

# Proposed merger between MyState and The Rock

Growth through scale and diversity

28 November 2011



- Lack of access to scale advantages
- Limited investment capability
- Increased funding costs
- Rising cost of compliance and risk management
- Challenging, competitive market for smaller players



## Current trading environment difficult

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- Volatile wholesale markets driven by uncertainty in global financial markets – impacting a number of domestic financial institutions
- Lower than expected financial result to 31<sup>st</sup> October 2011 – uncertain profit outlook
  - Low loan origination due to subdued market demand and competitive activity of major banks
  - Higher Warehouse costs incurred
  - Negative impact of higher retail and wholesale deposits with an inverse yield in investment markets
- Net profit after tax for 1H 2012 anticipated to be between \$1.6m and \$1.8m, excluding one off costs associated with the implementation of the merger<sup>1</sup>
- In this context, acting in a prudent and responsible manner, the Board has announced that the early interim dividend for 1H 2012 will be \$0.06 per share (fully franked)<sup>2</sup>

1) The final amount of merger implementation costs depends on future events and cannot be estimated with certainty at this time, but is likely to have a material effect on the half year result. 2) The payment of the The Rock interim dividend will be contingent upon the successful implementation of the Scheme. The Rock expects to pay the 2012 early interim dividend on 19 December 2011

# A compelling merger

- **A natural partnership**
  - Shared long term vision and growth strategies
  - Aligned culture and values
  - Common view of the importance of scale
- **Substantial synergies**
  - Duplicated corporate costs
  - Operational and systems
  - Financial
- **Growth through scale and diversity**
  - Customer base and geographical reach
  - Product and service mix and distribution channels
  - Funding sources
- **Lower risk profile through geographic and product diversification**
- **Builds scale compared to peers**
- **Improvement in ASX ranking**

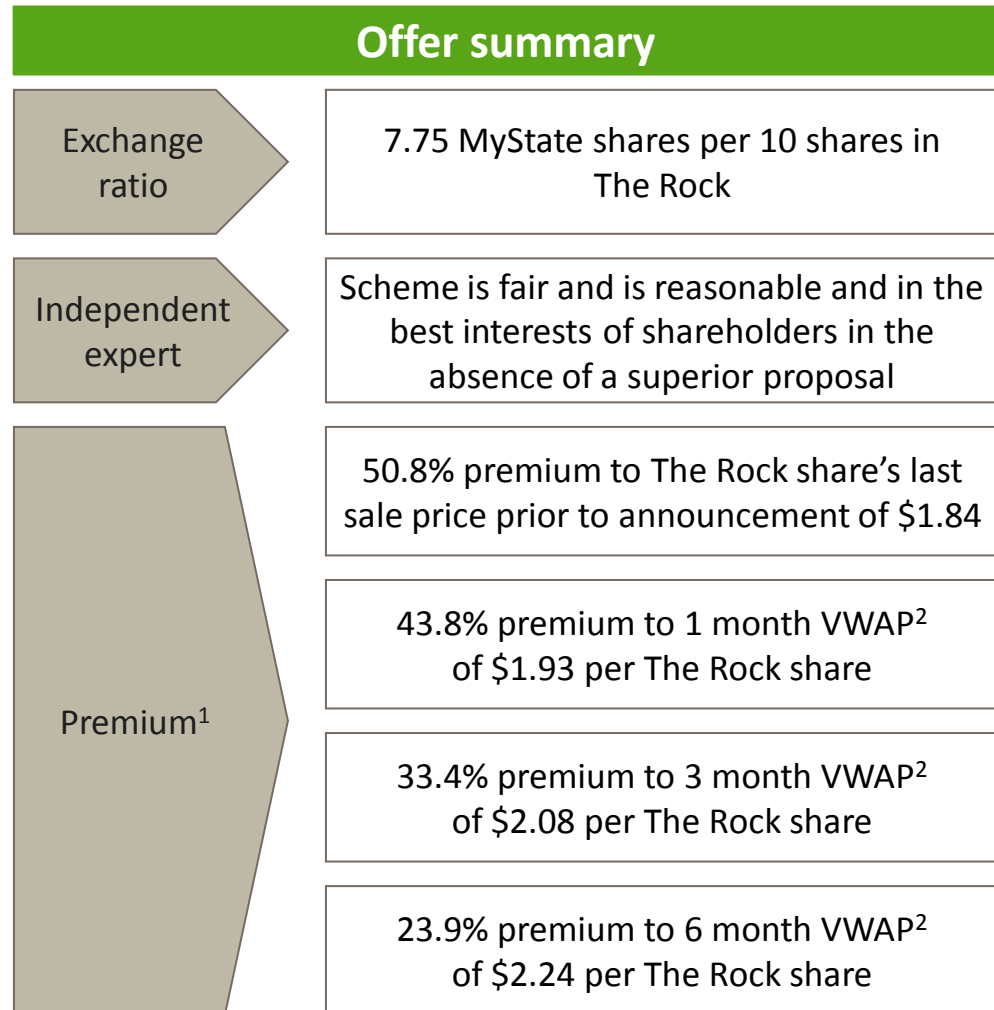
## Key information pre and post merger

	The Rock prior to announcement	The combined entity post merger
Branch network	9 branches and 18 mini branches <sup>1</sup>	21 branches and 18 mini branches
Accessible ATM network <sup>2</sup>	32	c3,450
Total loans	\$996m	\$2.85bn
Retail deposits	\$739m	\$2.24bn
Funds under management	N/A	\$924m
Funds under advice	N/A	\$760m
Market value	\$46m <sup>3</sup>	\$309m <sup>4</sup> (excluding impact of synergies)
Rank on ASX	817 <sup>3</sup>	Potential top 300 inclusion <sup>5</sup>

1) The Rock has 9 branches and 18 mini branches as at 25 November 2011. 2) Based on customer access to ATM networks, not owned ATM networks. 3) Based on the last sale prices of all ASX listed companies on 30 August 2011. Before the announcement of the transaction The Rock shares last traded on ASX on 29 August 2011. 4) Based on the last sale prices of The Rock and MyState shares on 25 November 2011. 5) Based on the last sale price of all companies included in the S&P ASX 300 index on 25 November 2011, the combined entity would rank number 224 by market capitalisation, excluding the impact of synergies. Market data from Capital IQ

# Outline of proposal

- **Merger of MyState and The Rock**
  - 7.75 MyState shares per 10 shares in The Rock
  - 50.8% premium to The Rock's last sale price prior to the announcement of the proposed merger<sup>1</sup>
  - The Rock shareholders will own 22.4% of the merged entity
- **The Rock Board recommendation**
  - Your Board unanimously recommends that, in the absence of a Superior Proposal, you vote in favour of the Scheme and approve the Scheme
- **Independent Expert**
  - The Independent Expert concluded that the Scheme is fair provided The Rock's conditional early 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
  - 2012 early interim dividend – The Rock announced on 21 November 2011 that the quantum of this dividend will be 6 cents per share<sup>3</sup>
- **Other key aspects**
  - Transaction to be implemented via a Scheme of Arrangement
  - Rock Chairman Stephen Lonie to join MyState Board as NED
  - The Rock brand to be maintained



1) Market data for The Rock from Capital IQ as at 30 August 2011, the day immediately prior to the announcement of the proposal. The Rock shares last traded on the ASX on 29 August 2011. Market data for MyState from Capital IQ as at 25 November 2011, the most recent trading day prior to this presentation. 2) Volume weighted average price calculated on a calendar basis as at 30 August 2011. 3) The payment of The Rock's early interim dividend is contingent upon successful implementation of the Scheme. The Rock expects to pay the 2011 interim dividend on 19 December 2011

# Local brand identities retained – a platform for further growth

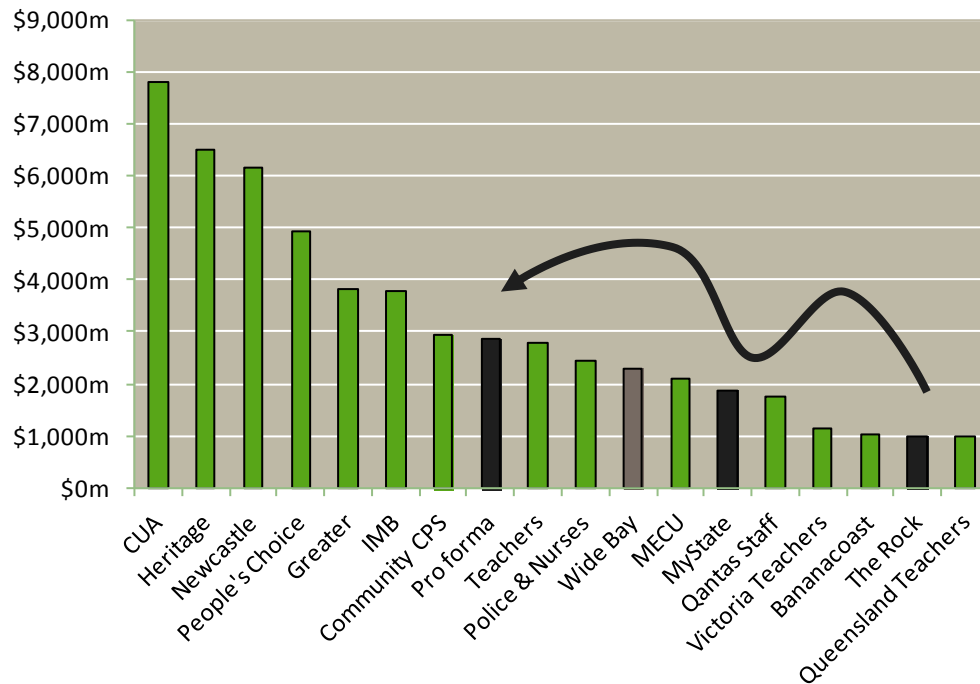


- The Rock, MyState Financial and Tasmanian Perpetual Trustees brands and identities to be retained
- The Rock brand to continue to be used nationally via mortgage brokers and across regional franchise in Queensland
- The Rock's business will continue to be managed from its Rockhampton base

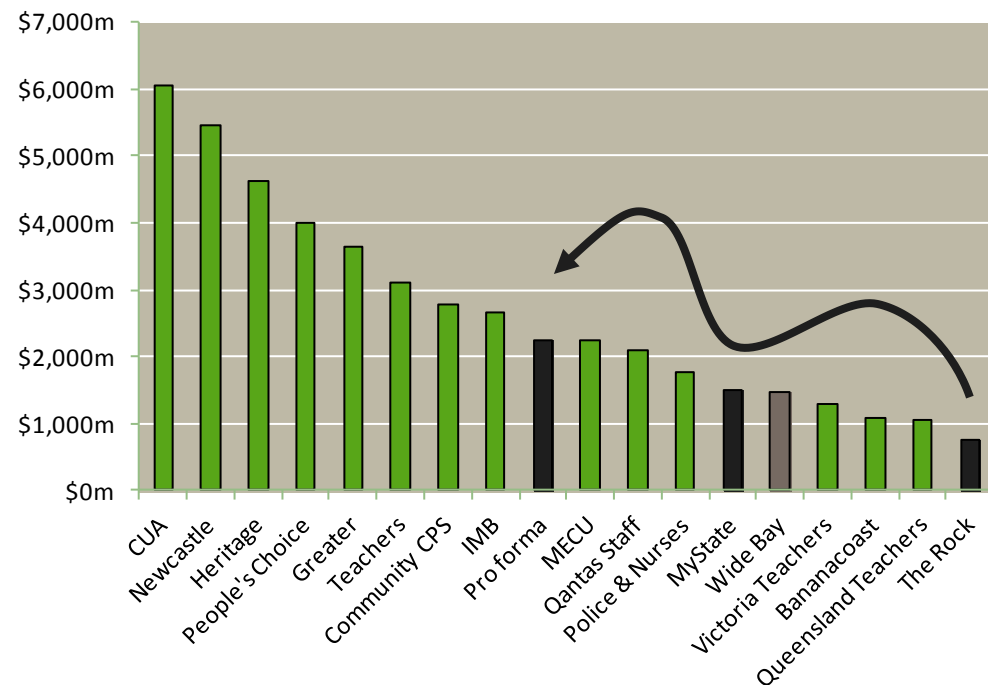


# A substantial increase in overall scale in banking

## Total loans as at June 2011<sup>1</sup>



## Retail deposits as at June 2011<sup>1</sup>



■ Australia's largest listed non-bank ADI<sup>2</sup>

■ Figures exclude MyState funds under management and advice of \$1.68bn

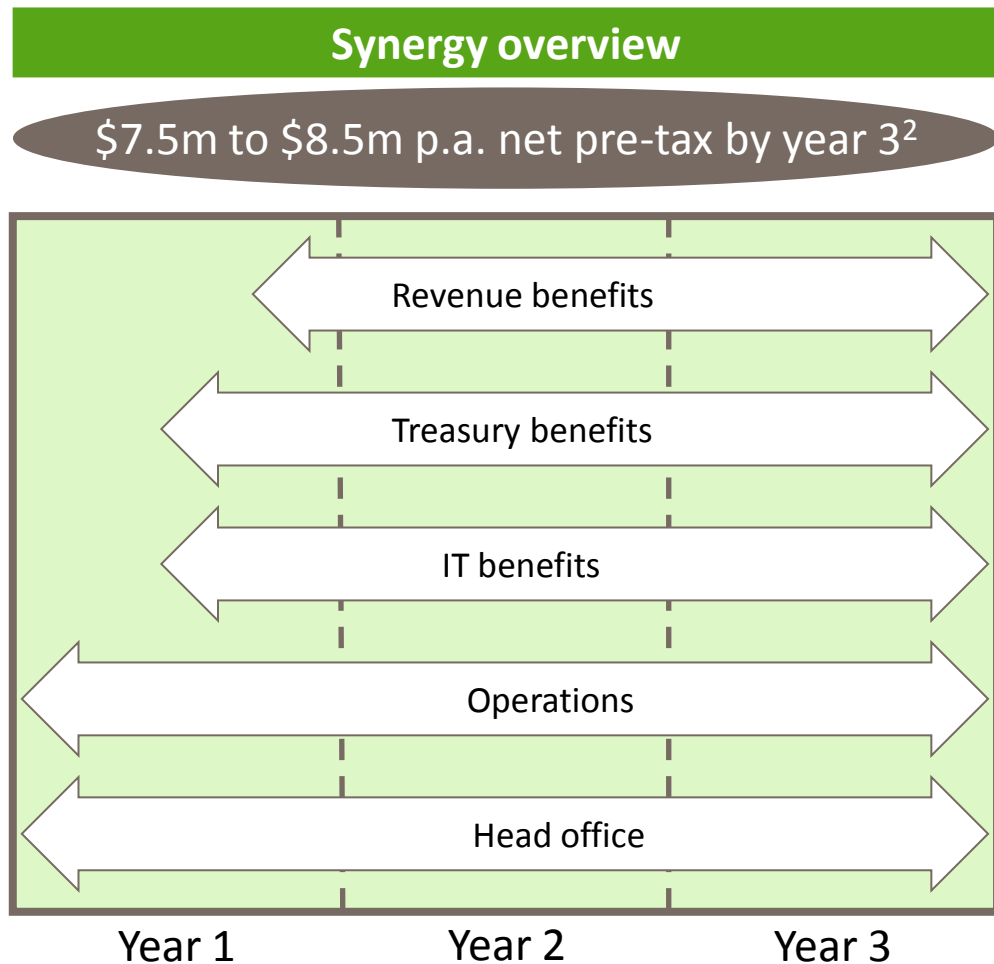
### Key

Coloured bars = listed companies  
Green bars = mutual organisations

1) Source: FY11 company accounts. Figures as at 30 June 2011. Heritage transferable deposits excluded. "Pro forma" values in both charts are calculated as the sum of the values for MyState and The Rock for respective metrics. 2) On a pro forma basis, based on FY11 company accounts

# Material synergy benefits are anticipated

- **Primary synergy drivers**
  - Expansion of The Rock’s product offering using MyState products and services, and through branch upgrades
  - Funding synergies through lower cost of funds
  - Treasury benefits, including proposed ADI licence consolidation<sup>1</sup>
  - IT consolidation benefits
- **Three main components of synergies**
  - Corporate costs, operations and IT
  - Funding synergies and treasury benefits, driving increased net interest margin
  - Revenue benefits
- **Net one-off implementation costs of c.\$3.5m<sup>3</sup>**
  - Spread evenly over the first 3 years
  - Includes investment in branch network upgrades (c.\$2m) and IT implementation and restructuring costs



1) Subject to APRA approval. 2) Excluding pre-tax implementation costs which include costs associated with upgrades to the branch network, IT implementation and restructuring costs amongst others. Implementation costs exclude transaction costs associated with adviser fees and other transaction execution costs. Synergy benefits are estimates only. 3) Implementation costs are estimated on a pre-tax basis

## Balance sheet strength and enhanced funding mix

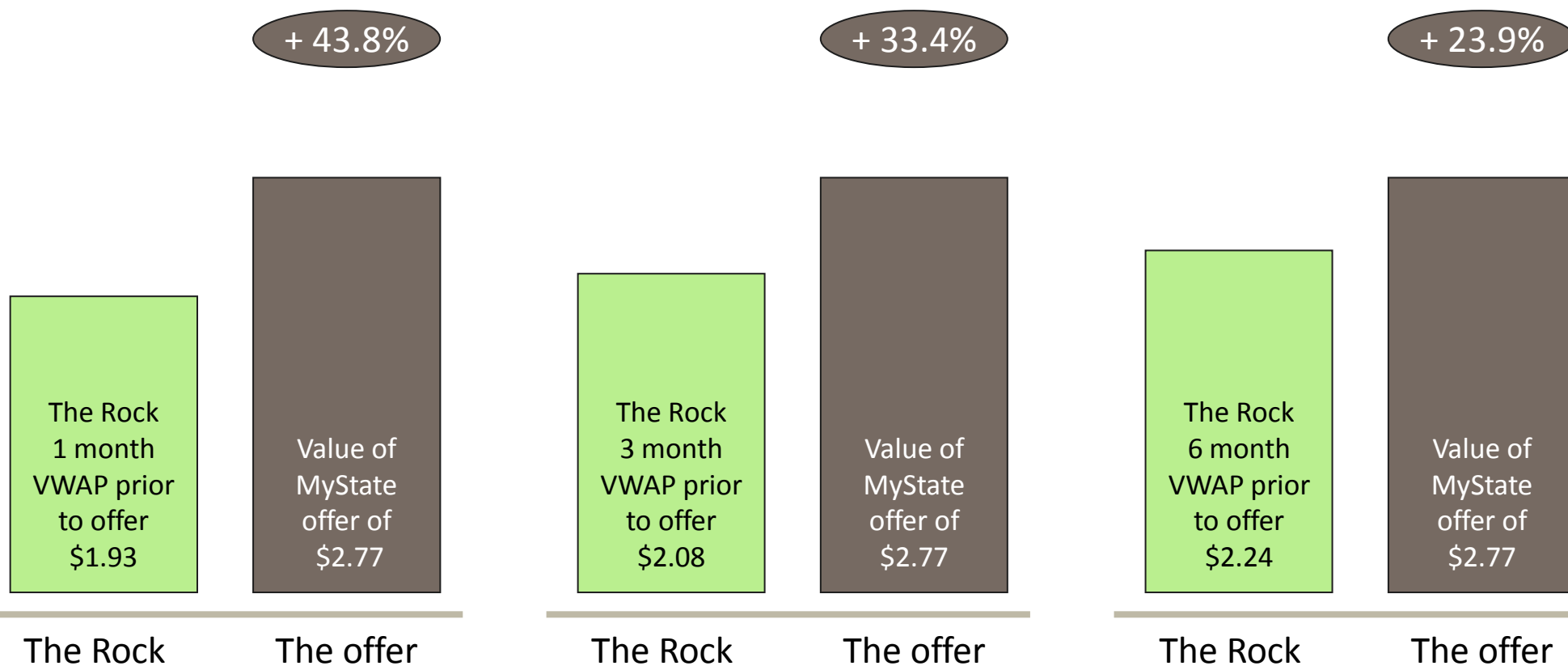
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- Sound balance sheet maintained<sup>1</sup>
  - Pro forma tier 1 capital ratio as at 30 June 2011 of 14.4%, after allowing for transaction costs
  - Pro forma total capital ratio as at 30 June 2011 of 14.5%, after allowing for transaction costs
  - Pro forma return on 30 June 2011 equity of 12.4% and pro forma return on 30 June 2011 assets of 93bps
- Enhanced funding mix
  - Retail deposits
  - Wholesale funding capability
- Solid dividend paying capability
  - The Rock announced on 21 November 2011 that the quantum of its 2012 early interim dividend will be 6 cents per share<sup>2</sup>
  - MyState announced on 15 November 2011 that it would pay a 2012 interim dividend to MyState shareholders of 14 cents per share<sup>3</sup>
  - MyState's existing target dividend payout ratio of 70% to 90% of post tax profits is expected to be maintained post-merger
- Existing MyState non-operating holding company structure retained post merger
  - Proposed integration of ADI licences in due course will improve overall capital efficiency<sup>4</sup>

1) Pro forma return numbers include the effect of anticipated year 3 net pre-tax synergies of \$8m p.a. and one-off estimated transaction costs associated with adviser fees and other transaction execution costs, estimated at \$3.6m. 2) The payment of the The Rock interim dividend will be contingent upon the successful implementation of the Scheme. The Rock expects to pay the 2011 early interim dividend on 19 December 2011. 3) The payment of the MyState interim dividend will not be contingent upon the successful implementation of the Scheme and is expected to be paid on 9 December 2011 to MyState shareholders only. 4) Subject to APRA approval

# Offer premium for The Rock's shareholders

## Offer premium<sup>1</sup>

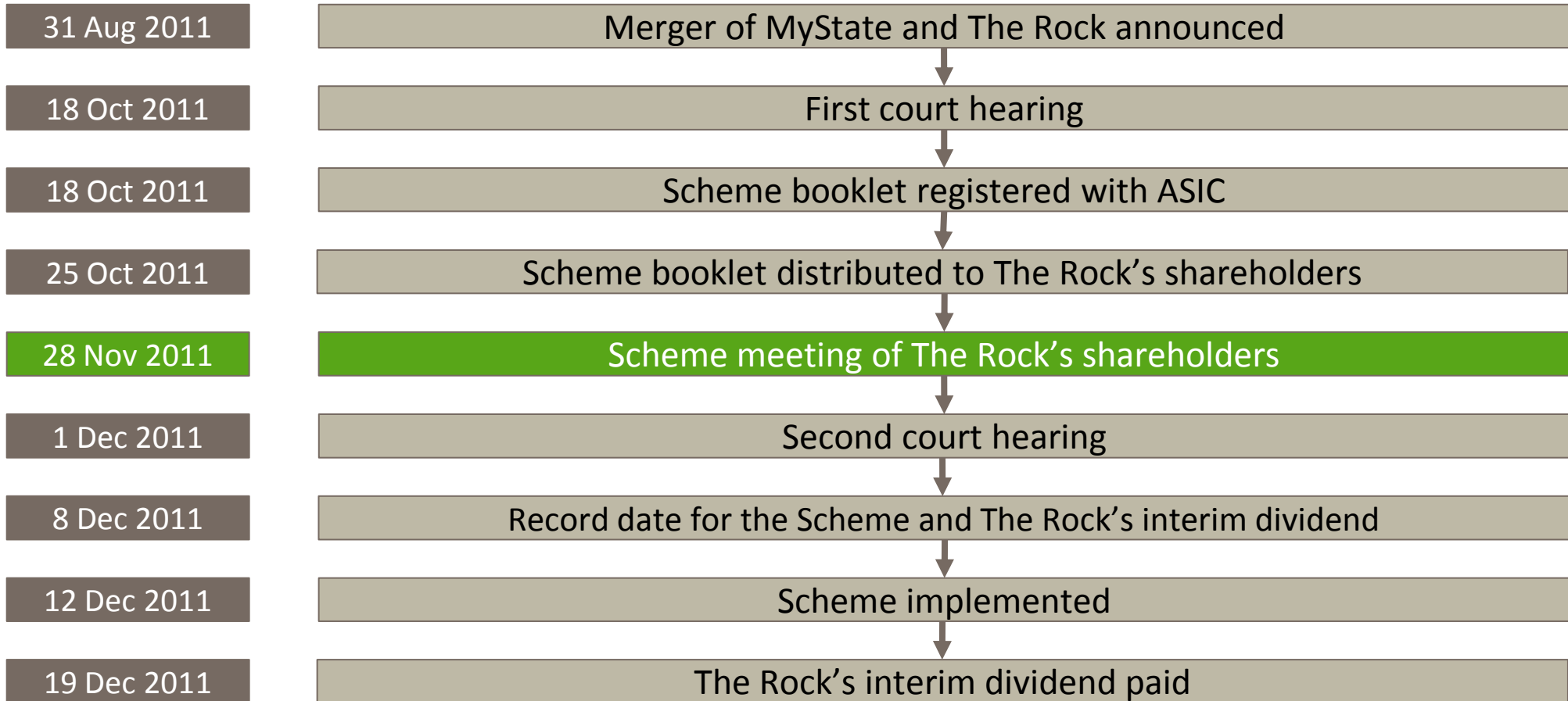


1) Market data for The Rock from Capital IQ at 30 August 2011, the day immediately prior to the announcement of the proposal. The Rock shares last traded on the ASX on 29 August 2011. Market data for MyState shares from Capital IQ at 25 November 2011, the most recent trading day prior to this presentation and exchange ratio as detailed in the Scheme Implementation Deed. Under the Scheme, if successfully implemented, The Rock shareholders will receive 7.75 New MyState Shares for every 10 shares in The Rock they own

MyState and The Rock are targeting completion prior to 31 December 2011



### Indicative transaction timeline



# The merger has the unanimous support of both Boards



## The Rock Board's statement

The Rock's Board unanimously supports the proposed Scheme, which will enhance The Rock's overall financial strength and the breadth and depth of services we offer our customers, whilst delivering an attractive outcome to shareholders of both MyState and The Rock.

## MyState Board's statement

The MyState Board unanimously supports the proposed Scheme, which will enhance MyState's overall financial strength and the breadth and depth of services we offer our customers, whilst delivering an attractive outcome to shareholders of both The Rock and MyState.

# Proxy Instructions for Resolution



	Votes		Holders	
<b>For</b>	9,484,115	81.82%	1,019	75.99%
<b>Open</b>	1,877,200	16.20%	278	20.73%
<b>Against</b>	229,736	1.98%	44	3.28%
<b>Total</b>	<b>11,591,051</b>	<b>100.00%</b>	<b>1,341</b>	<b>100.00%</b>

## Important notice and disclaimer

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