYS prior to the date of this deed, that information has been made available to MYS;

o **ROK Board's recommendation:** each ROK director has communicated to ROK that they each intend (in the absence of a Superior Proposal) to unanimously publicly recommend that ROK Shareholders vote in favour of the Scheme, and to vote, or procure the voting, of any ROK Shares held by or on their behalf at the time of the Scheme Meeting in favour of the Scheme, and so far as ROK is aware, they have not changed their intention;

p **Due diligence information:**

1 all information that ROK has provided to MYS under the due diligence process or otherwise (the **ROK Due Diligence Information**) is not materially inaccurate and not misleading or deceptive (including because of any material omissions) in any material respect;

2 ROK has not withheld from the ROK Due Diligence Information any information that is known to ROK to be material to MYS as an acquirer of Scheme Shares;

3 the ROK Due Diligence Information has been collated with all reasonable care and skill;

4 ROK has provided to MYS true and complete copies of all Material Contracts and all material details (in writing) of all Material Liabilities as at the date of this deed;

q **Insurances:**

1 at all material times, each member of the ROK Group has been, and is at the date of this deed, adequately insured by valid insurances containing no special or unusual terms and conditions against accident, damage, injury, third party loss (including product liability), loss of profits and any other risks normally insured by a prudent person operating a similar type of business;

2 complete and accurate particulars of all current insurance policies taken out in respect of ROK, each Related Body Corporate of ROK, and each of their businesses as at the date of this deed (the Insurances) are included in the ROK Due Diligence Information;

3 each Insurance is currently in full force and effect and all applicable premiums due have been paid;

4 nothing has been done or omitted to be done by a member of the ROK Group that would make any Insurance void or voidable or that would permit an insurer to cancel the policy or refuse or materially reduce a claim or materially increase the premiums payable under the Insurances;

5 there are no outstanding Insurance claims made by the ROK, a Related Body Corporate of ROK or any person on behalf of any of them under an Insurance or an insurance policy previously held by any of them and that all known occurrences that might give rise to a claim have been reported to the insurer/carrier in line with relevant reporting procedures;

r **Consents:** subject to the terms of or as set out in this deed, a member of the ROK Group does not require any consent, approvals or waivers from a third party to implement the Transaction;

s **Payment of ROK 2H "Final" 2011 Permitted Dividend and ROK 1H "Early Interim" 2012 Permitted Dividend:** the ROK 2H "Final" 2011 Permitted Dividend and ROK 1H "Early Interim" 2012 Permitted Dividend will be declared and paid in accordance with this deed;

t **ROK 2H "Final" 2011 Permitted Dividend and ROK 1H "Early Interim" 2012 Permitted Dividend:** neither the ROK 2H "Final" 2011 Permitted Dividend nor the ROK 1H "Early Interim" 2012 Permitted Dividend will be over-franked so as to cause ROK to be liable to pay franking deficit tax imposed by the *New Business Tax System (Franking Deficit Tax) Act 2002;*

u **ROK 1H "Early Interim" 2012 Permitted Dividend allowance:** the $2.85 million allowance referred to in item 5 of the definition of ROK 1H "Early Interim" 2012 Permitted Dividend will not be less than the sum of the actual:

1 advisory and transaction costs and expenses in connection with the Transaction;

2 costs and expenses associated with the redundancies or termination of Key Management Personnel of ROK in respect of the half year ended 31 December 2011 and in connection with the Transaction;

v **No default:** except as disclosed in the ROK Due Diligence Information, no member of the ROK Group is in default under any material document, agreement or instrument binding on it nor has anything occurred which is or would with the giving of notice or lapse of time constitute an event of default, prepayment event or similar event, or give another party thereto a termination right or right to accelerate any right or obligation, under any such material document or agreement with such an effect; and

w **Related Party transactions:** the ROK Due Diligence Information contains copies of all material agreements or arrangements between any member of the ROK Group and any Key Management Personnel of the ROK Group or person with a substantial holding in ROK.

Signing page

Executed as a deed

Signed by
MyState Limited
by

sign here _____
Company Secretary/Director

print name _____

sign here _____
Director

print name _____

Signed by
The Rock Building Society Limited
by

sign here _____
Company Secretary/Director

print name _____

sign here _____
Director

print name _____

D Deed Poll

Date 13 October 2011

This deed poll is made

By	**MyState Limited (ABN 26 133 623 962)** of 23 Paterson Street, Launceston, Tasmania 7250 (**MYS**)
in favour of	each person registered as a holder of fully paid ordinary shares in ROK in the ROK Share Register as at the Scheme Record Date (**Scheme Shareholders**).
Recitals	1 ROK and MYS entered into the Scheme Implementation Deed. 2 In the Scheme Implementation Deed, MYS agreed to enter into this deed poll. 3 MYS is entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform its obligations under the Scheme Implementation Deed and the Scheme.
This deed poll provides as follows:	

1 Definitions and interpretation

1.1 Definitions

In this deed poll:

a Scheme means the proposed scheme of arrangement under section 411 of the Corporations Act between ROK and the Scheme Shareholders.

b A word or phrase defined in the Scheme has the same meaning in this deed poll.

1.2 Interpretation

In this deed poll:

a headings and bold type are for convenience only and do not affect the interpretation of this deed poll;

b the singular includes the plural and the plural includes the singular;

c a reference to a document (including the Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

d a reference to a party to a document includes that party's successors and permitted assignees;

e a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this deed poll and a reference to this deed poll includes any schedule, attachment and exhibit; and

f the word "includes" in any form is not a word of limitation.

1.3 Nature of deed poll

MYS acknowledges that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it.

2 Conditions to obligations

2.1 Conditions

The obligations of MYS under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of MYS under this deed poll to the Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no force or effect if:

a the Scheme Implementation Deed is terminated in accordance with its terms; or

b the Scheme is not Effective by the End Date.

unless MYS and ROK otherwise agree.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

a MYS is released from their obligations to further perform this deed poll except those obligations under clause 7.1; and

b each Scheme Shareholder retains the rights they have against MYS in respect of any breach of this deed poll which occurs before it was terminated.

3 Scheme Consideration

3.1 Undertaking to pay Scheme Consideration

Subject to clause 2, in consideration for the transfer of the Scheme Shares to MYS, MYS undertakes in favour of each Scheme Shareholder to:

a provide the Scheme Consideration to be provided to each Scheme Shareholder in accordance with clause 5 of the Scheme; and

b take all other actions attributed to it under the Scheme,

subject to and in accordance with the provisions of the Scheme.

4 Warranties

MYS represents and warrants that:

a it is a corporation properly incorporated and validly existing under the laws of its place of registration;

b it has the legal right and full corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

c it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;

d this deed poll is valid and binding on it and enforceable against it in accordance with its terms;

e it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets (or any event under any law which is analogous to, or which has a substantially similar effect to, any of the events referred to in this paragraph); and

f the execution, delivery and performance of this deed poll by it does not and will not result in a breach of or constitute a default under:

1 any agreement to which it is party;

2 any provision of the constitution or articles of association (as applicable); or

3 any law or regulation or any order, judgment or determination of any court or regulatory authority by which it is bound.

5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

a MYS has fully performed its obligations under this deed poll; or

b the earlier termination of this deed poll under clause 2.

6 Notices

6.1 Form of Notice

A notice or other communication in respect of this deed poll (**Notice**) must be:

a in writing and in English and signed by or on behalf of the sending party; and

b addressed to MYS in accordance with the details set out below (or any alternative details nominated by MYS by Notice).

Attention	Paul Viney, Chief Financial Officer and Company Secretary
Address	23 Paterson Street, Launceston, Tasmania 7250
Email address	paul.viney@mystatelimited.com.au

6.2 How Notice must be given and when Notice is received

a A Notice must be given by one of the methods set out in the table below.

b A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00 am and 5.00 pm on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand or pre-paid post to the nominated address	When delivered to the nominated address
By email to the nominated email address	When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf.

7 General

7.1 Stamp duty

MYS will:

a pay all stamp duty and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and

b indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

7.2 Governing law and jurisdiction

a This deed poll is governed by the law in force in Queensland.

b MYS irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Queensland and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. MYS irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

7.3 Waiver

MYS may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.

The meanings of the terms used in this clause 7.3 are set out below.

Term	Meaning
conduct	includes failure to, or delay in, the exercise of a right.
right	any right arising under or in connection with this deed and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

7.4 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by ROK and the Court indicates that the variation would not of itself preclude approval of the Scheme, in which event MYS will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

7.5 Cumulative rights

The rights, powers and remedies of MYS and each Scheme Shareholder under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

7.6 Assignment

a The rights created by this deed poll are personal to MYS and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of MYS.

b Any purported dealing in contravention of clause 7.6(a) is invalid.

7.7 Further action

MYS must, at its own expense, do all things and execute all documents necessary to give effect to this deed poll.

Signing page

Executed as a deed poll

Signed by
MyState Limited
by

sign here _____
Company Secretary/Director

print name _____

sign here _____
Director

print name _____

E Scheme of Arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties	
	The Rock Building Society Limited (ABN 16 067 765 717) of 102 Bolsover Street, Rockhampton, Queensland 4700 (**ROK**)
	Each person registered as a holder of fully paid ordinary shares in ROK in the ROK Share Register as at the Scheme Record Date (**Scheme Shareholders**)

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691.
Business Day	a business day as defined in the Listing Rules.
CHESS	the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532).
Corporations Act	the *Corporations Act 2001* (Cth).
Court	the Supreme Court of Queensland or such other court of competent jurisdiction under the Corporations Act agreed to in writing by MYS and ROK.
Deed Poll	the deed poll dated 13 October 2011 executed by MYS under which MYS covenants in favour of the Scheme Shareholders to perform its obligations under this Scheme.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the Court order made under section 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which this Scheme becomes Effective.
End Date	28 February 2012.
Implementation Date	the fifth Business Day after the Scheme Record Date, or such other day as ROK and MYS agree.
Ineligible Foreign Shareholder	means a Scheme Shareholder whose address shown in the ROK Registry as at the Scheme Record Date is a place outside Australia and its external territories and New Zealand, unless MYS and ROK agree in writing that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New MYS Shares when the Scheme becomes Effective.
MYS	MyState Limited (ABN 26 133 623 962) of 23 Paterson Street, Launceston, Tasmania 7250.

MYS 1H "Early Interim" 2012 Permitted Dividend	MYS's interim dividend for the half year ending 31 December 2011 which: 1 is declared and paid in the ordinary course of business; 2 is in an amount not exceeding 15.0 cents per MYS Share; 3 has a record date that is prior to the Scheme Record Date; 4 is paid prior to the Implementation Date; and 5 does not result in a liability for franking deficit tax under the *New Business Tax System (Franking Deficit Tax) Act 2002*.
MYS 2H "Final" 2011 Permitted Dividend	MYS's final dividend for the financial year ending 30 June 2011 which: 1 is declared and paid in the ordinary course of MYS's business; 2 is in an amount not exceeding 15.0 cents per MYS Share; 3 has a record date that is prior to 30 September 2011; 4 is paid prior to 31 October 2011; and 5 does not result in a liability for franking deficit tax under the *New Business Tax System (Franking Deficit Tax) Act 2002*.
MYS Share	a fully paid ordinary share of MYS.
New MYS Share	MYS Shares to be issued pursuant to the Scheme as Scheme Consideration.
Registered Address	in relation to a ROK Shareholder, the address shown in the ROK Share Register.
Registrar	the person for the time being responsible for the maintenance of the ROK Share Register.
Related Body Corporate	the meaning given in the Corporations Act.
ROK	The Rock Building Society Limited (ABN 16 067 765 717) of 102 Bolsover Street, Rockhampton, Queensland 4700.
ROK Share	a fully paid ordinary share in ROK.
ROK Shareholder	a person who is registered as the holder of a ROK Share.
ROK Share Register	the register of members of ROK maintained in accordance with the Corporations Act.
Scheme	this scheme of arrangement subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by ROK and MYS.
Scheme Consideration	the consideration to be provided by MYS in consideration for the transfer of the ROK Shares held by a Scheme Shareholder to MYS, as described in clause 5 of this Scheme, being, 7.75 New MYS Shares for every 10 Scheme Shares.
Scheme Implementation Deed	the scheme implementation deed dated 30 August 2011 between ROK and MYS relating to the implementation of this Scheme.
Scheme Record Date	7.00 pm Sydney time on the fifth Business Day after the Effective Date.

Scheme Shares	all ROK Shares held by the Scheme Shareholders as at the Scheme Record Date.
Scheme Shareholder	a holder of a ROK Share recorded in the ROK Share Register as at the Scheme Record Date.
Second Court Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.
Share Scheme Transfer	a duly completed and executed proper instrument of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

2.2 Interpretation

In this Scheme:

a headings and bold type are for convenience only and do not affect the interpretation of this Scheme;

b the singular includes the plural and the plural includes the singular;

c words of any gender include all genders;

d other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;

e a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency as well as an individual;

f a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this Scheme;

g a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re enactments of any of them;

h a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

i the word "includes" in any form is not a word of limitation;

j a reference to '$', 'A$' or 'dollar' is to Australian currency unless denominated otherwise;

k a reference to any time is a reference to that time in Queensland;

l a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Scheme;

m a reference to a party to a document includes that party's successors and permitted assignees;

n no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision;

o a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:

1 which ceases to exist; or

2 whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

2 Preliminary matters

a ROK is a public company limited by shares, incorporated in Australia and has been admitted to the official list of the ASX.

b As at 18 October 2011, 25,161,601 ROK Shares were on issue which are officially quoted on the ASX.

c MYS is a public company limited by shares, incorporated in Australia and has been admitted to the official list of the ASX.

d If this Scheme becomes Effective:

1 all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to MYS and ROK will enter the name of MYS in the ROK Share Register in respect of the Scheme Shares;

2 each Scheme Shareholder will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares;

3 the Scheme Consideration will be provided to Scheme Shareholders in accordance with the provisions of this Scheme; and

4 it will bind ROK and all Scheme Shareholders, including those who do not attend the meeting of ROK Shareholders to vote on this Scheme, those who do not vote at that meeting and those who vote against this Scheme at that meeting.

e ROK and MYS have agreed, by executing the Scheme Implementation Deed, to implement this Scheme.

f MYS has agreed, by executing the Deed Poll, to perform its obligations under this Scheme, including the obligation to pay or procure the payment of the Scheme Consideration to the Scheme Shareholders.

3 Conditions

3.1 Conditions precedent

This Scheme is conditional on and will have no force or effect until, the satisfaction of each of the following conditions precedent:

a all the conditions in clause 3.1 of the Scheme Implementation Deed (other than the condition in the Scheme Implementation Deed relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Scheme Implementation Deed by 8.00 am on the Second Court Date;

b the Scheme Implementation Deed not having been terminated in accordance with its terms before 8.00 am on the Second Court Date;

c approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with such alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to MYS and ROK;

d such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to MYS and ROK;

e the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act.

3.2 Satisfaction

The fulfilment of clause 3.1 is a condition precedent to the operation of the provisions of clauses 4.2 and 5 of this Scheme.

3.3 End Date

This Scheme will lapse and be of no further force or effect if:

a the Effective Date does not occur on or before the End Date; or

b the Scheme Implementation Deed is terminated in accordance with its terms,

unless ROK and MYS otherwise agree in writing.

3.4 Certificate

a ROK and MYS will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

b The certificate referred to in clause 3.4(a) constitutes conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.

4 Implementation of the Scheme

4.1 Lodgement of Court orders with ASIC

ROK will lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Court order approving the Scheme as soon as possible and in any event by 1.00 pm on the first Business Day after the day on which the Court approves the Scheme or such later time as ROK and MYS agree in writing.

4.2 Transfer of Scheme Shares

On the Implementation Date:

a subject to the payment of the Scheme Consideration in the manner contemplated by clause 5, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to MYS, without the need for any further act by any Scheme Shareholder (other than acts performed by ROK as attorney and agent for Scheme Shareholders under clause 8.5), by:

1 ROK delivering to MYS a duly completed Share Scheme Transfer, executed on behalf of the Scheme Shareholders by ROK, for registration; and

2 MYS duly executing the Share Scheme Transfer, attending to the stamping of the Share Scheme Transfer (if required) and delivering it to ROK for registration; and

b as soon as possible following receipt of the Share Scheme Transfer in accordance with clause 4.2(a)(2), ROK must enter, or procure the entry of, the name and address of MYS in the ROK Share Register in respect of all the Scheme Shares transferred to MYS in accordance with this Scheme.

4.3 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer of the Scheme Shares to MYS, each Scheme Shareholder will be entitled to receive the Scheme Consideration in accordance with clause 5.

4.4 Agreement by Scheme Shareholders

a The Scheme Shareholders agree to the transfer of their Scheme Shares to MYS in accordance with the terms of this Scheme.

b The Scheme Shareholders who receive New MYS Shares as Share Scheme consideration accept those New MYS Shares and agree to:

1 become a member of MYS for the purposes of section 231 of the Corporations Act; and

2 be bound by the constitution of MYS.

5 Scheme Consideration

5.1 Provision of Scheme Consideration

Subject to clause 5.2 on the Implementation Date, MYS will issue as Scheme Consideration to each Scheme Shareholder 7.75 New MYS Shares for every 10 Scheme Shares transferred to MYS.

5.2 Ineligible Foreign Shareholders

a MYS will be under no obligation to issue any New MYS Shares to any Ineligible Foreign Shareholder as Scheme Consideration, and instead MYS will issue the New MYS Shares to which that Ineligible Foreign Shareholder would otherwise have become entitled (**Sale Shares**) to a nominee agent appointed by MYS with the prior approval of ROK, acting reasonably (**the Sale Nominee**).

b MYS must procure that on, or as soon as reasonably practicable and in any event not more than 20 Business Days after, the Implementation Date, the Sale Nominee:

1 sells on the ASX all Sale Shares it holds; and

2 pays the net proceeds received after deducting any applicable brokerage, stamp duty and other taxes and charges to that Ineligible Foreign Shareholder.

c Ineligible Foreign Shareholders agree that the amount referred to in clause 5.2(b) may be paid by the Sale Nominee doing any of the following at the Sale Nominee's election:

1 sending by pre-paid post (or pre-paid airmail if the address is outside Australia) the proceeds to the Ineligible Foreign Shareholder's address as shown in the ROK Share Register on the Scheme Record Date (the **Registered Address**);

2 depositing or procuring the Registrar to deposit the proceeds into an account with any Australian bank as notified to ROK (or ROK's agent who manages the ROK Share Registrar) by an appropriate authority from the Ineligible Foreign Shareholder;

3 in the event that an Ineligible Foreign Shareholder does not have a Registered Address or the Sale Nominee believes an Ineligible Foreign Shareholder is not known at its Registered Address, and no account has been notified in accordance with clause 5.2(c)(2) or a deposit into such account is rejected or refunded, the Sale Nominee may credit the amount payable to that Ineligible Foreign Shareholder to a separate bank account of ROK to be held until the Ineligible Foreign Shareholder claims the amount or the amount is dealt with in accordance with unclaimed money legislation. ROK must hold the amount on trust, but any benefit accruing from the amount will be to the benefit of ROK. An amount credited to the account is to be treated as having been paid to the Ineligible Foreign Shareholder. ROK must maintain records of the amount paid, the people who are entitled to the amounts and any transfers of the amounts.

d Payment by the Sale Nominee to an Ineligible Foreign Shareholder in accordance with this clause 5.2 satisfies in full the Ineligible Foreign Shareholder's right to Scheme Consideration.

e Each Ineligible Foreign Shareholder appoints ROK as its agent to receive on its behalf any financial services guide or other notices which may be given by the Sale Nominee appointed by MYS to that Ineligible Foreign Shareholder.

5.3 Fractional Entitlements

If the number of Scheme Shares held by a Scheme Shareholder is such that an entitlement of that Scheme Shareholder to New MYS Shares is not a whole number then any fractional entitlement to a part of a New MYS Share:

a which is 0.5 or greater will be rounded up to the nearest whole number of New MYS Shares; and

b which is less than 0.5 will be rounded down to the nearest whole number of New MYS Shares.

5.4 Provision of New MYS Shares as Scheme Consideration

Subject to clause 5.2, the obligations of MYS to provide New MYS Shares pursuant to clause 5.1 will be satisfied by MYS as follows:

a on the Implementation Date, entering the name of each Scheme Shareholder in the MYS share register in respect of the New MYS Shares which that Scheme Shareholder is entitled to receive under this Scheme; and

b within 5 Business Days after the Implementation Date, sending or procuring the despatch by pre-paid ordinary post (or, if the address of the Scheme Shareholders in the ROK Share Register is outside Australia, by pre-paid airmail post) to each Scheme Shareholder to their address recorded in the ROK Share Register on the Scheme Record Date, a holding statement for the New MYS Shares issued to that Scheme Shareholder in accordance with this Scheme. In the case of Scheme Shares held in joint names, holding

statements for New MYS Shares must be issued in the names of the joint holders and sent to the holder whose name appears first in the ROK Share Register on the Scheme Record Date.

5.5 Status of New MYS Shares

Upon issue:

a the New MYS Share will rank equally in all respects with all existing MYS Shares, other than with respect to each of the MYS 1H "Early Interim" 2012 Permitted Dividend and the MYS 2H "Final" 2011 Permitted Dividend to which holders of New MYS Shares will not be entitled; and

b each New MYS Share will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.

6 Dealings in ROK Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in ROK Shares will only be recognised if:

a in the case of dealings of the type to be effected using CHESS, the transferee is registered in the ROK Share Register as the holder of the relevant ROK Shares on or before the Scheme Record Date; and

b in all other cases, registrable transfer or transmission applications in respect of those dealings are received on or before the Scheme Record Date at the place where the ROK Share Register is kept,

and ROK will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Shareholders, any transfer or transmission application in respect of ROK Shares received after such times, or received prior to such times but not in registrable form.

6.2 Register

a ROK must register registrable transmission applications or transfers of the Scheme Shares in accordance with clause 6.1(b) on or before the Scheme Record Date; provided that, for the avoidance of doubt, nothing in this clause 6.2(a) requires ROK to register a transfer that would result in a ROK Shareholder holding a parcel of ROK Shares that is less than a 'marketable parcel' (as defined in the Market Rules of the ASX).

b If the Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date.

c For the purpose of determining entitlements to the Scheme Consideration, ROK must maintain the ROK Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The ROK Share Register in this form will solely determine entitlements to the Scheme Consideration.

d All statements of holding for ROK Shares (other than statements of holding in favour of MYS) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the ROK Share Register (other than entries on ROK Register in respect of MYS) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the ROK Shares relating to that entry.

e As soon as possible on or after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, ROK will ensure that details of the names, Registered Addresses and holdings of ROK Shares for each Scheme Shareholder as shown in the ROK Register are available to MYS in the form MYS reasonably requires.

7 Quotation of ROK Shares

a ROK will apply to ASX to suspend trading on the ASX in ROK Shares with effect from the close of trading on the Effective Date.

b On a date after the Implementation Date to be determined by MYS, ROK will apply:

1 for termination of the official quotation of ROK Shares on the ASX; and

2 to have itself removed from the official list of the ASX.

8 General Scheme provisions

8.1 Consent to amendments to the Scheme

If the Court proposes to approve the Scheme subject to any alterations or conditions, ROK may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which MYS has consented.

8.2 Scheme Shareholders' agreements and warranties

a Each Scheme Shareholder:

1 agrees to the transfer of their ROK Shares together with all rights and entitlements attaching to those ROK Shares in accordance with the Scheme and agrees to the variation, cancellation or modification of the rights attached to their ROK Shares constituted by or resulting from the Scheme; and

2 acknowledges that the Scheme binds all Scheme Shareholders (including those who do not attend the Scheme Meeting, or do not vote at that meeting or vote against the Scheme at the Scheme Meeting).

b Each Scheme Shareholder is taken to have warranted to ROK and MYS, that all their ROK Shares (including any rights and entitlements attaching to those shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their ROK Shares to MYS together with any rights attaching to those shares.

8.3 Title to and rights in Scheme Shares

a To the extent permitted by law, the Scheme Shares transferred under the Scheme will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.

b MYS will be beneficially entitled to the Scheme Shares transferred to it under the Scheme pending registration by ROK of MYS in the ROK Share Register as the holder of the Scheme Shares.

8.4 Appointment of sole proxy

On the Scheme Consideration being provided to the Scheme Shareholders, and until ROK registers MYS as the holder of all Scheme Shares in the ROK Share Register, each Scheme Shareholder:

a is deemed to have irrevocably appointed MYS as attorney and agent (and directed MYS in each such capacity) to appoint any director, officer, secretary or agent nominated by MYS as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution whether in person, by proxy or by corporate representative;

b undertakes not to otherwise attend or vote at any of those meetings or sign any shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 8.4(a));

c must take all other actions in the capacity of a registered holder of Scheme Shares as MYS reasonably directs; and

d acknowledges and agrees that in exercising the powers referred to in clause 8.4(a), MYS and any director, officer, secretary or agent nominated by MYS under clause 8.4(a) may act in the best interests of MYS as the intended registered holder of the Scheme Shares.

8.5 Authority given to ROK

On the Scheme becoming Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints ROK and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

a enforcing the Deed Poll against MYS; and

b executing any document or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing the Share Scheme Transfer,

and ROK accepts such appointment. ROK as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

8.6 Binding effect of Scheme

This Scheme binds ROK and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting, did not vote at that meeting, or voted against the Scheme) and, to the extent of any inconsistency, overrides the constitution of ROK.

9 General

9.1 Stamp duty

MYS will:

a pay all stamp duty and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under this Scheme and the Deed Poll; and

b indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1.

9.2 Consent

Each of the Scheme Shareholders consents to ROK doing all things necessary, expedient or incidental to the implementation of this Scheme.

9.3 Notices

a If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to ROK, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at ROK's registered office or at the office of the Registrar.

b The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Scheme Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law

a The Scheme is governed by the laws in force in Queensland.

b The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Queensland and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

9.5 Further action

ROK must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

F

Notice of Scheme Meeting

Notice of Court ordered meeting of shareholders of The Rock Building Society Limited

By an Order of the Supreme Court of Queensland made on 18 October 2011 pursuant to section 411(1) of the Corporations Act, a meeting of Shareholders in The Rock will be held at Travelodge Hotel, 86 Victoria Parade, Rockhampton on Monday, 28 November 2011 commencing at 10.30 am.

The Court has also directed that Mr Stephen Lonie act as chairman of the meeting or failing him Mr Rod Davies, and has directed the chairman to report the result of the meeting to the Court.

To enable you to make an informed voting decision, further information on the Scheme is set out in the document of which the notice convening the meeting forms part. Terms used in this notice have the same meaning as set out in the defined terms in Annexure G of the document of which this notice forms part.

(a) Business of the meeting

To consider and, if thought fit, pass the following resolution:

> "That pursuant to, and in accordance with, section 411 of the Corporations Act, the scheme of arrangement proposed between the company and the holders of its ordinary shares as contained in and more particularly described in the document of which the notice convening this meeting forms part is approved (with or without modification as approved by the Supreme Court of Queensland)."

(b) Voting

How to vote

Shareholders can vote in either of two ways:

- By attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- By appointing a proxy to attend and vote on their behalf, using the proxy form accompanying the document of which this notice forms part.

Voting in person or by attorney

Shareholders are asked to arrive at the venue 30 minutes before the time designated for the Scheme Meeting to allow for registration for the meeting. A representative of a company attending the meeting must present satisfactory evidence of his or her appointment to attend on its behalf, unless previously lodged with The Rock Share Registry.

Voting by proxy

- A shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Each proxy will have the right to vote on the poll and also to speak at the Scheme Meeting.
- The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed, and if the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the votes (disregarding fractions).
- A proxy need not be a Shareholder in The Rock.
- If a proxy is not directed how to vote on an item of business, the proxy may vote or abstain from voting as that person thinks fit.
- If a proxy is instructed to abstain from voting on an item of business, that person is directed not to vote in the shareholder's behalf on the poll, and the shares in The Rock the subject of the proxy appointment will not be counted in computing the required majority.
- Shareholders who return their proxy form(s) with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the chairman of the meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the meeting, the chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the Scheme Meeting, the company secretary of The Rock or any Director which do

not contain a direction will be used to support the resolution to approve the Scheme.

- A vote given in accordance with the terms of a proxy is valid despite the revocation of the proxy, unless notice in writing of the revocation has been received by The Rock Share Registry before the start of the Scheme Meeting.
- Completed proxy forms and an original or certified copy of any authority under which a proxy form is signed should be sent to The Rock Share Registry using the reply-paid envelope provided with the document.
- To be effective, Proxy Forms and an original or certified copy of any authority under which a proxy form is signed must be received by no later than 10.30 am on Saturday, 26 November 2011, by being:
  - Sent by mail to The Rock Share Registry (using the reply envelope included with the document), addressed, The Rock Building Society Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South, NSW, 1235, Australia;
  - Faxed to (02) 9287 0309, from within Australia or +61 2 9287 0309 from overseas;
  - Lodged online at www.linkmarketservices.com.au;
  - Delivered by hand to Link Market Services Limited, Level 12, 680 George Street, Sydney, NSW, 2000; or
  - Sent to The Rock's registered office at 102 Bolsover Street, Rockhampton, QLD, 4700.

  Proxy Forms received after this time will be invalid.
- The Proxy Form must be signed by the shareholder or the shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the power of attorney, or the power itself, must be received by The Rock Share Registry at one of the above addresses or by facsimile transmission by 10.30 am on Saturday, 26 November 2011. If facsimile transmission is used, the power of attorney must be certified.

Jointly held shares in The Rock

If shares in The Rock are jointly held, only one of the joint shareholders is entitled to vote. If more than one shareholder votes in respect of jointly held shares in The Rock, only the vote of the shareholder whose name appears first in the Register will be counted.

(c) Shareholders in The Rock who are entitled to vote

Pursuant to section 411 of the Corporations Act and all other enabling powers, the Court has determined that the time for determining eligibility to vote at the Scheme Meeting is 10.30 am on 26 November 2011. Only those shareholders entered on the Register at that time will be entitled to attend and vote at the Scheme Meeting.

(d) Court approval

In accordance with section 411(4)(b) of the Corporations Act, in order to become Effective, the Scheme with or without modification, must be approved by an order of the Court. If the resolution put to this meeting is passed by the requisite majorities and the other conditions precedent to the Scheme are satisfied, The Rock intends to apply to the Court on 1 December 2011 for approval of the Scheme.

G

Defined terms used in this Scheme Booklet

In this Scheme Booklet:

$ or **AUD** means Australian Dollars.

ADI means an Authorised Deposit-taking Institution under the Banking Act 1959 (Cth).

APRA means the Australian Prudential Regulation Authority.

APRA Prudential Standards means the prudential standards applicable to ADIs established by APRA under the Banking Act 1959 (Cth).

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in section 12(2) of the Corporations Act.

ASX means ASX Limited ACN 008 624 691.

ASX Listing Rules means the listing rules of the ASX from time to time as modified by any express written waiver or exemption given by the ASX.

ATO means the Australian Taxation Office.

Average Net Interest Margin means the average difference between interest earned on assets and the interest paid on liabilities.

Board means the board of directors of The Rock.

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in Queensland.

Capital Adequacy Ratio means the percentage of an ADI's eligible capital relative to its Risk Weighted Assets, calculated in accordance with APRA Prudential Standards.

CGT means capital gains tax.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of shares in The Rock and other financial products operated by ASX Settlement and Transfer Corporation Pty Ltd.

Competing Proposal means a proposed transaction or arrangement pursuant to which a third person will, if the transaction or arrangement is entered into or completed substantially in accordance with its terms:

- Acquire (whether directly or indirectly) a relevant interest in, become the holder of, or have the right to acquire a legal, beneficial or economic interest in, or control of, 15% or more of The Rock's voting shares or of the securities of any of its subsidiaries;
- Acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an economic interest in all or a material part of the business of The Rock and its subsidiaries;
- Acquire control (as determined in accordance with section 50AA of the Corporations Act) of The Rock;
- Otherwise acquire or merge with The Rock; or
- Enter into any agreement, arrangement or understanding with The Rock requiring The Rock to abandon, or otherwise fail to proceed with, the Proposal,

whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement. For this purpose, a material part of the business of The Rock and its subsidiaries is where:

- The business contributes 20% or more of the consolidated net profit after tax of The Rock; or
- The business represents 20% or more of the total consolidated assets of The Rock.

Corporations Act means the Corporations Act 2001 (Cth).

Cost to Income Ratio means the costs incurred by a company, including provisions for bad debts, divided by the sum of a company's net interest margin and other income.

Court means, in relation to the Scheme, the Supreme Court of Queensland or such other court as is agreed, or otherwise a Court of competent jurisdiction.

Deed Poll means a deed poll executed by MyState in favour of Shareholders in The Rock in the form set out in Annexure D.

Deposit Portfolio means the collection of deposits held by an ADI. A deposit portfolio is a liability on the ADI's balance sheet.

Directors means the directors of The Rock whose names are set out in Section 4.6 of this document.

Dividend Payout Ratio is the percentage of a company's after tax earnings that is paid to shareholders as dividends.

EBITDA means earnings before interest, tax, depreciation and amortisation.

Effective means, when used in relation to the Scheme, the order of the Court made under section 411(4)(b) in relation to the Scheme coming into effect pursuant to section 411(10) of the Corporations Act.

Effective Date means the date on which the Scheme becomes Effective.

EPS means earnings per share.

FSSA means the Financial Sector (Shareholdings) Act 1998 (Cth).

FY means a financial year ending 30 June, so FY11 means the financial ended 30 June 2011.

GST means goods and services tax applicable in Australia.

High Quality Liquid Assets or **HQLA** means assets that can be immediately converted into cash with little or no loss of value under stressed market conditions. For the purpose of APRA's minimum liquidity holdings requirement, HQLAs must be free from encumbrances (except where approved for a prudential purpose by APRA) and include:

- Cash;
- Securities eligible for repurchase transactions with the Reserve Bank;
- Bank bills and CDs issued by ADIs provided the issue is rated at least "investment grade" as set out in *APRA Prudential Standard APS 116 Capital Adequacy: Market Risk*;
- Deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by the other ADIs; and
- Any other securities approved by APRA.

Implementation Date means the second Business Day after the Record Date.

Independent Expert means Lonergan Edwards & Associates Limited ACN 095 445 560.

Ineligible Overseas Shareholder means any Scheme Shareholder whose address, as shown in the Register on the Record Date, is a place outside Australia or its external territories and New Zealand unless The Rock and MyState agree in writing that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New MyState Shares when the Scheme becomes Effective.

Investigating Accountant means Wise Lord & Ferguson.

Loan Portfolio means the collection of loans owed to an ADI. A loan portfolio is an asset on the ADI's balance sheet.

LVR means loan to valuation ratio, being the ratio a loan bears to the value of the property that secures the loan.

Merged Entity means the combined corporate group of MyState and The Rock and each of their Related Entities.

MSF means MyState Financial Limited ACN 067 729 195.

MyState means MyState Limited ACN 133 623 962.

MyState Group means MyState and each of its controlled entities including MSF and TPT.

MyState Share means an ordinary shares in MyState.

MyState Share Registry means Computershare Investor Services Pty Ltd.

MYS Material Adverse Change has the meaning in clause 1.1 of the Scheme Implementation Deed.

MYS Prescribed Occurrence has the meaning in clause 1.1 of the Scheme Implementation Deed.

New MyState Shares means MyState Shares to be issued to Scheme Shareholders as Scheme Consideration.

Nominee means a nominee agent appointed by MyState, with the approval of The Rock for the purpose of receiving the Scheme Consideration for Ineligible Overseas Shareholders, as described in Section 8.9.

NPAT means net profit after tax.

Proposal means the proposed acquisition by MyState of all the outstanding shares in The Rock under the Scheme, as contemplated in the Scheme Implementation Deed.

Proxy Form means the proxy form for the Scheme Meeting accompanying this document.

Record Date means 7.00 pm (Sydney time) on the fifth Business Day following the Effective Date or such other date (after the Effective Date) as The Rock and MyState may agree in writing.

Register means the share register of The Rock kept pursuant to the Corporations Act.

Reimbursement Amount means $500,000 (plus GST).

Risk Weighted Assets is an ADI's assets weighted according to credit risk, calculated in accordance with APRA Prudential Standards.

The Rock or **Company** means The Rock Building Society Limited ACN 067 765 717.

The Rock Share Registry means Link Market Services Limited.

ROK Material Adverse Change has the meaning in clause 1.1 of the Scheme Implementation Deed.

ROK Prescribed Occurrence has the meaning in clause 1.1 of the Scheme Implementation Deed.

Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act proposed between The Rock and the Shareholders in The Rock, the form of which is contained in Annexure E of this document subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by MyState and The Rock.

Scheme Consideration means 7.75 New MyState Shares for every 10 shares in The Rock held by Shareholders in The Rock on the Record Date.

Scheme Implementation Deed means the Scheme Implementation Deed entered into between The Rock and MyState on 30 August 2011.

Scheme Share means each share in The Rock on issue on the Record Date.

Scheme Shareholder means each person who holds Scheme Shares.

Scheme Meeting means the meeting of the Shareholders in The Rock convened by the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act. It includes any adjustment of that meeting.

Second Court Date means the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned or appealed application is heard.

Second Court Hearing means the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Shareholder in The Rock means each person who is in the Register as the holder of shares in The Rock.

Superior Proposal means a bona fide Competing Proposal (and not resulting from a breach by The Rock of its obligations under the Scheme Implementation Deed) which in the determination of the Board, acting in good faith and in accordance with its fiduciary and statutory duties, is more favourable to Shareholders in The Rock than the Proposal, taking into account, among other things:

- The terms and conditions of the Competing Proposal, which if relevant shall include the anticipated completion date, the certainty of obtaining financing, execution risk, tax leakage (both at the corporate and shareholder level), required regulatory approvals and the impact of the time value of money; and
- All aspects of the Proposal, which if relevant shall include the value of scrip for scrip rollover relief for Scheme Shareholders and the implied value of the Scheme Consideration at the relevant time,

with this determination being supported by written advice from the Board's financial and legal advisers.

TPT means Tasmanian Perpetual Trustees Limited ACN 009 475 629

Directory

The Rock Building Society Limited

102 Bolsover Street
Rockhampton Qld 4700

Financial Adviser

Pottinger
Level 35
AMP Centre
50 Bridge Street
Sydney NSW 2000

Legal Adviser

Clayton Utz
Riparian Plaza
71 Eagle Street
Brisbane Qld 4000

Independent Expert

Lonergan Edwards & Associates Limited
Level 27
363 George Street
Sydney NSW 2000

Auditor

BDO Audit (Qld) Pty Ltd
Level 18
300 Queen Street
Brisbane QLD 4001

Share Registry

Link Market Services Limited
Level 15
324 Queen Street
Brisbane QLD 4000

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The Rock
BUILDING SOCIETY LIMITED
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