



11 March 2016

## Joint Media Announcement

### UPDATE ON MERGER PROPOSAL – SCHEME BOOKLET REGISTERED WITH ASIC

Queensland Professional Credit Union Ltd (trading as YCU – Your Credit Union (**YCU**)) and Auswide Bank Ltd (**Auswide Bank** (ASX: ABA)), are pleased to announce that the Australian Securities and Investments Commission has registered the scheme booklet (**Scheme Booklet**) to be issued by YCU to its members in relation to the proposed merger of YCU and Auswide Bank by way of a scheme of arrangement, under which Auswide Bank proposes to acquire all of the member shares in YCU.

A copy of the Scheme Booklet to be issued by YCU, which includes the explanatory statement, demutualisation disclosure statement, notices of scheme and demutualisation meetings and an Independent Expert's Report is attached to this announcement. Copies of the Scheme Booklet are now in the process of being printed and will be despatched by YCU to its members on or about Friday 18 March 2016.

#### Information

For more information, please contact:

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Managing Director  
Auswide Bank  
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Email: [mbarrett@auswidebank.com.au](mailto:mbarrett@auswidebank.com.au)

For more information, please contact the YCU member information line on 07 3020 5423, or please visit <http://yourinterest.com.au/ycuAuswidemerger/> or <http://www.auswidebankltd.com.au/o/ycu/>.



### **About YCU – Your Credit Union**

[www.ycu.com.au](http://www.ycu.com.au)

Based in Brisbane, YCU is a mutual financial institution that has been providing professional financial services since 1967. YCU is incorporated under the *Banking Act 1959* (Cth) and, as an Authorised Deposit-taking Institution its operations are overseen by the Australian Prudential Regulation Authority.

YCU currently operates one branch in Brisbane located at 100 Eagle Street. The credit union currently employs 11 staff.

YCU offers members a range of products and services including home loans, car loans, personal loans, transaction accounts, savings accounts and term deposits. YCU members have access to over 4,500 Rediteller® badged ATMs (operated by credit unions, NAB and Bank of Queensland), Westpac ATMs and St George ATMs.

### **About Auswide Bank Ltd**

[www.auswidebank.com.au](http://www.auswidebank.com.au)

Auswide Bank became Australia's tenth and Queensland's third Australian owned bank, listed and trading on the ASX, on April 1, 2015 (ASX: ABA).

Headquartered in Bundaberg in Central Queensland, the company had operated as a building society since 1966 and was principally the amalgamation of building societies based in Bundaberg, Maryborough, Gympie & northern Sunshine Coast, Gladstone and Mackay.

Auswide Bank operates a network of 23 retail branches from Morayfield to Cairns and mortgage broker service centres in Brisbane and the Gold Coast.

Auswide Bank has an Australian Credit Licence and an Australian Financial Services Licence issued by ASIC and is an Authorised Deposit-taking Institution prudentially supervised by the Australian Prudential Regulation Authority.

Auswide Bank offers Australians an extensive range of personal and business banking products & services issued directly or in partnership with leading service providers via an omni-channel distribution strategy which includes branches, strategic relationships and online & digital channels. Products include consumer and business finance; deposits and banking services; insurance and foreign exchange.



## SCHEME BOOKLET

### YCU Scheme of Arrangement

#### TO IMPLEMENT THE Merger Proposal

FROM



(ACN 087 652 060)

#### INCORPORATING

- Explanatory Statement for the YCU Scheme of Arrangement
- Notice of Scheme Meeting
- Demutualisation Disclosure Statement
- Notice of Demutualisation Meeting

## YOUR VOTE IS IMPORTANT – ACT NOW

**The YCU Directors unanimously recommend that you vote in favour of the Merger Proposal in the absence of a Superior Proposal.**

Your vote will determine whether the Merger Proposal proceeds.

Queensland Professional Credit Union Ltd (ACN 087 651 045)  
trading as YCU - Your Credit Union ("YCU")

Legal Adviser to YCU

 **Bright Corporate Law**

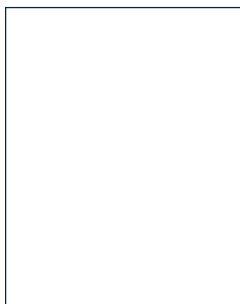


# What you have received with this Scheme Booklet

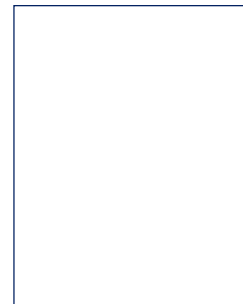
With this Scheme Booklet you have received the following items, as well as a reply paid envelope:



Proxy Form for the  
Demutualisation  
Meeting



Proxy Form for  
the Scheme  
Meeting



Sell Form

If any of the above items are missing from your pack, please call the YCU Information Line on 07 3020 5423.

## What to do next – **ACT NOW**

### 1. Read this Scheme Booklet

You should read and carefully consider this Scheme Booklet to help you make informed decisions. If you are in any doubt as to how to apply information in this Scheme Booklet, please consult your legal, financial or other professional adviser.

### 2. Vote on the Merger Proposal

Voting is easy. You can vote by attending the Scheme Meeting and the Demutualisation Meeting or by appointing a proxy to vote for you.

#### - Attending the Meetings

You can vote in person at the Scheme Meeting and Demutualisation Meeting at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, 4000. The Scheme Meeting will be held on **Monday 18 April 2016 at 5.00pm (Brisbane Time)**. The Demutualisation Meeting will be held on Monday 18 April 2016 immediately after the Scheme Meeting or at **5.30pm (Brisbane time)**, whichever is the later.

#### - Online Proxy

You may appoint your proxy online by visiting the merger website <http://yourinterest.com.au/ycuawidemerger/>.

#### - Proxy by post, fax or delivery

You can appoint a proxy to vote on your behalf by completing the enclosed Proxy Forms, and returning them in the reply paid envelope or by fax before 5pm on 16 April 2016. If you intend to vote by proxy, please **ACT Now – complete and return the enclosed Proxy Forms.**

See Section 3 of this Scheme Booklet for more details on how to vote.



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## **IMPORTANT NOTICES**

## **1. General**

YCU Members should read this Scheme Booklet carefully and in its entirety before deciding how to vote on the resolutions to be considered at the Scheme Meeting and the Demutualisation Meeting. If you are in any doubt as to how to apply information in this Scheme Booklet, please consult your legal, financial or other professional adviser immediately.

## **2. Purpose of Scheme Booklet**

The purpose of this Scheme Booklet is to explain the terms and effect of the Merger Proposal for Auswide Bank to acquire all of the YCU Shares by way of a Scheme of Arrangement (which will involve the Demutualisation of YCU).

This Scheme Booklet includes the 'Explanatory Statement' required to be sent to YCU Members under Part 5.1 of the Corporations Act in relation to the Scheme. A copy of the proposed Scheme is included in this Scheme Booklet as Attachment IV (*Scheme of Arrangement*).

This Scheme Booklet states any material interests of the YCU Directors, whether as YCU Directors, YCU Members or creditors of YCU or otherwise, and the effect on those interests of the Scheme as far as that effect is different from the effect on similar interests of other persons.

This Scheme Booklet also provides information in Section 15 prescribed by the Corporations Act and the Corporations Regulations material to the decision of YCU Members whether to approve the Demutualisation including the proposed Constitutional Amendments.

## **3. Responsibility statement**

The information contained in this Scheme Booklet has been provided by YCU and is the responsibility of YCU except where outlined otherwise (YCU Information). Neither Auswide Bank 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 Auswide Bank and Sections 7 and 8.1-8.4 of this Scheme Booklet (Auswide Bank Information) has been provided by Auswide Bank and is the responsibility of Auswide Bank. YCU has not verified the Auswide Bank Information and neither YCU nor its officers, employees or advisers assume any responsibility for the accuracy or completeness of the Auswide Bank Information.

Sections 8.5-8.9 of this Scheme Booklet constitute Merged Entity Information. The Merged Entity Information has been prepared jointly by YCU and Auswide Bank based on information provided by each YCU and Auswide Bank. However, neither YCU, nor Auswide Bank assume responsibility for the accuracy of the information provided by the other party.

The report in Attachment I of this Scheme Booklet has been provided by the Independent Expert and is the responsibility of the Independent Expert. This report sets out the extent to which the Independent Expert has relied on financial and other factual information provided by YCU and Auswide Bank.

Otherwise, none of YCU, Auswide Bank nor their respective officers, employees or advisers assume any responsibility for the accuracy or completeness of the information in the Independent Expert's Report. The Independent Expert does not assume any responsibility for the accuracy or completeness of any information contained in this Scheme Booklet, other than the information contained in Attachment I.

Richards Advisory has prepared the general outline of taxation considerations of the Merger Proposal for YCU Members in Attachment VIII of this Scheme Booklet and takes responsibility for that Section.

## **4. ASIC and the Court**

A copy of this Scheme Booklet 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).

A copy of this Scheme Booklet has also been provided to ASIC for the purpose of Part 5 of Schedule 4 of the Corporations Act and registered by ASIC as a demutualisation disclosure statement for the purpose of clause 32 of Part 5 of Schedule 4 of the Corporations Act on the basis that this Scheme Booklet adequately sets out or explains the matters required by clause 32(1) of Schedule 4 of the Corporations Act to be disclosed. Registration of this Scheme Booklet as a demutualisation disclosure statement under clause 32(1) does not mean that ASIC has considered whether the Merger Proposal is in the best interests of YCU Members as a whole.

ASIC has reviewed a copy of this Scheme Booklet. YCU 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 Scheme Booklet.

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 Scheme Booklet required to accompany the Notice of Scheme Meeting does not mean that the Court has formed any view as to the merits of the Scheme or as to how YCU Members should vote (on this matter YCU Members must reach their own decision). Nor does it mean that the Court has prepared, or is responsible for the content of, this Scheme Booklet.

## **5. Disclaimer as to forward looking statements**

Certain statements in this Scheme Booklet 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 YCU or Auswide Bank 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 Scheme Booklet reflect views held only to the date of this Scheme Booklet.

The historical financial performance of YCU and Auswide Bank is no assurance of future financial performance of YCU, Auswide Bank and/or the Merged Entity (whether or not the Merger Proposal proceeds).

Other than is required by law, none of YCU, Auswide Bank 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 Scheme Booklet will actually occur.

In particular, none of YCU, Auswide Bank or any of their respective officers and advisers is responsible for any forward looking statements in the Independent Expert's Report in Attachment I, unless expressly stated otherwise.

Subject to any continuing obligations under law or the ASX Listing Rules or as contemplated by Section 9 (*Additional Information*), YCU, Auswide Bank and their respective directors disclaim any obligation or undertaking to disseminate, after the date of this Scheme Booklet, 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.

## **6. Investment decisions**

The information contained in this Scheme Booklet 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 Scheme Booklet should not be relied upon as the sole basis for any investment decision in relation to the Merger Proposal, YCU Shares or Auswide Bank Shares. Before making any investment decision in relation to the Merger Proposal or your YCU Shares, including any decision to vote in favour of or against the Scheme or the Demutualisation, 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.

## **7. 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 YCU or Auswide Bank in any jurisdiction in which such an offer or solicitation would be illegal.

## **8. Effect of rounding**

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet 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.

## **9. Reference to time**

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

## **10. Privacy and personal information**

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

YCU Members 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 the YCU Information Line on 07 3020 5423 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 Merger Proposal. The personal information may be disclosed to YCU's and Auswide Bank'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 a YCU Member has consented. The personal information of Share Sale Facility Participants may also be disclosed to the Broker for the purposes of operating the Share Sale Facility.

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

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

## **11. No internet site is part of this Scheme Booklet**

YCU and the Auswide Bank Group maintain several internet websites. Any references in this Scheme Booklet to a website are textual references for information only and the website does not form part of this Scheme Booklet.

## **12. YCU Members outside Australia**

YCU Members with a registered address in a jurisdiction other than Australia and its external territories may not be eligible to receive New Auswide Bank Shares that would otherwise form part of the Scheme Consideration. YCU Members with a registered address outside of Australia and its external territories should refer to Section 4.6.

This Scheme Booklet complies with Australian disclosure requirements and Australian accounting standards, which may be different to disclosure requirements and accounting standards in other jurisdictions.

### **13. Tax Implications of the Scheme**

Section 11 (*Taxation Considerations*) and Attachment VIII provide a general outline of the Australian income tax and capital gains tax consequences for YCU Members who dispose of their YCU Shares to Auswide Bank in accordance with the Merger Proposal. They do not purport to be a complete analysis nor do they identify all potential tax consequences nor are they intended to replace the need for specialist tax advice in respect of the particular circumstances of individual YCU Members.

YCU Members who are subject to taxation outside Australia should also consult their tax adviser as to the applicable tax consequences of the Merger Proposal in the relevant jurisdiction.

### **14. Notices of Meeting**

The Notice of the Scheme Meeting and the Notice of the Demutualisation Meeting are set out in Attachment V (*Notice of Scheme Meeting*) and Attachment VI (*Notice of Demutualisation Meeting*).

### **15. Glossary and defined terms**

Capitalised terms and certain abbreviations used in this Scheme Booklet have the defined meanings set out in the Glossary of this Scheme Booklet and are incorporated in this Scheme Booklet.

All references to “\$”, “dollar” and “cent” are references to Australian currency, unless stated otherwise.

### **16. Information line**

If you have any questions about your shares in YCU or any other matter in this Scheme Booklet, please call YCU on 07 3020 5423 or via email at [contact@ycu.com.au](mailto:contact@ycu.com.au).

### **17. Date**

This Scheme Booklet is dated 11 March 2016.



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## LETTER FROM THE CHAIRMAN OF YCU

11 March 2016

Fellow YCU Members,

### Merger Proposal

On behalf of the YCU Board, it gives me great pleasure to commend the Merger Proposal and this Scheme Booklet to you.

You would be aware that on 22 December 2015, YCU announced an agreement with ASX-listed Auswide Bank, to pursue a merger of the two companies.

Under the Merger Proposal, every eligible YCU Member will receive \$4,055 in cash, plus 696 Auswide Bank Shares if the Merger Proposal is approved by the Requisite Majority of YCU Members. Based on the Auswide Bank share price of \$5.35 as at 21 December 2015, the date immediately prior to the announcement of the Merger Proposal, the value of the consideration is \$7,778.60 per YCU Member. Based on the share price of \$4.84 as at 9 March 2016, the last trading day before the finalisation of this Scheme Booklet, the value of the consideration is \$7424 per YCU Member.<sup>1</sup>

You may be able to access potential capital gains tax roll-over relief in relation to the shares component of the Scheme Consideration.<sup>2</sup>

### Scheme Booklet

This Scheme Booklet contains:

- details of the Merger Proposal;
- information to help you to decide whether to support the Merger Proposal;
- instructions on how, when and where to vote; and
- should you not wish to receive New Auswide Bank Shares, options as to how you might dispose of those New Auswide Bank Shares and receive cash instead.

Please read the Scheme Booklet and seek professional help if required. If you have any questions about the Merger Proposal or your entitlements, please call YCU on 07 3020 5423 or enquire via email at [contact@ycu.com.au](mailto:contact@ycu.com.au).

### Directors' recommendation

The YCU Directors unanimously:

- ✓ support the Merger Proposal;
- ✓ recommend that YCU Members vote in favour of it; and
- ✓ intend to vote in favour of the Merger Proposal with respect to all YCU Shares held by them or in which they otherwise have a relevant interest,

in the absence of a Superior Proposal.

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<sup>1</sup> Please refer to Section 2 of this Scheme Booklet in relation to the trading prices of Auswide Bank Shares.

<sup>2</sup> Please refer to Section 11 and Attachment VIII of this Scheme Booklet for further information.

Consistent with YCU's history and culture as a mutual, the YCU Directors have assessed various quantitative and qualitative factors before determining to endorse the Merger Proposal. These factors are discussed in Section 2 and include the important consideration that the YCU Board believes now is the appropriate time to realise the value in YCU, whilst maintaining personalised banking services for YCU Members.

Section 2 also discusses reasons why you may choose not to support the Merger Proposal, including the loss of mutuality and the risk of the market price of Auswide Bank Shares falling, as well as other relevant considerations, including YCU's obligation to pay Auswide Bank a Reimbursement Amount in certain circumstances. The YCU Directors believe that the expected advantages outweigh the possible disadvantages and risks of the Merger Proposal.

### **Independent Expert**

The YCU Directors' unanimous endorsement of the Merger Proposal is supported by the conclusion of the Independent Expert (Loneragan Edwards & Associates Limited). The Independent Expert has concluded that the Merger Proposal is fair and reasonable and in the best interests of YCU Members as a whole, in the absence of a Superior Proposal. The Independent Expert's Report is contained in Attachment I and you should read the report in full.

### **Merger Proposal process**

For the Merger Proposal to succeed, 75% of votes cast by YCU Members must be in favour of **both**:

1. YCU's Demutualisation; and
2. the Scheme (the legal mechanism by which the Merger Proposal will be implemented).

Consecutive meetings of YCU Members will be held on **Monday 18 April 2016** at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, 4000 commencing at **5.00pm (Brisbane time)** to consider both the Scheme and the Demutualisation.

### **Your vote is important – ACT NOW**

Even though the Merger Proposal is substantial, there can be no assurance that it will proceed and that you will receive the Scheme Consideration. Please take time to vote on the Merger Proposal either:

- *by returning your proxy online, by mail, fax or delivery:* If you are unable to attend the Scheme Meeting or the Demutualisation Meeting you can appoint a proxy to vote on your behalf by completing the enclosed Proxy Forms online or by returning them in the reply paid envelope, by fax or delivery before 5pm on 16 April 2016. If you do choose this convenient option, please **ACT NOW - complete and return the enclosed Proxy Forms.**
- *In person:* You can vote in person at the Scheme Meeting and the Demutualisation Meeting.

### **Sale of Auswide Bank Shares**

Auswide Bank and YCU understand that some YCU Members may be unable or unwilling to hold Auswide Bank Shares. Those YCU Members would be free to sell their New Auswide Bank Shares, once received, on the ASX.

Alternatively, to avoid brokerage, stamp duty and a possible market overhang of Auswide Bank Shares, you may elect to have your New Auswide Bank Shares sold on your behalf under the Share Sale Facility. Under the Share Sale Facility, the Broker, Baillieu Holst (a leading stockbroking firm) will aggregate all New Auswide Bank Shares for which a Sell Form is received from YCU Members and then dispose of them in an orderly fashion.

Participating YCU Members would then receive their share of the average gross proceeds achieved by the Broker with all brokerage and stamp duty costs being paid by Auswide Bank. A Sell Form is enclosed with this Scheme Booklet. You should refer to Section 11 and Attachment VIII for the taxation considerations.

Please refer to Section 12 of the Scheme Booklet for further information.

### **Conclusion**

YCU has had a proud and successful history, of which you are a significant part. The Merger Proposal will see YCU forming part of Auswide Bank. The YCU Board is confident that the Merger Proposal is in the best interests of YCU Members as a whole, in the absence of a Superior Proposal. Not only will YCU Members be handsomely paid for their YCU Shares, they will also have the opportunity to continue enjoying at least the same levels of friendly service but also gain access to a broader range of branches, products and services.

On behalf of the YCU Board, I commend the Merger Proposal to you and urge you to vote in favour of the Resolutions either by proxy or at the Scheme Meeting and Demutualisation Meeting.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Gordon Rutherford', written in a cursive style.

Gordon Rutherford  
Chairman

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## LETTER FROM THE CHAIRMAN OF AUSWIDE BANK

11 March 2016

Dear YCU Member,

On behalf of the Auswide Bank Board and management team of Auswide Bank, I am pleased to provide you with the opportunity, through this Merger Proposal, to become:

- **a valued customer;** and
- **an important shareholder,**

of a combined Auswide Bank and YCU.

There are a number of potential benefits of being a customer and shareholder of the Merged Entity.

Significantly, it is not just Auswide Bank's consideration of **\$7424<sup>3</sup>, comprising \$4055 in cash and 696 Auswide Bank Shares**, that underpins the Merger Proposal and the YCU Board's unanimous recommendation. Equally important to both companies are qualitative factors such as:


- **shared origins** with both firms being founded in Queensland at the same time in the mid-1960s with an unswerving focus on community banking;
- a shared ethos of **customer service and satisfaction** being paramount; and
- a genuine concern for, and appreciation of, their **employees**.

The potential benefits of the Merger Proposal include:

- YCU Members will enjoy **competitive market rates on products**;
- access to **familiar faces** as, to the extent possible, Auswide Bank intends to retain YCU employees;
- access to a **broader range** of banking products and services via an expanded distribution network;
- the opportunity to retain an **ownership interest** in the combined group and participate in its ongoing success, including the opportunity to potentially receive dividends; and
- access to potential **capital gains tax roll-over relief** in relation to the share component of the Scheme Consideration.

On behalf of Auswide Bank, I commend the Merger Proposal to you. We look forward to welcoming you as customers and shareholders of our company.

Yours faithfully,

  
John Humphrey  
Chairman

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<sup>3</sup> Based on a share price of \$4.84 as at 9 March 2016, or \$7779 based on a share price of \$5.35 as at 21 December 2015

*Small things. Big difference.*

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## SUMMARY OF KEY DATES<sup>1,2</sup> FOR MEMBERS

Date of this Scheme Booklet	11 March 2016
Last date for Proxy Forms to be received by YCU *	16 April 2016
Meetings of YCU Members to approve Merger Proposal	18 April 2016
Merger Proposal takes effect ( <b>Effective Date</b> )	4 May 2016
Payment of Scheme Consideration to YCU Members ( <b>Implementation Date</b> )	19 May 2016

**Note\*:** If you do intend to vote by proxy, please **ACT NOW – complete and return the enclosed Proxy Forms.**

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<sup>1</sup> A detailed list of all key dates is provided at Section 13.

<sup>2</sup> The timetable above is indicative only. YCU has the right to vary any or all of these dates and times and will provide reasonable notice of any such variation. Certain dates and times are conditional on the approval of the Scheme and the Demutualisation by YCU Members and by the Court and Regulatory Authorities. Any changes to the timetable will be announced on YCU's website: [www.ycu.com.au](http://www.ycu.com.au)

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## **A. MERGER OVERVIEW & THREE TASKS FOR YCU MEMBERS**



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## 1. Summary and three tasks for YCU Members

### 1.1 What is the Merger Proposal?

YCU and Auswide Bank are proposing to merge whereby YCU would become a wholly-owned subsidiary of Auswide Bank. It is proposed that the Merger Proposal will take place by Auswide Bank acquiring 100% of YCU Shares from YCU Members by way of Scheme of Arrangement.

### 1.2 Why did I receive this Scheme Booklet?

There are 4,094 YCU Members, of which you are one, each of whom owns one YCU Share.

As a YCU Member, you have the right and opportunity to:

1. consider and vote on the Merger Proposal (except for minors); and
2. if the Merger Proposal is approved, receive the Scheme Consideration.

### 1.3 What is the Scheme Consideration?

If the Merger Proposal is implemented, all of the YCU Shares held by YCU Members will be transferred to Auswide Bank, such that YCU will ultimately become a wholly-owned subsidiary of Auswide Bank. YCU Members will then be entitled to receive the Scheme Consideration on the Implementation Date.

Each eligible YCU Member will receive the Scheme Consideration being:

- \$4,055 cash; and
- 696 New Auswide Bank Shares.

Based on the Auswide Bank Share price of \$4.84 as at 9 March 2016, the implied value of the share component of the Scheme Consideration is \$3369 per YCU Member and the implied value of the total proposed Scheme Consideration per YCU Member is \$7424. The market price of Auswide Bank Shares may fall due to the factors described in Section 10.

This is in addition to the non-financial benefits of the Merger Proposal (which are set out in Section 2.2(f) of this Scheme Booklet).

### 1.4 What if I don't want Auswide Bank Shares?

If YCU Members do not want to receive Auswide Bank Shares, YCU Members may either:

- sell some or all of their New Auswide Bank Shares on the ASX, incurring brokerage and other costs; or
- elect to sell all of their New Auswide Bank Shares under the Share Sale Facility (free of brokerage and other costs). The Share Sale Facility is described in more detail in Section 12 and Attachment VII of this Scheme Booklet.

### 1.5 Three tasks for YCU Members

The YCU Board recommends that you read and carefully consider this Scheme Booklet to help you make informed decisions. If you are in any doubt as to how to apply information in this Scheme Booklet, please consult your legal, financial or other professional adviser.

The decisions and actions to be taken by you in three key areas are:

1. **Whether to support the Merger Proposal (Section 2);**
2. **How to vote (Section 3); and**
3. **Whether to keep your New Auswide Bank Shares (Section 4).**

The next three Sections contain information to assist you with these decisions. Section 5 then provides an extensive list of frequently asked questions.

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## **2. Task 1: Whether to support the Merger Proposal**

### **2.1 Your Directors unanimously recommend that you support the Merger Proposal, in the absence of a Superior Proposal**

YCU's Directors have examined the Merger Proposal from their perspectives as both YCU Directors and YCU Members. Some YCU Directors have been YCU Members for over 30 years.

The YCU Directors unanimously recommend that you vote in favour of the Merger Proposal, in the absence of a Superior Proposal. The YCU Directors have concluded that the Merger Proposal is in the best interests of YCU Members as a whole, in the absence of a Superior Proposal. Each YCU Director intends to vote in favour of the Merger Proposal in relation to YCU Shares held by them, or on behalf of them, in the absence of a Superior Proposal. The interests of the YCU Directors in YCU Shares are set out in Section 9 of this Scheme Booklet.

The YCU Directors consider that the reasons for YCU Members to vote in favour of the Merger Proposal outweigh the reasons to vote against the Merger Proposal, in the absence of a Superior Proposal.

The reasons supporting the YCU Directors' recommendation, and other factors taken into account, are provided below.

The YCU Directors' recommendation does not take into account the financial situation, investment objectives and particular needs of any YCU Member. You should consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

### **2.2 Reasons to support the Merger Proposal**

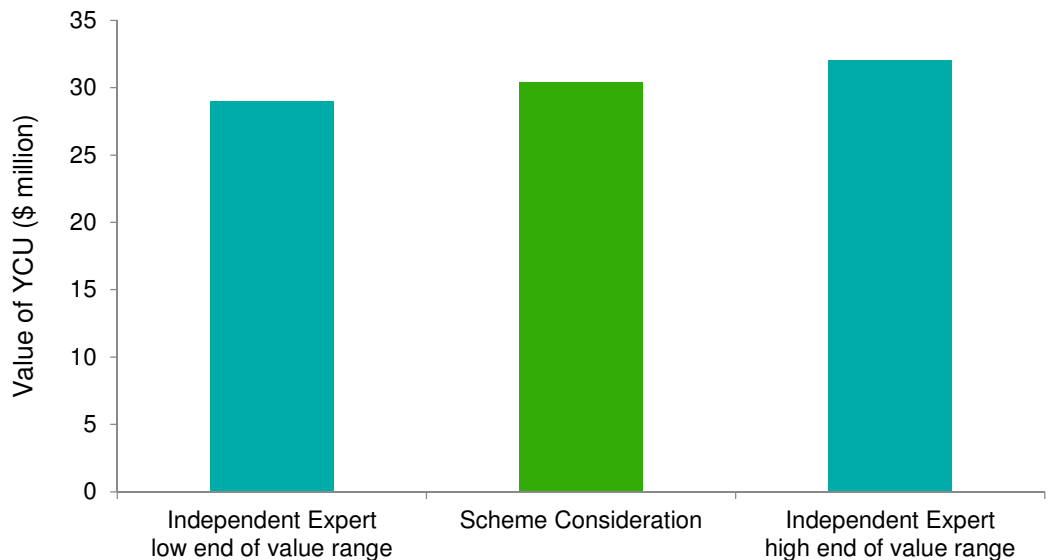
#### **a) The Independent Expert believes the Merger Proposal is fair and reasonable and is therefore in the best interests of YCU Members as a whole**

YCU appointed Lonergan Edwards & Associates Limited as an Independent Expert to prepare a report on the Merger Proposal. The Independent Expert has concluded that the Merger Proposal is fair and reasonable and in the best interests of YCU Members as a whole, in the absence of a Superior Proposal.

The Independent Expert has valued YCU in a range between \$29 million and \$32 million (refer to Attachment I). It has also valued Auswide Bank's total Scheme Consideration at between \$30.45 million and \$31.88 million (based on the Auswide Bank share price at between \$4.86 and \$5.36), which falls within its valuation range.

The reasons for the Independent Expert's opinion are listed in the Independent Expert's Report, set out in full in Attachment I to this Scheme Booklet.

**The Scheme Consideration is fair and reasonable and  
in the best interests of YCU Members as a whole**



**b) YCU has not received a Superior Proposal**

As at the date of this Scheme Booklet, YCU has not received a Superior Proposal from another party, nor do the YCU Directors expect to receive one. After reviewing a number of strategic alternatives from a qualitative and a quantitative perspective in recent years, the YCU Directors are unanimous, that a merger with Auswide Bank is in the best interests of YCU Members as a whole.

**c) The Merger Proposal will release value for YCU Members**

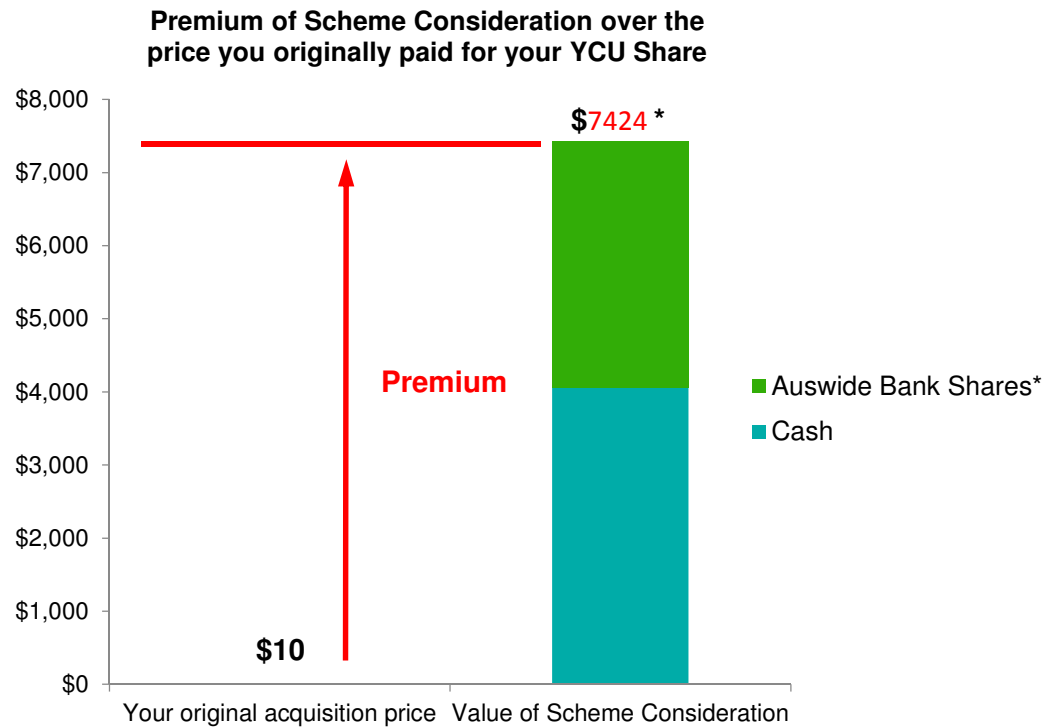
The Independent Expert has determined that YCU Shares, which YCU Members acquired for \$10, are worth between \$7084 and \$7816<sup>6</sup>.

Under YCU's Constitution, YCU Members are not permitted to sell their YCU Shares to realise this value. It is only when YCU Members leave YCU, that they may have their YCU Shares redeemed and even then only at the original acquisition price of \$10.

Should the Merger Proposal succeed, YCU Members will receive the Scheme Consideration worth \$7424<sup>7</sup>. This is \$7414 more than the price a YCU Member originally paid to acquire their YCU Share.

<sup>6</sup> Calculated by dividing the Independent Expert's valuation range by the number of YCU Members, i.e., 4,094

<sup>7</sup> based on the Auswide Bank share price of \$4.84 as at 9 March 2016 or \$7779 based on a share price of \$5.35 as at 21 December 2015



Note\*: based on an Auswide Bank share price of \$4.84 as at 9 March 2016.

**d) The Scheme Consideration is attractive**

Given that YCU Members acquired their YCU Shares for \$10, the Scheme Consideration is attractive.

If the Merger Proposal is implemented, YCU Members will receive \$4055 in cash and 696 New Auswide Bank Shares worth \$3369.<sup>8</sup>

Auswide Bank has been listed on the ASX for more than 21 years and currently has a market capitalisation of \$179.8 million.

<sup>8</sup> based on the Auswide Bank share price of \$4.84 as at 9 March 2016 or \$3,723.60 based on the Auswide Bank share price of \$5.35 as at 21 December 2015.

### Auswide Bank share price performance 1 July 2013 to 9 March 2016

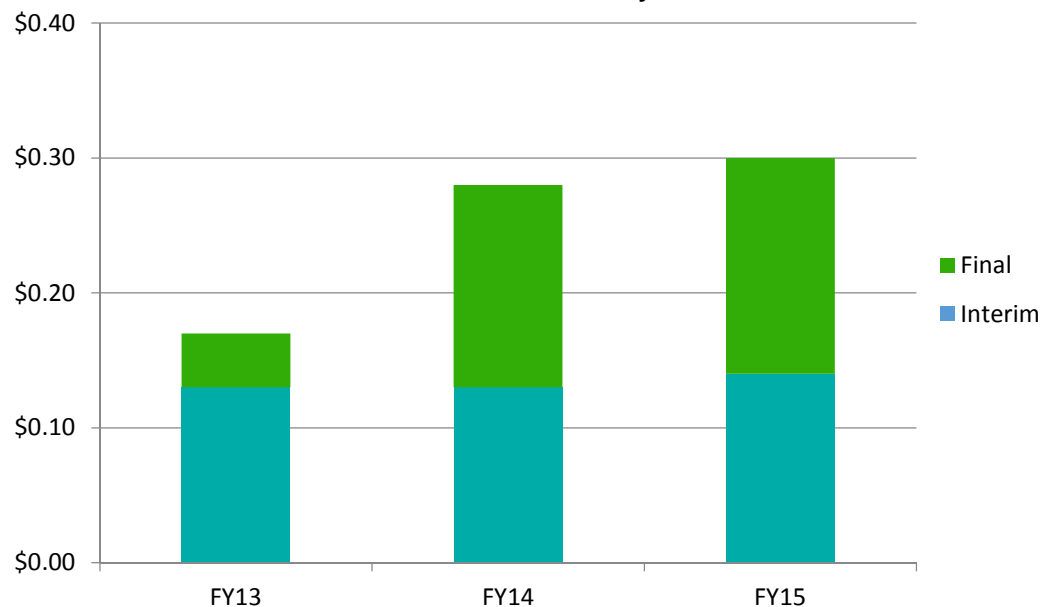


Note\*: Auswide Bank share price as at 9 March 2016 was \$4.84

The actual dividends paid for the FY2013, FY2014 and FY2015 financial years are shown in the following chart. Over this period, the interim dividend was paid in March of each year and the final dividend was paid in October of each year.

For the FY2015 financial year, Auswide Bank increased dividends to \$0.30 per share. Based on the volume weighted average Auswide Bank share price in FY2015, this represented a dividend yield of 5.6% (fully franked).

### Auswide Bank dividend history FY13 to FY15



The New Auswide Bank Shares that will be issued as part of the Scheme Consideration will be quoted and able to be traded on the ASX. They have a readily ascertainable market value and will from the time of issue, rank equally for dividends and other rights with existing Auswide Bank Shares.

Auswide Bank has a history of declaring dividends. Whilst there can be no certainty as to the declaration, amount and timing of dividends going forward, YCU Members who



retain their New Auswide Bank Shares will be able to receive the dividends that the Auswide Bank Board declares after the Implementation Date, which in the past have been fully-franked dividends.

YCU Members may also be able to access potential capital gains tax roll-over relief in relation to the shares component of the Scheme Consideration (refer to Section 11 (*Taxation Considerations*) and Attachment VIII).

For further information about the rights and obligations attaching to any New Auswide Bank Shares, please refer to Section 9.12 of this Scheme Booklet.

**e) YCU has limited prospects as a standalone entity**

If the Merger Proposal is not implemented, YCU will continue as an independent mutual entity.

The YCU Directors consider that future profits generated by an independent YCU will ultimately be insufficient to support the investment in the products, services and new technologies required to satisfy the banking needs of YCU Members and to concurrently meet the increasing costs of regulatory compliance.

After reviewing a number of strategic alternatives in recent years, the YCU Board assessed the Merger Proposal as realising real value for YCU's Members, without detracting from their banking experience.

The YCU Directors are unanimously agreed that the Merger Proposal is the best option for YCU Members as a whole, in the absence of a Superior Proposal.

**f) The YCU customer experience will be preserved and enhanced**

Importantly, Auswide Bank has a background in mutuality. This will result in compatible cultures in the Merged Entity and a shared commitment to the existing values of customer service and customer satisfaction. As such, the values, ethos, and excellence of service and financial products will be retained.

In addition:

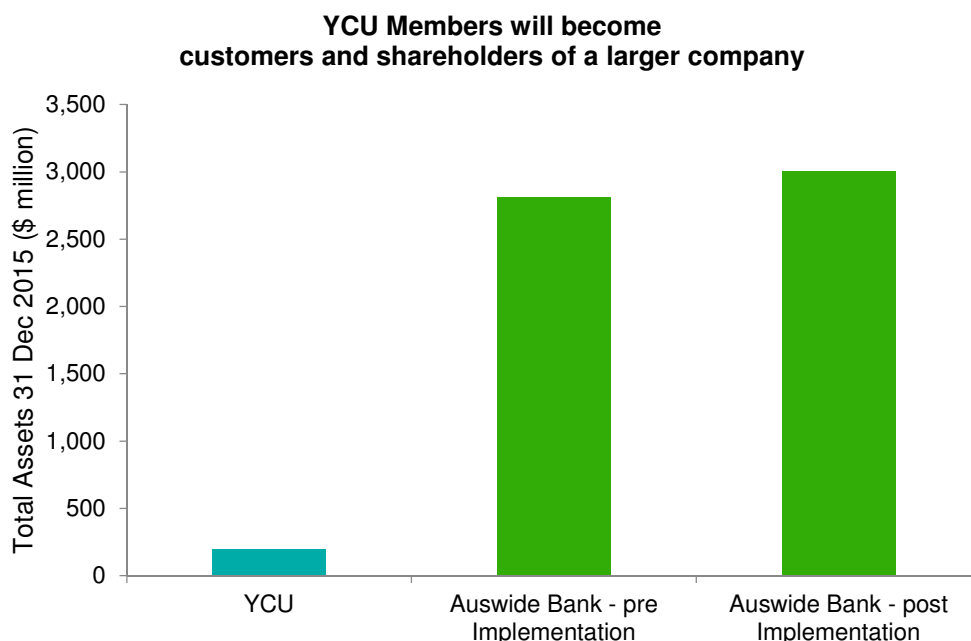
- the Merged Entity will be in a better position to offer additional products and services in the future;
- the Merger Proposal will give YCU Members access to a broader range of banking products and services as the Merged Entity transitions to an expanded distribution network;
- YCU Members will retain access to YCU staff, as, to the extent possible, Auswide Bank intends to retain YCU employees and the branch and services at 100 Eagle Street in Brisbane; and
- YCU Members will continue to receive competitive market rates on products. Price changes will continue to be managed in accordance with terms and conditions of existing loan agreements or accounts, in response to changes in the official interest rates by the Reserve Bank of Australia or changed market conditions or where negotiated directly with individual members. Auswide Bank currently intends to maintain the existing terms and conditions on YCU Members' products, but reserves its right to amend those terms and conditions, where permitted, if it considers it appropriate to do so after the implementation of the Merger Proposal.

Subject to the previous paragraph, the existing product suites that YCU Members have are likely to be merged with those of Auswide Bank over time to give customers of both organisations access to the most attractive and comprehensive product and service offering.

Please visit Auswide Bank's website at [www.auswidebank.com.au](http://www.auswidebank.com.au) for further information on Auswide Bank's extensive range of product and service offerings.

**g) YCU Members have the opportunity to become shareholders in the Merged Entity**

Approval of the Merger Proposal will provide eligible YCU Members with an opportunity to be both customers of, and shareholders in, a larger organisation with an extended branch network and geographical spread throughout Queensland. The increased scale and expanded customer base of Auswide Bank provides greater potential for other innovative products and services to be developed than with YCU's resources.



The profile of the Merged Entity is discussed further in Section 8.

## **2.3 Reasons why you may choose not to support the Merger Proposal**

In forming their unanimous recommendation in support of the Merger Proposal, the YCU Directors considered a number of possible disadvantages, potential risks and other issues associated with the Merger Proposal. These are summarised below and are described in more detail in Section 10 of this Scheme Booklet.

The YCU Directors believe that the expected advantages outweigh the possible disadvantages and risks of the Merger Proposal.

**a) You may disagree with the recommendation of the YCU Directors and the conclusions of the Independent Expert**

Some YCU Members simply may not agree with the reasons supporting the YCU Directors' unanimous recommendation of the Merger Proposal and the Independent Expert's opinion that the Merger Proposal is, subject to there being no Superior Proposal, in the best interests of YCU Members as a whole. YCU Members are not obliged to follow the YCU Directors' recommendation or to agree with the conclusions of the Independent Expert.

**b) You may believe YCU should remain a mutual credit union**

YCU is a mutual entity, which generally entails the operation of an organisation for the benefit of the members and the adherence to mutual values such as 'ownership' by its members and the retention and application of profits for the benefit of its members.

As Auswide Bank is not a mutual, you may be concerned that if the Merger Proposal is implemented, YCU will become more focussed on maximising profits and distributing

returns to shareholders than on providing services and other benefits to customers. Information about the Demutualisation is set out in Section 15.

**c) Membership rights in YCU surrendered for a shareholding in Auswide Bank**

Membership of YCU confers certain rights. These rights are summarised in the table in Section 15.6 of this Scheme Booklet. Included in these rights is that each YCU Member is currently entitled to vote equally alongside other YCU Members, irrespective of the length of membership or use of products and services. These rights will be surrendered upon the implementation of the Merger Proposal (that is, YCU Members will not retain any rights in relation to the control of YCU). However, eligible YCU Members (other than those who sell the New Auswide Bank Shares that they receive as part of the Scheme Consideration) will have an indirect interest in YCU through their shareholding in Auswide Bank, which will be the new holding company of YCU. The rights and obligations that attach to Auswide Bank Shares are summarised in Section 9.12 of this Scheme Booklet.

**d) Price of Auswide Bank shares may fluctuate following the implementation of the Merger Proposal**

There is no guarantee that the market price of Auswide Bank Shares will increase in the future. The market price of Auswide Bank Shares may fall due to the factors described in Section 10 or other factors.

**e) Auswide Bank is exposed to some risks that do not impact YCU as a standalone entity**

Auswide Bank's growth strategy may be unsuccessful or require higher than expected implementation costs which may have an adverse effect on its financial performance or operating margins. Auswide Bank is an ASX listed company. Being listed and maintaining a share register requires Auswide Bank to incur additional expense. These ongoing costs are not material, and the YCU Directors believe that the benefits of being listed outweigh the costs of operating a listed company.

**f) Future dividends**

If Scheme Participants continue to hold their New Auswide Bank Shares following the Implementation Date, they will be entitled to receive future dividends that may be declared by Auswide Bank after the Implementation Date. However, Scheme Participants should note that there can be no certainty as to the declaration, amount and timing of dividends in the future.

**g) Tax consequences**

If the Merger Proposal is implemented, it will potentially result in taxation implications for YCU Members. In particular, for many Australian resident YCU Members, a capital gain will crystallise when YCU Shares are exchanged for cash.

To the extent that some part of the capital proceeds is represented by the receipt of Auswide Bank Shares, post-CGT Australian-resident YCU Members will have the choice to elect to defer that part of the capital gain that is attributable to the receipt of the Auswide Bank Shares.

A general guide to the taxation considerations of the Merger Proposal is set out in Section 11 and Attachment VIII of this Scheme Booklet. This guide is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any YCU Member.

**h) Exposure to integration risks**

YCU Members (other than those who sell their New Auswide Bank Shares) will have direct exposure to the Merged Entity, which will be exposed to a number of risks which

are different to the risks currently faced by YCU. Integration risks are discussed in Section 10. There are also significant transaction costs associated with the Merger Proposal as a whole, some of which will be incurred after YCU Members vote on the Merger Proposal.

**i) YCU Members with their registered address overseas will not receive the ongoing benefits of ownership of Auswide Bank Shares**

YCU Members with their registered address overseas will not receive the ongoing benefits that attach to Auswide Bank Shares (referred to in paragraph 2.2(d)). This is because the Auswide Bank Shares that they receive will be automatically sold as set out in paragraph 4.6. They will, however, receive the benefit of the cash value of the Auswide Bank Shares once they are sold. Please refer to Section 12 of the Scheme Booklet for further information.

**j) A Superior Proposal could potentially emerge**

It is possible that a more attractive proposal for YCU could materialise in the future. However, since the announcement of the Merger Proposal on 22 December 2015 and up to the date of this Scheme Booklet, the YCU Board is not aware of any other bona fide proposal from a third party to acquire control of YCU. Also, as at the date of this Scheme Booklet, the YCU Board has no basis for believing that a Superior Proposal would emerge.

After reviewing a number of strategic alternatives from a qualitative and a quantitative perspective in recent years, the YCU Directors are unanimous, that a merger with Auswide Bank is in the best interests of YCU Members as a whole.

The Merger Implementation Agreement has the effect of placing limits on the possibility of a Superior Proposal emerging, as summarised in Section 14.7 of this document and set out in full in clauses 10 and 11 of the Merger Implementation Agreement.

The YCU Directors will inform YCU Members of any material developments in relation to any Superior Proposal that may emerge.

**k) Possibility of negative impact on the YCU business**

The implementation of the Merger Proposal could cause some YCU customers to exit because they prefer to bank with a credit union.

## **2.4 Other relevant considerations**

There are a range of other issues which the YCU Directors have considered in making their unanimous recommendation in favour of the Merger Proposal. These considerations, which YCU Members should take into account when deciding whether or not to vote in favour of the Merger Proposal, include (but are not limited to) the matters in this Section and those described in Section 10 (*Risk Factors*).

**a) Implications for failure to approve the Merger Proposal**

If the Merger Proposal is not approved:

- the existing YCU Constitution will not be altered;
- YCU Members will retain their YCU Shares and the rights of YCU Members will not change;
- the Merger Proposal will lapse and YCU Members will not receive the Scheme Consideration;
- the accounts of YCU customers (including loans and deposits) will continue with YCU on the same terms and conditions as are currently applicable;

- YCU's growth options will be limited by the inability to raise Tier 1 equity capital. In order to retain its mutuality YCU cannot give investor shareholders a return based on the profits of the credit union;
- YCU will have incurred significant transaction costs in pursuing the Merger Proposal (refer to Section 10.3 for further information), which will have a materially adverse impact on YCU's financial performance for the 12 months to 30 June 2016; and
- the ability of YCU to improve the range and quality of the products and services it provides to customers and the YCU Members will be constrained.

#### **b) Alternatives**

After reviewing a number of possible alternatives over the past few years, the YCU Board believes that now is the appropriate time to realise the value in YCU, whilst maintaining personalised banking services for YCU Members. The YCU Directors believe that this Merger Proposal is in the best interests of YCU Members as a whole, whereas other alternative options were not.

#### **c) The Merger Proposal may be implemented even if you vote against it**

YCU Members considering voting against the Merger Proposal should be aware that, if the Requisite Majorities of YCU Members approve the Resolutions, the Merger Proposal will, notwithstanding their vote against the Resolutions, be implemented and will apply to disapproving YCU Members and also YCU Members who did not vote (refer to Section 15 for further details on the Resolutions). Accordingly, the Merger Proposal may be implemented even if a YCU Member votes against the Resolutions, or does not vote at all, provided that all Resolutions are passed by the Requisite Majorities.

#### **d) Conditionality of the Scheme**

The Merger Proposal is subject to various Merger Conditions (see full details in Section 14 of this Scheme Booklet) and set out in full in clause 3 of the Merger Implementation Agreement, a copy of which forms Attachment II of this Scheme Booklet.

It is an 'all or nothing' proposal: if all of the Merger Conditions for the Merger Proposal are satisfied or waived (as applicable):

- the proposal will bind all YCU Members, including those who do not vote on the Resolutions and those who vote against them, meaning that all YCU Members will receive the Scheme Consideration; and
- YCU will be wholly owned and controlled by Auswide Bank.

Conversely, if any of the conditions and approvals for the Merger Proposal are not satisfied or waived (as applicable), the status quo will be preserved, meaning that YCU will remain a mutual and YCU Members will be unable to realise their investment in YCU by way of the Merger Proposal.

#### **e) Exclusivity arrangements**

In the Merger Implementation Agreement, YCU 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 YCU.

Further details about these arrangements are set out in Section 14.7 of this document and are also set out in full in clause 10 of the Merger Implementation Agreement.

**f) Reimbursement Amount**

In the Merger Implementation Agreement, YCU has agreed to pay the other party a Reimbursement Amount of \$750,000 in certain circumstances.

Auswide Bank has agreed to pay YCU the Reimbursement Amount in more limited circumstances.

Further details about the Reimbursement Amount and when it is payable by either party is set out in Section 14 of this Scheme Booklet and the relevant provisions are set out in full in clause 11 of the Merger Implementation Agreement.

**g) Ineligible Foreign Members**

Restrictions in foreign countries may make it impractical or unlawful for Auswide Bank to offer or issue New Auswide Bank Shares to some Foreign YCU Members (or for those persons to receive New Auswide Bank Shares) ("**Ineligible Foreign Members**"). Accordingly, YCU Members with their registered address overseas, will be deemed to be Ineligible Foreign Members and will not be able to receive New Auswide Bank Shares they would otherwise be entitled to as part of the Scheme Consideration under the Merger Proposal.

Instead, all of the New Auswide Bank Shares to which those Ineligible Foreign Members would otherwise have been entitled under the Merger Proposal will automatically be sold by the Broker on their behalf through the Share Sale Facility, with the sale proceeds remitted to them, free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax.

**h) YCU Members who are minors**

Under the YCU Constitution, YCU Members who are "minors" (being YCU Members under the age of 18 years) at the date of the Scheme Meeting and the Demutualisation Meeting are not entitled to vote, and accordingly any vote purported to be cast (by whatever means) by a YCU Member who is a minor will be disregarded.

Minors are entitled to the Scheme Consideration. If a minor wishes to sell their New Auswide Bank Shares, their parent or guardian will need to sign the Sell Form or make an election online in accordance with the instructions on the Sell Form.



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## 3. Task 2: How to Vote

### 3.1 Transaction process

There are two YCU Members' meetings, the Scheme Meeting and the Demutualisation Meeting. Each meeting will be held at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, 4000 on **Monday 18 April 2016**, commencing with the Scheme Meeting at **5.00pm (Brisbane time)**. The Demutualisation Meeting will commence at **5.30pm (Brisbane time)** or as soon as reasonably practicable after the Scheme Meeting concludes or is adjourned (whichever time is the later).

For the Merger Proposal to succeed, a Requisite Majority of YCU Members must vote in favour of the Resolutions, which are the:

- a) the Scheme Resolution; and
- b) the Constitutional Amendment Resolution.

#### a) The Scheme Resolution – Scheme Meeting

For the Merger Proposal to succeed, a Requisite Majority of YCU Members must approve the Scheme Resolution at the Scheme Meeting. A Requisite Majority consists of both:

- (i) a majority by number (more than 50%) of YCU Members, who are present and voting either in person or by proxy, attorney or, in the case of corporate YCU Members, by corporate representative at the Scheme Meeting; and
- (ii) at least 75% of the total number of votes cast on the resolution at the Scheme Meeting.

In general terms, all YCU Members have an equal holding of YCU Shares. Accordingly, this means that the Scheme Resolution must be approved by 75% of YCU Members that vote at the Scheme Meeting.

#### b) The Constitutional Amendment Resolution – Demutualisation Meeting

The Constitutional Amendment Resolution will be put to YCU Members at a Demutualisation Meeting of YCU Members that will be held immediately after the Scheme Meeting or at **5.30pm (Brisbane time) on Monday 18 April 2016**, whichever is the later.

The Demutualisation Meeting will consider and, if thought fit, pass the Constitutional Amendment Resolution to demutualise YCU. The demutualisation of YCU will allow YCU Members to transfer their YCU Shares to Auswide Bank.

The Constitutional Amendment Resolution requires a special resolution. In order to pass a special resolution, votes in favour must be received from at least 75% of YCU Members, who are present and voting either in person or by proxy, attorney or, in the case of corporate YCU Members, by the corporate representative at the Demutualisation Meeting.

The Constitutional Amendment Resolution will only take effect if the Scheme becomes Effective.

### 3.2 Your voting options

The following options are available to you as a YCU Member in relation to your YCU Share. YCU encourages you to consider your personal risk profile, investment portfolio strategy, tax position, financial circumstances and seek professional advice before making any decision in relation to your YCU Share.

<b>Vote in favour</b> of the Resolutions	<b>Your YCU Directors have unanimously recommended the Merger Proposal, in the absence of a Superior Proposal</b>
<b>Vote against</b> the Resolutions	<p>If, despite the YCU Directors' unanimous recommendation and the conclusion of the Independent Expert, you do not support the Merger Proposal, you may vote against the Resolutions at the Scheme Meeting and the Demutualisation Meeting.</p> <p>However, if all of the conditions and approvals for the Merger Proposal are satisfied or waived (as applicable), the Merger Proposal will bind all YCU Members, including those who vote against the Resolutions or those who do not vote at all if the Requisite Majorities are met.</p>
<b>Do nothing</b>	<p>YCU Members who do not elect to vote at the Scheme Meeting or the Demutualisation Meeting will:</p> <ul style="list-style-type: none"><li>• if the Merger Proposal is implemented– have their YCU Share transferred to Auswide Bank and, by operation of the Scheme, be issued \$4,055 cash and 696 Auswide Bank Shares in exchange for their YCU Share; and</li><li>• if the Merger Proposal is not implemented – retain their YCU Share.</li></ul>

### 3.3 How to vote

YCU Members (other than minors) who are registered on the YCU Register at 5pm on 15 April 2016 as holders of fully paid YCU Shares may vote at the Scheme Meeting and the Demutualisation Meeting.

YCU Members may vote at the Scheme Meeting and the Demutualisation Meeting:

- a) **In person** by attending the Scheme Meeting and the Demutualisation Meeting. If you wish to vote in person at the Scheme Meeting and the Demutualisation Meeting, please arrive at least 30 minutes prior to the time designated for the relevant meeting so that we may verify your YCU Share for voting and note your attendance. Please bring the uncompleted Proxy Forms to assist with registration.
- b) **By attorney** appointed to vote on your behalf. Those persons attending as an attorney must bring the original power of attorney, or certified copy, unless YCU has already noted it. The power of attorney must be returned in the same manner, and at the same time, as outlined for the proxy forms below.
- c) **By corporate representative** appointed to vote on behalf of a YCU Member that is a company. The appointment must comply with the requirements of section 250D of the Corporations Act. Those persons attending as a corporate representative must bring evidence of their authority, such as a letter or certificate evidencing their appointment.
- d) **By proxy:**
  - i. by lodging a proxy online by accessing the following website:  
<http://yourinterest.com.au/ycuawidemerger/> and following the instructions; or
  - ii. by mailing the enclosed proxy forms to the Returning Officer at GPO Box 1282, Melbourne, Victoria, 8060; or
  - iii. by faxing the enclosed proxy forms to the Returning Officer to 1800 783 447; or
  - iv. by hand delivering the enclosed proxy forms to YCU's registered office at Level 5, 100 Eagle Street, Brisbane.

To be valid, a proxy form must be received by 5pm (Brisbane time) on 16 April 2016. For further information on proxy voting, please refer to the detailed instructions contained in the enclosed proxy forms.

Voting at the Scheme Meeting and the Demutualisation Meeting will be conducted by way of a poll. You will have one vote for each YCU Share you hold (except for minors).

Details of the Resolutions to be voted on are contained in Sections 14 and 15, in the notices of meeting in Attachments V (*Notice of Scheme Meeting*) and VI (*Notice of Demutualisation Meeting*) and in the proxy forms for the meetings which accompany this Scheme Booklet.

If you are unable to attend the Scheme Meeting and the Demutualisation Meeting, or if you simply wish to vote by proxy, please **ACT NOW – complete and return the enclosed Proxy Forms**.

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## **4. Task 3: Whether to Keep New Auswide Bank Shares**

### **4.1 Implementation Date**

Should the Merger Proposal proceed, eligible YCU Members will receive \$4055 in cash and 696 Auswide Bank Shares on the Implementation Date, which is expected to be on or about 19 May 2016.

### **4.2 Options in relation to New Auswide Bank Shares**

YCU Members effectively have three options with respect to the New Auswide Bank Shares they receive:

- a) hold all or some of their New Auswide Bank Shares;
- b) elect to sell all their New Auswide Bank Shares through the Share Sale Facility; or
- c) sell some or all of their New Auswide Bank Shares on the ASX.

Each option is discussed below.

YCU encourages you to consider your personal risk profile, investment portfolio strategy, tax position, financial circumstances and seek professional advice before making any decision in relation to the New Auswide Bank Shares you receive.

### **4.3 Hold New Auswide Bank Shares**

The Auswide Bank Directors welcome YCU Members as new Auswide Bank Shareholders.

To assist YCU Members and their advisers assess Auswide Bank Shares, a comprehensive discussion has been provided in Section 7 by Auswide Bank about its:

- history;
- operations;
- people;
- financial performance;
- dividend policy and history; and
- share price performance.

In Section 8, Auswide Bank has disclosed its:

- rationale for the Merger Proposal;
- intentions for YCU; and
- proposed operating profile of the Merged Entity.

### **4.4 Sell on market**

Should YCU Members wish to sell some or all of their New Auswide Bank Shares, it is expected that the first day on which they will be able to do so is 23 May 2016, on a normal settlement basis. Holding statements are expected to be dispatched by 19 May 2016.

### **4.5 Share Sale Facility**

As an alternative to selling their New Auswide Bank Shares on the ASX, YCU Members may wish to use the Share Sale Facility. Under this Share Sale Facility, the Broker will aggregate all New Auswide Bank Shares for which Sell Forms are received from YCU Members and the New Auswide Bank Shares that would otherwise have been issued to Ineligible Foreign Members (see below) and then dispose of them in an orderly fashion.

Share Sale Facility Participants would then receive their share of the average gross proceeds achieved by the Broker with all brokerage and stamp duty costs being paid by Auswide Bank. A Sell Form is enclosed with this Scheme Booklet.

The Sell Form must be returned to Computershare by 5.00pm on 23 May 2016.

The Share Sale Facility is described in more detail in Section 12 and Attachment VII of this Scheme Booklet.

You should refer to Section 11 and Attachment VIII for the taxation considerations.

#### **4.6 Ineligible Foreign Members**

Restrictions in foreign countries may make it impractical or unlawful for Auswide Bank to offer or issue New Auswide Bank Shares to some Foreign YCU Members (or for those persons to receive New Auswide Bank Shares).

Accordingly, Scheme Participants with their registered address overseas, will be deemed to be Ineligible Foreign Members and will not be able to receive New Auswide Bank Shares they would otherwise be entitled to receive as part of the Scheme Consideration under the Merger Proposal, unless Auswide Bank determines (in consultation with YCU) that:

- (i) it is lawful and not unduly onerous or unduly impracticable to issue that YCU Member with New Auswide Bank Shares on implementation of the Scheme; and
- (ii) it is lawful for that YCU Member to participate in the Scheme by the law of the relevant place outside Australia and its external territories..

Instead, all of the New Auswide Bank Shares to which those Ineligible Foreign Members would otherwise have been entitled to receive in accordance with the Scheme Consideration, will automatically be sold by the Broker on their behalf through the Share Sale Facility, with the sale proceeds remitted to them, free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax.

## 5. Frequently Asked Questions

This Scheme Booklet contains detailed information regarding the Merger Proposal. This Section provides summary answers to some questions you may have, drawing from more detailed Sections in the Scheme Booklet.

### 5.1 The Merger Proposal

<b>Question</b>	<b>Answer</b>
<i>What is the Merger Proposal?</i>	Two companies, YCU and Auswide Bank, are proposing to merge such that YCU will become 100% owned by Auswide Bank and YCU Members will become customers and shareholders of Auswide Bank.
<i>Why does the Merger Proposal affect me?</i>	As a YCU Member, you own a YCU Share and jointly own YCU with all other YCU Members. As owners of YCU, the Merger Proposal cannot proceed by law, without the approval of the Requisite Majority of YCU Members.
<i>What are the benefits of the Merger Proposal to me?</i>	Should the Merger Proposal be implemented, you will receive the Scheme Consideration of \$4055 in cash and 696 Auswide Bank Shares, provided you are not an Ineligible Foreign Member whose share allocation will be sold. Based on Auswide Bank's share price of \$4.84 on 9 March 2016, the 696 Auswide Bank Shares are worth \$3369 and the total value of the Scheme Consideration is \$7424.  In addition, you have the opportunity to be a customer and shareholder of the Merged Entity which will be significantly larger and better resourced than YCU.
<i>Why does YCU want to merge with Auswide Bank?</i>	Auswide Bank has approached YCU with what the YCU Board considers to be a compelling offer that YCU Members need to consider for a number of reasons including: <ul style="list-style-type: none"> <li>the offer is substantial enough to warrant attention as the financial benefit to existing YCU Members is significant;</li> <li>there is a strong cultural fit with Auswide Bank also coming from a strong customer service history and background of mutuality; and</li> <li>the new Merged Entity will give even greater scale and the ability to provide leading products and services.</li> </ul>
<i>If YCU is so strong why are we considering changing?</i>	YCU's Directors believe that Auswide Bank has presented a compelling offer to YCU Members and that YCU Members should have the right to vote on their own future. There are synergies between the two organisations and with Auswide Bank's mutual background there is the opportunity to protect and enhance YCU's value base and customer service ethos.  This is consistent with what members generally told YCU in the YCU Member survey held in 2015, when almost 400 members responded and a large proportion of respondents endorsed the credit union pursuing changed and alternative ways to provide enhanced value to YCU Members.
<i>Under what scenarios can YCU or Auswide Bank terminate the Merger Proposal?</i>	Amongst other reasons, the Merger Implementation Agreement may be terminated: <ul style="list-style-type: none"> <li>(a) by either party if the Scheme has not become Effective on or before the End Date (30 June 2016);</li> <li>(b) by either party if the Demutualisation or the Scheme are not approved by YCU Members by the Requisite Majorities; or</li> <li>(c) by either party if the Independent Expert opines that the Scheme or Demutualisation is not in the best interests of YCU Members as a whole or that the Scheme or Demutualisation is not fair or not reasonable.</li> </ul>

## 5.2 Whether to support the Merger Proposal

<b>Question</b>	<b>Answer</b>
<i>What do the YCU Directors recommend?</i>	The YCU Directors unanimously consider that the Merger Proposal is in the best interests of YCU Members as a whole and recommend that you vote in favour of the Merger Proposals at the Scheme Meeting and the Demutualisation Meeting, in the absence of a Superior Proposal.
<i>What is an Independent Expert and what do they say?</i>	<p>The YCU Directors appointed an independent firm to give an expert opinion on whether the Merger Proposal is in the best interests of YCU Members as a whole. Loneragan Edwards &amp; Associates was appointed to be the Independent Expert.</p> <p>The Independent Expert has concluded that in its opinion, the Merger Proposal is fair and reasonable and is therefore in the best interests of YCU Members as a whole, in the absence of a Superior Proposal.</p>
<i>What are the prospects of receiving a Superior Proposal?</i>	Since the Merger Proposal was announced, no Superior Proposal has emerged. Given the time that has elapsed since the Merger Proposal was originally announced on 22 December 2015, the YCU Directors' view is that a Superior Proposal is unlikely to emerge.
<i>What happens if a Superior Proposal emerges?</i>	If a Superior Proposal is received, the YCU Directors will carefully consider the proposal from a qualitative and quantitative perspective and decide whether they need to change their unanimous recommendation of the Merger Proposal.
<i>Why has the YCU Board recommended the Merger Proposal?</i>	The YCU Directors consider the merger with Auswide Bank to be an outstanding opportunity for YCU Members. Apart from the compelling financial consideration, YCU Members will continue to enjoy YCU standards of customer service whilst obtaining immediate access to a broader range of products and services via an expanded branch network. After reviewing a number of possible alternatives over the past few years, the YCU Board believes now is the appropriate time to take steps to grow YCU, whilst maintaining personalised banking services for the YCU Members.
<i>How do the YCU Directors intend to vote?</i>	Each YCU Director intends to vote in favour of the Scheme Resolution at the Scheme Meeting in the absence of a Superior Proposal and in favour of the Constitutional Amendment Resolution at the Demutualisation Meeting.
<i>What are the reasons to vote in favour of the Merger Proposal?</i>	The reasons to vote in favour of the Merger Proposal are set out in Section 2.2 of this Scheme Booklet
<i>What are the possible reasons not to vote in favour of the Merger Proposal?</i>	The possible reasons not to vote in favour of the Merger Proposal are set out in Section 2.3 of this Scheme Booklet.
<i>What are the risks of the Merger Proposal and of acquiring New Auswide Bank Shares?</i>	<p>Eligible YCU Members will receive New Auswide Bank Shares as part of their Scheme Consideration.</p> <p>The financial performance and operations of Auswide Bank's business, the value of Auswide Bank Shares and the amount and timing of any dividends that Auswide Bank pays (if any) will be influenced by a range of factors. Many of these factors will remain beyond the control of Auswide Bank.</p> <p>Please refer to Section 10 of this Scheme Booklet for further information regarding the risk factors of the Merger Proposal.</p>
<i>What other factors should I consider in deciding whether or not to vote in favour of the Merger Proposal?</i>	Some other relevant considerations that you may wish to take into account in deciding whether or not to vote in favour of the Merger Proposal are set out in Section 2.4.
<i>What should I do?</i>	<p>Your YCU Directors recommend that you:</p> <ol style="list-style-type: none"> <li>1. read this Scheme Booklet carefully in its entirety;</li> <li>2. seek professional advice, if required;</li> <li>3. decide whether you want to support the Merger Proposal;</li> </ol>

	<p>4. vote in person or by proxy at the meetings of YCU Members; and</p> <p>5. decide whether you wish to retain the New Auswide Bank Shares that will be issued to you.</p>
<i>What if I have further questions about the Merger Proposal?</i>	If you have any further questions about the Merger Proposal please do not hesitate to consult your legal, financial or other professional adviser or call the YCU Information Line on 07 3020 5423 between 9.00am and 5.00pm (Brisbane time) Monday to Friday or email <a href="mailto:contact@ycu.com.au">contact@ycu.com.au</a> .

### 5.3 The Merger Proposal mechanism

<b>Question</b>	<b>Answer</b>
<i>What is required from YCU Members for the Merger Proposal to succeed?</i>	<p>The Merger Proposal will only succeed if Requisite Majorities of YCU Members vote in favour of both the:</p> <ol style="list-style-type: none"> <li>1. Scheme Resolution at the Scheme Meeting; and</li> <li>2. Constitutional Amendment Resolution at the Demutualisation Meeting.</li> </ol>
<i>What is a Scheme of Arrangement?</i>	<p>A Scheme of Arrangement is a statutory procedure that is used to enable one company to acquire another company. It requires a vote in favour of the Scheme by a Requisite Majority of YCU Members at a meeting of YCU Members and also requires Court approval.</p> <p>Once Court approval is obtained and the orders of the Court have been lodged with ASIC, the Scheme becomes Effective.</p>
<i>What is a Demutualisation?</i>	Demutualisation occurs when a mutual company ceases to be a mutual – for example, as in this transaction, as a result of a modification to the company's constitution which amongst other things, permits members to transfer their shares.
<i>When and where will the Scheme Meeting and the Demutualisation Meeting be held?</i>	<p>The Scheme Meeting, will be held at <b>5.00pm (Brisbane time) on Monday 18 April 2016</b> at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, 4000.</p> <p>The Demutualisation Meeting will be held at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, 4000 immediately after the Scheme Meeting or at <b>5.30pm (Brisbane time) on Monday 18 April 2016</b>, whichever is the later.</p>
<i>Why are there two meetings?</i>	<p>The Scheme Meeting will be held first. The Scheme Meeting is a meeting that has been ordered to be convened by the Court for the purposes of YCU Members considering and voting on the Scheme.</p> <p>The Demutualisation Meeting will be held after the Scheme Meeting. It is a meeting of YCU Members to vote on amendments to the YCU Constitution that will enable the merger with Auswide Bank to occur. The Merger Proposal cannot be implemented without YCU being demutualised.</p>
<i>What are the conditions of the Merger Proposal?</i>	There are a number of Merger Conditions set out in the Merger Implementation Agreement that still need to be satisfied or waived before the Merger Proposal can become Effective. Please refer to Section 14 for a full description of the conditions of the Merger Proposal.
<i>What happens if the Scheme Resolution and the Constitutional Amendment Resolution are not approved at the Scheme Meeting and the Demutualisation Meeting, respectively, or if they are approved by YCU Members but the Scheme is not approved by the Court?</i>	<p>If the Scheme Resolution and the Constitutional Amendment Resolution are not approved by a Requisite Majority of YCU Members at the Scheme Meeting and the Demutualisation Meeting or they are approved by YCU Members but the Scheme is not approved by the Court:</p> <ol style="list-style-type: none"> <li>a) YCU will continue to operate as a standalone entity and will remain a mutual;</li> <li>b) you will retain your YCU Shares; and</li> <li>c) you will not receive the Scheme Consideration.</li> </ol> <p>Before the Scheme Meeting and the Demutualisation Meeting, YCU estimates that it will have incurred or committed transaction costs of approximately \$650,000 in relation to the Merger Proposal. Those costs will be payable by YCU regardless of whether or not the Scheme becomes Effective.</p> <p>If the Merger Proposal does not proceed, YCU has agreed to pay to</p>



	<p>Auswide Bank the Reimbursement Amount if certain situations occur.</p> <p>Auswide Bank has agreed to pay YCU the Reimbursement Amount in more limited circumstances.</p> <p>Please refer to Section 14 for further information on the Reimbursement Amount.</p>
<i>Is the demutualisation of YCU conditional on anything?</i>	<p>Yes. The Demutualisation of YCU is conditional on the Scheme becoming Effective. If the Constitutional Amendment Resolution is approved by the Requisite Majority of YCU Members, but the Scheme does not become Effective, the demutualisation of YCU will not occur and the YCU constitution will not be amended.</p>
<i>Are any other approvals required?</i>	<p>If the Scheme Resolution is approved at the Scheme Meeting and the Constitutional Amendment Resolution is passed at the Demutualisation Meeting, YCU will apply to the Court for approval of the Scheme. The Second Court hearing is expected to be held on 3 May 2016 (although this may change).</p> <p>Implementation of the Merger Proposal is subject to certain regulatory approvals.</p>
<i>Do I need to do or sign anything to transfer my YCU Shares?</i>	<p>No. If the Scheme becomes Effective, YCU will automatically have authority to sign a transfer document on behalf of Scheme Participants, who will then be paid as set out above.</p> <p>You should be aware that, if you are a Scheme Participant, you will be deemed to have warranted to YCU, and authorised YCU to warrant to Auswide Bank on your behalf, that:</p> <ul style="list-style-type: none"> <li>(a) to the extent permitted by law, all of your YCU Shares are fully paid and free from all encumbrances; and</li> <li>(b) you have full power and capacity to transfer your YCU Shares to Auswide Bank.</li> </ul>

## 5.4 Voting

<b>Question</b>	<b>Answer</b>
<i>Why has the YCU Board left it to the YCU Members to decide on the Merger Proposal?</i>	<p>YCU is a member owned institution with 4,094 members.</p> <p>Auswide Bank has presented a compelling case, but now members have their chance to make the decision on whether the Merger Proposal should proceed by voting on the Scheme and the Demutualisation that will give effect the Merger Proposal.</p> <p>For the Merger Proposal to proceed, as each YCU Member only has one vote, more than 75% of the YCU Members who vote in person at the meeting or by proxy need to vote yes to allow the Merger Proposal to proceed.</p>
<i>Am I entitled to vote at the Scheme Meeting and the Demutualisation Meeting?</i>	<p>If you are registered as a YCU Member on the YCU Register at 5pm on 15 April 2016, you will be entitled to vote at the Scheme Meeting and the Demutualisation Meeting, unless you are a minor as at that date.</p> <p>Any person who became a customer of YCU after 5.00pm (Brisbane time) on 21 December 2015 will not be entitled to vote.</p> <p>YCU Members whose YCU Share was redeemed because their account with YCU was closed prior to 5.00pm (Brisbane time) on 21 December 2015 by reason of being dormant or overdrawn, are not eligible to vote in relation to the Merger Proposal.</p>
<i>Should I vote?</i>	<p>Yes. Although voting is not compulsory, YCU Members are encouraged to vote as this is an important matter. The YCU Directors believe that the Merger Proposal is important to YCU Members and unanimously recommend that you vote in favour of the Merger Proposal at the Scheme Meeting and the Demutualisation Meeting, in the absence of a Superior Proposal.</p>
<i>What vote is required to</i>	<p>For the Merger Proposal to proceed, there are two YCU Member approvals</p>

<i>approve the Scheme?</i>	<p>required:</p> <ol style="list-style-type: none"> <li>1. votes "in favour of" the Scheme Resolution to approve the Scheme at the Scheme Meeting must be received from a Requisite Majority of YCU Members; and</li> <li>2. the Constitutional Amendment Resolution must be approved as a special resolution, being at least 75% of the votes cast by YCU Members that vote at the Demutualisation Meeting.</li> </ol> <p>The vote on the Constitutional Amendment Resolution will only take place if the Scheme Resolution is approved by a Requisite Majority of YCU Members.</p>
<i>How do I vote?</i>	<p>You may vote in person by attending the Scheme Meeting and the Demutualisation Meeting. Alternatively, you may vote by completing and lodging the proxy forms that are enclosed with this Scheme Booklet.</p> <p>You can also vote by appointing a body corporate representative (if you are a body corporate) or an attorney.</p>
<i>What happens if I do not vote, or I vote against the Scheme?</i>	<p>If you do not vote or you vote against the Resolutions, and the Merger Proposal is not approved, you will not receive the Scheme Consideration and you will remain a YCU Member.</p> <p>If you do not vote or you vote against the Resolutions, and the Merger Proposal is implemented, your YCU Shares will be transferred to Auswide Bank and you will receive the Scheme Consideration for the YCU Share that you hold on the Record Date.</p>
<i>When will the result of the Scheme Meeting and the Demutualisation Meeting be known?</i>	<p>The results of the Scheme Meeting and the Demutualisation Meeting will be available shortly after the conclusion of the Scheme Meeting and the Demutualisation Meeting. Even if the resolutions at the Scheme Meeting and the Demutualisation Meeting are passed, the Scheme is subject to the approval of the Court and the satisfaction or waiver of the Merger Conditions.</p>
<i>What are my options?</i>	<p>As a YCU Member, your options are to:</p> <ul style="list-style-type: none"> <li>• vote in favour of the Merger Proposal at the Scheme Meeting and Demutualisation Meeting;</li> <li>• vote against the Merger Proposal at the Scheme Meeting and the Demutualisation Meeting; or</li> <li>• do nothing; i.e. neither vote in favour of or against the Merger Proposal at the Scheme Meeting and the Demutualisation Meeting.</li> </ul>
<i>What if I want to make a formal objection?</i>	<p>If you wish to object to the Merger Proposal at the Court hearing for the approval of the Scheme, or to make a complaint to ASIC about the Merger Proposal, you should seek legal advice and note that the Second Court hearing for the approval of the Scheme is scheduled for 3 May 2016.</p>

## 5.5 Eligibility to vote and participation in the Scheme Consideration

<b>Question</b>	<b>Answer</b>
<i>Why have you closed YCU's membership register?</i>	<p>With the announcement of our intentions, we believe it is the loyal, long standing members of YCU that deserve to benefit from the Merger Proposal. Accordingly, from 5.00pm (Brisbane time) on Monday 21 December 2015, YCU did not accept any new YCU Members. By closing the membership to new YCU Members, YCU protected existing members' rights. As the admission of new YCU Members would have diluted the potential benefit to existing members, the decision was made to protect current YCU Members' rights.</p> <p>Existing YCU Members can continue to open new accounts. Any new customers, whilst they can open accounts, will not be offered YCU Shares and therefore are not be able to take part in the Merger Proposal.</p>
<i>I currently have an account with YCU but do not own</i>	<p>No, only YCU members holding YCU Shares will be eligible to participate</p>

<i>any YCU Shares. Can I participate in the Scheme?</i>	in the Scheme.
<i>Besides being a member in my own name, I also hold a joint membership and am a trustee for an unincorporated association. How many votes can I make and is each YCU Share eligible to receive the Scheme Consideration?</i>	<p>The YCU Constitution provides that, except for YCU Members who are minors, each YCU Member shall have only one (1) vote, except if that person has been appointed as the trustee for the unincorporated association, family trust or incorporated body, in which case he or she may have one vote as an individual YCU Member and one vote in that other capacity.</p> <p>The Scheme Consideration is payable for each YCU Share.</p>
<i>YCU closed my membership down recently because my account was dormant. I did not authorise this so I wish to have my membership reinstated.</i>	Your YCU membership was closed as part of YCU's annual dormancy process, and not in an effort to exclude you from the Merger Proposal. At the time the membership was closed, you had the right to reopen your membership if you wished, but you did not do so. The YCU Constitution does not give YCU the right to reinstate your membership if you do not make a request within the required time.

## 5.6 Taxation

<b>Question</b>	<b>Answer</b>
<i>What are the tax consequences of the Scheme?</i>	<p><b>Section 11 (<i>Taxation Considerations</i>) and Attachment VIII provide a general outline of the Australian income tax and capital gains tax consequences for Scheme Participants who dispose of their YCU Shares in accordance with the Merger Proposal.</b></p> <p><b>YCU members should obtain their own taxation advice having regard to their individual circumstances, including if they wish to sell any New Auswide Bank Shares they might receive if the Scheme becomes Effective.</b></p> <p><b>You should consult with your own tax adviser regarding the tax consequences of disposing of your YCU Shares in accordance with the Merger Proposal in light of current tax laws and your particular investment circumstances.</b></p>
<i>Will YCU Members be entitled to scrip-for scrip capital gains tax roll-over relief as part of the transaction?</i>	Based on the summary of taxation considerations included in Section 11 of this Scheme Booklet and in Attachment VIII, to the extent that some part of the capital proceeds is represented by the receipt of New Auswide Bank Shares, Australian-resident post-CGT YCU Members will have the choice to elect to defer that part of the capital gain that is attributable to the receipt of the New Auswide Bank Shares.

## 5.7 Scheme Consideration

<b>Question</b>	<b>Answer</b>
<i>Am I entitled to receive the Scheme Consideration?</i>	If you are registered as a YCU Member at the Record Date (expected to be 11 May 2016), you will be a Scheme Participant for the purposes of the Merger Proposal and entitled to receive the Scheme Consideration if the Merger Proposal is implemented.
<i>What will I receive if the Scheme becomes Effective?</i>	<p>If the Merger Proposal is implemented you will receive 696 Auswide Bank Shares and \$4055 cash for every YCU Share you hold on the Record Date, provided you are not an Ineligible Foreign Member.</p> <p>If you are an Ineligible Foreign Member, the Auswide Bank Shares that you are entitled to receive as a YCU Member will be sold by a Broker under the Share Sale Facility and the net proceeds remitted to you. See Section 12 and Attachment VII of the Scheme Booklet for further details.</p>
<i>When will I receive the Scheme Consideration?</i>	<p>You will receive your Scheme Consideration on the Implementation Date. A holding statement in respect of your New Auswide Bank Shares will be despatched to you on or about 19 May 2016.</p> <p>On the current indicative timetable, this means that the cash component of</p>

	<p>the Scheme Consideration will be deposited to your YCU account or sent to you on or about 19 May 2016.</p> <p>If the Scheme Resolution is not approved at the Scheme Meeting and by the Court, or the Constitutional Amendment Resolution is not approved at the Demutualisation Meeting, the Scheme Consideration will not be paid.</p>
<i>What happens if the Auswide Bank share price increases or decreases?</i>	<p>The number of Auswide Bank Shares you will be issued will not change due to movement in the market price of Auswide Bank Shares. However, what will change is the market value of your Auswide Bank Shares depending on the upward or downward movement in the market price of Auswide Bank Shares on ASX.</p>
<i>Will I have to pay brokerage fees or stamp duty in respect of the Scheme Consideration?</i>	<p>No brokerage or stamp duty will be payable by YCU Members on the transfer of their YCU Shares to Auswide Bank under the Merger Proposal, or on the issue of the New Auswide Bank Shares by Auswide Bank to YCU Members as part of the Scheme Consideration.</p>
<i>What is the Share Sale Facility?</i>	<p>The Share Sale Facility will be used to sell:</p> <ul style="list-style-type: none"> <li>▪ New Auswide Bank Shares that would otherwise have been received by Ineligible Foreign Members; and</li> <li>▪ New Auswide Bank Shares that YCU Members have elected to sell through the Share Sale Facility by completing the Sell Form.</li> </ul>
<i>How do I participate in the Share Sale Facility?</i>	<p>To participate in the Share Sale Facility, you must complete and return the enclosed Sell Form.</p>
<i>What if I am a Foreign YCU Member?</i>	<p>YCU Members with a registered address in any jurisdiction other than Australia, including its external territories, may not be eligible to receive New Auswide Bank Shares that would otherwise form part of the Scheme Consideration.</p> <p>Instead, New Auswide Bank Shares which would otherwise be issued to Ineligible Foreign Members will be issued to the Broker, who will use its best endeavours to sell those New Auswide Bank Shares and return the proceeds of their sale in cash to the Ineligible Foreign Members.</p>
<i>How will joint YCU Members be paid for their YCU Shares?</i>	<p>In the case of joint holders of YCU Members, the New Auswide Bank Shares and cash making up the Scheme Consideration will be issued in the names of both those joint holders.</p>
<i>What if I do not want New Auswide Bank Shares?</i>	<p>If you do not want to receive New Auswide Bank Shares as part of your Scheme Consideration, you may elect to sell all of your New Auswide Bank Shares under the Share Sale Facility and be paid gross cash sale proceeds instead.</p>
<i>When will I be entitled to receive dividends (if any) on my Auswide Bank Shares?</i>	<p>Auswide Bank declared a fully franked interim dividend in February 2016. New Auswide Bank Shares issued to YCU Members as part of the Scheme Consideration under the Merger Proposal will not carry the right to receive this dividend nor the benefit of any attached franking credits.</p> <p>If Scheme Participants continue to hold New Auswide Bank Shares following the Implementation Date, they will be entitled to receive future dividends that may be declared by Auswide Bank after the Implementation Date. However, Scheme Participants should note that there can be no certainty as to the declaration, amount and timing of dividends in the future.</p>
<i>When will I be able to trade the New Auswide Bank shares on ASX?</i>	<p>Auswide Bank shares currently trade on ASX (ASX:ABA), and the New Auswide Bank Shares will trade on ASX if the Merger Proposal is implemented. It is expected that you will be able to trade the New Auswide Bank Shares on a normal settlement basis commencing on 23 May 2016.</p>

## 5.8 Auswide Bank

<b>Question</b>	<b>Answer</b>
<i>Who is Auswide Bank?</i>	Headquartered in Bundaberg in Central Queensland, Auswide Bank has been providing banking and other financial services to its clients since 1966.  Auswide Bank, formerly Wide Bay Australia, became Australia's tenth and Queensland's third Australian owned bank, listed and trading on the ASX, on April 1, 2015. (ASX: ABA) As at the close of 9 March 2016, it had a market capitalisation of \$179.8 million.
<i>What products does Auswide Bank offer?</i>	Auswide Bank offers Australians an extensive range of personal and business banking products and services issued directly or in partnership with leading service providers.
<i>How does Auswide Bank rate for customer value?</i>	Auswide Bank strives to offer competitive and fully featured products and retains its customer-centric heritage.  The bank won a 5 Star Home Loan rating from Canstar Cannex in 2015 for outstanding home loan value and features. Auswide Bank home loans include unique features such as 100% offset and redraw (even on fixed rates).  Prior to becoming a bank in 2015, Auswide Bank was awarded in both 2013 and 2014, the Mozo People's Choice for 'Best Building Society' in Australia, an award rated by the public reflecting value and service.
<i>Where does Auswide Bank operate?</i>	Auswide Bank products are delivered across Australia via its Queensland branch network, a Queensland-based contact centre, through strategic relationships and online and digital channels.
<i>How safe is Auswide Bank?</i>	Auswide Bank is an ADI prudentially supervised by APRA, and just like YCU, the Australian Government guarantees Auswide Bank customer deposits under the Financial Claims Scheme (within the limits of that scheme.)  Auswide Bank is well capitalised compared to its peers and is performing strongly under competitive market conditions.
<i>Can I acquire Auswide Bank shares?</i>	Auswide Bank is listed on the ASX (ASX:ABA). YCU makes no recommendation as to whether you should purchase shares in Auswide Bank. You should seek independent financial and taxation advice before making any investment decision.
<i>Are there limits on shareholders in Auswide Bank?</i>	Yes. Under the FSSA, the approval of the Commonwealth Treasurer is required for the purchase of a stake of more than 15% in Auswide Bank.
<i>Where can I find out more about Auswide Bank shares and the company's financial performance?</i>	Auswide Bank shares trade on the ASX under the ASX Code: ABA.  Auswide Bank's corporate website <a href="http://www.auswidebankltd.com.au">www.auswidebankltd.com.au</a> includes information for investors about the bank's financial performance such as ASX Announcements, annual reports and dividend history. A number of stockbroking firms also issue research on Auswide Bank.

## 5.9 The Merged Entity

<b>Question</b>	<b>Answer</b>
<i>What will be the strategy of the Merged Entity?</i>	If the Merger Proposal is implemented, YCU will become a wholly owned subsidiary of Auswide Bank.  Auswide Bank's intentions, should the Merger Proposal be implemented, will include: <ul style="list-style-type: none"> <li>the re-branding of the YCU branch and products to reflect Auswide Bank's ownership of YCU;</li> <li>replacing the YCU Board with Auswide Bank nominees;</li> </ul>

	<ul style="list-style-type: none"> <li>retaining the YCU branch, however, where duplication occurs, Auswide Bank intends to consolidate YCU's head office functions into Auswide Bank's head office;</li> <li>merging the product suites of Auswide Bank and YCU over time; and</li> <li>retaining YCU employees where economically efficient to do so.</li> </ul>
<i>What will the Merged Entity be called?</i>	The Merged Entity will operate under the name of Auswide Bank.
<i>Who will be the Chairman of the Merged Entity?</i>	John Humphrey, the current Chairman of Auswide Bank, will continue as Chairman of the Merged Entity.
<i>Who will be on the Merged Entity's Board?</i>	It is intended that the Merged Entity's Board will comprise the existing Auswide Bank Directors.
<i>Who will be the Managing Director of the Merged Entity?</i>	The Merged Entity's executive team will continue to be led by the current Managing Director of Auswide Bank, Martin Barrett.
<i>Will the interest rate on my savings and loan remain the same?</i>	<p>YCU Members will continue to receive competitive market rates on products. Price changes will continue to be managed in accordance with the terms and conditions of existing loan agreements or accounts, in response to changes in the official interest rates by the Reserve Bank of Australia or changed market conditions or where negotiated directly with individual members. Auswide Bank currently intends to maintain the existing terms and conditions on YCU Members' products, but reserves its right to amend those terms and conditions, where permitted, if it considers it appropriate to do so after the implementation of the Merger Proposal.</p> <p>Subject to the previous paragraph, the existing product suites that YCU Members have are likely to be merged with those of Auswide Bank over time to give customers of both organisations access to the most attractive and comprehensive product and service offering.</p>
<i>What will the dividend policy of the Merged Entity be?</i>	The Merged Entity's Board will review the amount (if any) of any future dividends to be paid to shareholders from time to time, having regard to the company's profits, the Merged Entity's financial position and the Merged Entity Board's assessment of the capital required to grow the Merged Entity's businesses.
<i>Are there expected to be any interim redundancies as a result of the Merger Proposal? Will the YCU staff lose their jobs?</i>	YCU Members will retain access to the familiar faces of the YCU staff that YCU Members currently know. Wherever possible, Auswide Bank intends to retain YCU employees and YCU's branch and services at 100 Eagle Street in Brisbane.
<i>What are the risks of the Merger Proposal?</i>	<p>The value of the New Auswide Bank Shares component of the Scheme Consideration will be affected by a number of factors including the financial performance of the Merged Entity.</p> <p>There are various risk factors which may affect the performance of the Merged Entity and the value of the New Auswide Bank Shares. These include general risk factors such as changes in economic conditions or government policy and specific risks including those business risks associated with the Merged Entity, risks referable to holding Auswide Bank Shares and integration risks relating to the Merger Proposal. The key risks are discussed in Section 10 of this Scheme Booklet.</p>
<i>Immediately following Implementation of the Merger Proposal, how much of the Merged Entity will YCU Members own?</i>	If the Merger Proposal is implemented, YCU Members will own approximately 7.13% of the Merged Entity.

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## **B. MERGER DETAILS**

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## 6. Information about YCU

### 6.1 Introduction

YCU – Your Credit Union (YCU) is a mutual financial institution based in Queensland operating out of one branch and head office at 100 Eagle Street in Brisbane. YCU has approximately \$27 million in YCU Members' funds and total assets of about \$195 million as at 31 December 2015. YCU is incorporated under the Banking Act, is an unlisted public company to which the Corporations Act applies and has an Australian Financial Services Licence and an Australian Credit Licence. As an ADI, its operations are overseen by APRA. YCU offers a range of financial products to over 4,000 YCU Members and is known for providing quality personal service. YCU has no subsidiary companies.

### 6.2 History and Ownership

YCU was established in 1967 as Professional Officers' (Qld) Credit Union Ltd and then later changed its name to Queensland Professional Credit Union Ltd. YCU – Your Credit Union is the credit union's trading name. Whilst having an initial bond of the then Professional Officers' (Qld) Association it has been providing personal financial and banking services to Queensland State Public Service employees and their families since inception. In more recent times, the credit union's membership has expanded to include other members outside of the public sector.

### 6.3 Mutuality, YCU Constitution, membership, voting and shareholding

YCU is a credit union.

A company is only entitled to use the words 'credit union' in its name if it is an ADI and APRA has consented to it using those words; APRA will only grant that consent if the company is a mutual.

YCU's Constitution provides that:

- except in certain circumstances, each customer of the credit union (for example a depositor or borrower) is required to be a YCU Member;
- the credit union may only issue one (1) YCU Share to any person. However, the credit union may issue to a trustee for an unincorporated association, family trust or incorporated body one (1) YCU Share to the trustee:
  - a) in the trustee's own right; and
  - b) as trustee for the unincorporated association, family trust or incorporated body;
- only YCU Members recorded on the YCU Register are entitled to vote at a YCU general meeting;
- except for YCU Members who are minors, each YCU Member shall have only one (1) vote, except if that person has been appointed as the trustee for the unincorporated association, family trust or incorporated body, in which case he or she may have one vote as an individual YCU Member and one vote in that other capacity;
- YCU Shares are not transferable;
- no dividends are payable on YCU Shares; and



- on winding up, a YCU Member has the right to receive payment of the subscription paid for each YCU Share that the YCU Member holds and to participate in any surplus of assets on an equal basis with other holders of YCU Shares.

## **6.4 Corporate and governance structure**

YCU's Directors recognise the need for the highest standards of corporate behaviour, and accountability. The YCU Board has overall responsibility for the business, its strategic direction, risk management, financial performance and compliance with statutory requirements. It meets monthly and more regularly as required. The YCU Board also sets policy guidelines for the conduct of the credit union's business in line with prudential standards, regulatory requirements and industry practice.

The YCU Board has in place a number of sub-committees of the YCU Board which also meet as required and include the following: Governance Committee, Nominations Committee, Audit Committee, Risk Committee, Remuneration Committee, and a Marketing Committee.

## **6.5 YCU's business**

The principal activities of YCU are the provision of retail financial services to YCU Members in the form of taking deposits and providing financial accommodation as prescribed by the YCU Constitution.

Specific services offered by YCU include:

- owner occupier, residential and investment loans;
- commercial loans;
- personal and car loans;
- high yielding on-line savings accounts;
- high interest rate term deposits;
- international payments facilities;
- transaction services including chequing, EFTPOS, credit cards, debit cards, home banking (internet and telephone), direct entry, bill paying;
- quick and easy loan approvals; and
- fast and simple loan settlements.

The credit union also invests its surplus liquidity deposits in financial services markets.

## **6.6 Directors**

YCU – Your Credit Union has six YCU Directors on the YCU Board. Each YCU Director is involved on various sub-committees of the YCU Board:

- (i) Gordon Rutherford – Chairman, Audit Committee, Risk Committee.
- (ii) John Strachan - Deputy Chair, Governance Committee Chair.
- (iii) Allan Richardson – Audit Committee, Risk Committee, Governance Committee, Marketing Committee.
- (iv) Chris Johnson – Audit Committee Chair, Risk Committee Chair.

(v) Heather Hansen – Marketing Committee Chair, Governance Committee

(vi) Stephen Barnard – Managing Director, Marketing Committee.

Under the Directors' Deeds and YCU's Retirement Benefits Policy, a non-executive YCU Director who retires as a result of the Scheme is entitled to an amount equal to the then current annual YCU Director's fees.

## **6.7 Historical finance overview**

So far as is known to any YCU Director, except as disclosed in this Scheme Booklet, the financial position of YCU has not materially changed since the date of its financial report for the year ended 30 June 2015, as lodged with ASIC. YCU Members wishing to consider the company's financial performance for the year ended 30 June 2015 should review that yearly financial report.

Other than the Merger Proposal, there are no significant changes to the nature of YCU's activities since the date of this Scheme Booklet.

A summary of the audited financial position as at 30 June 2014 and 30 June 2015 and the reviewed financial position as at 31 December 2015 is detailed below:

**a) Consolidated Statement of Financial Position**

	<b>30-Jun-14 Audited \$</b>	<b>30-Jun-15 Audited \$</b>	<b>31-Dec-15 Reviewed \$</b>
<b>ASSETS</b>			
Cash and cash equivalents	14,944,023	10,317,836	10,011,756
Loans and advances	134,513,055	124,695,135	128,447,032
Held to maturity investments	40,052,724	56,609,006	54,900,466
Available for sale investments	73,548	410,410	422,650
Property, plant and equipment	98,069	391,411	367,754
Intangible assets	309,336	241,454	188,500
Current tax asset	-	240,875	189,064
Deferred tax asset	224,559	145,644	91,644
Other assets	137,858	155,309	320,158
<b>Total assets</b>	<b>190,353,172</b>	<b>193,207,080</b>	<b>194,939,024</b>
<b>LIABILITIES</b>			
Balances due to other banks	214,099	287,795	81,914
Deposits	162,581,834	164,780,696	166,688,223
Current tax liability	31,553	-	-
Other liabilities	532,365	854,388	502,136
Provisions	238,007	148,235	148,324
<b>Total liabilities</b>	<b>163,597,858</b>	<b>166,071,114</b>	<b>167,420,597</b>
<b>Net assets</b>	<b>26,755,314</b>	<b>27,135,966</b>	<b>27,518,427</b>
<b>YCU MEMBERS' FUNDS</b>			
Redeemed preference share capital account	23,900	24,960	24,960
Reserves	26,731,414	27,111,006	27,493,467
<b>TOTAL YCU MEMBERS' FUNDS</b>	<b>26,755,314</b>	<b>27,135,966</b>	<b>27,518,427</b>

Since the end of the financial year being 30 June 2015, the credit union has continued to trade profitably and consistently with organisational objectives.

Updated key financial information as at 31 December 2015 or for the 6 month period to 31 December 2015 compared where appropriate to that at 30 June 2015 is as follows:

<b>Capital Adequacy</b>	<b>30-Jun-15</b>	<b>31-Dec-15</b>
Tier 1 Capital Ratio	27.57%	27.83%
<b>Total Capital Ratio</b>	<b>27.70%</b>	<b>27.96%</b>

## b) Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended		6 mths to
	30-Jun-14	30-Jun-15	31-Dec-15
	Audited	Audited	Reviewed
	\$	\$	\$
Interest revenue	8,407,975	7,974,348	3,626,223
Interest expense	(4,864,510)	(4,320,174)	(1,804,430)
<b>Net interest income</b>	<b>3,543,465</b>	<b>3,654,174</b>	<b>1,821,793</b>
Non-interest revenues	491,489	419,588	314,854
Other expenses	(3,101,030)	(3,715,009)	(1,592,566)
<b>Profit before income tax</b>	<b>933,924</b>	<b>358,753</b>	<b>544,081</b>
Income tax expense	(276,208)	(106,285)	(161,621)
<b>Profit after income tax</b>	<b>657,716</b>	<b>252,468</b>	<b>382,460</b>
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</i>			
Net gain/(loss) on available-for-sale financial assets	-	128,185	-
<b>Total comprehensive income for the year</b>	<b>657,716</b>	<b>380,653</b>	<b>382,460</b>

### 6.8 Material litigation

The YCU Board is not aware of any material litigation which would affect YCU Members' decision when voting on the Merger Proposal.

### 6.9 Effect on creditors

The Merger Proposal will not affect the interests of creditors of YCU. No new liability will be incurred by YCU other than the costs incurred in the Implementation of the Merger Proposal.

YCU has paid and is paying its creditors within normal terms of trade. It is profitable, solvent and is trading in an ordinary commercial manner.

### 6.10 Publicly available information

ASIC maintains records of documents lodged with it by YCU, and these may be obtained from or inspected at any office of ASIC. Information is also available on YCU's website at [www.ycu.com.au](http://www.ycu.com.au).

The financial accounts and annual report for YCU for the year ended 30 June 2015 have been lodged with ASIC.

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## **7. Information about Auswide Bank**

### **7.1 Introduction**

Headquartered in Bundaberg in Central Queensland, Auswide Bank has been providing banking and other financial services to its clients since 1966.

Auswide Bank operates a network of 23 retail branches across Queensland and mortgage service centres in Brisbane and the Gold Coast.

Through the support of its local communities and following a series of successful mergers and acquisitions, Auswide Bank is among the 50 largest Queensland-based companies listed on the ASX. Its market capitalisation as at the close of 9 March 2016 was \$179.8 million.

Auswide Bank has had access to securitisation and warehouse funding programs since June 1997 and holds a “BBB/A-2” investment grade rating from Standard & Poor’s. Auswide Bank has also recently issued its inaugural senior unsecured floating rate notes program further complementing its NCD program to diversify its funding sources.

Auswide Bank is an APRA regulated ADI approved under the Banking Act to conduct banking business. It has an Australian Financial Services Licence and a Credit Licence.

Auswide Bank plays an active part in the communities in which it operates, supporting local activities, organisations and events and building its reputation around a true community banking philosophy.

Further information on Auswide Bank can be found at: [www.auswidebankltd.com.au](http://www.auswidebankltd.com.au)

### **7.2 History**

Auswide Bank’s origins are in the local communities of Queensland’s Wide Bay Burnett region. Wide Bay Capricorn Building Society was formed in 1979 as the result of a merger between the Burnett Permanent Building Society (based in Bundaberg and founded in 1966) and the Maryborough Permanent Building Society, both of which had operated since the 1960s.

In 1981, Wide Bay Capricorn amalgamated with the Gympie and North Coast Building Society and in 1983 another merger occurred with the Gladstone-based Port Curtis Building Society.

Wide Bay Capricorn Building Society Ltd was listed on the ASX in 1994.

In the 2000/01 financial year, Wide Bay Capricorn exceeded \$1 billion in assets and loans under management for the first time.

From a strong support base in Central and South-East Queensland, Auswide Bank expanded nationally. This culminated with a name change to Wide Bay Australia Ltd in December 2003.

In 2008, Wide Bay Australia merged with Mackay Permanent Building Society Limited. This move strengthened the company’s representation in Central and North Queensland with additional branches and customers.

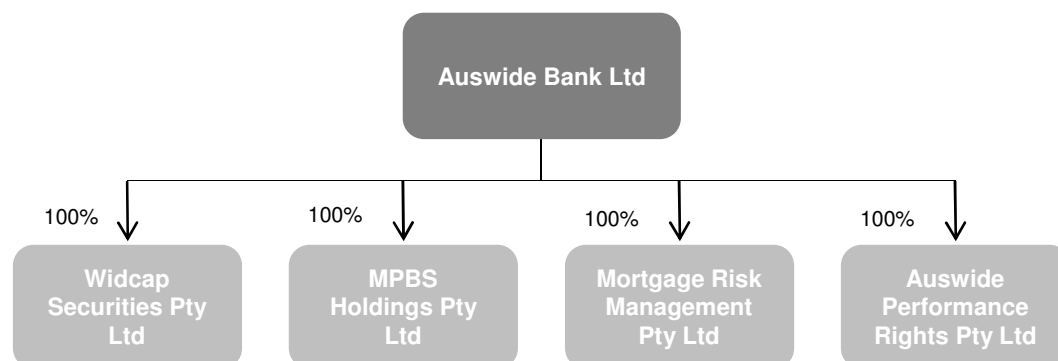
In 2013, Wide Bay Australia’s Board decided to convert the company to a bank. The decision was based on a number of reasons including the geographic limitations of the Wide Bay name, the added ‘security’ that banks are perceived to offer, and the fact that many of Auswide Bank’s customers already believed it was a bank.

On 1 April 2015, Auswide Bank was launched and continues to foster the aims of its predecessors, established to co-ordinate the joint savings of members to foster home ownership in the community.

Auswide Bank is now one of 10 Australian banks (including three Queensland-based banks) trading on the ASX.

### 7.3 Corporate structure

The various entities (excluding non-trading entities) and investments that comprise the Auswide Bank group structure are set out in the following diagram.



All of Auswide Bank's retail banking operations are conducted under Auswide Bank Ltd, the ASX listed entity.

Widcap Securities Pty Ltd acts as the manager and custodian for Auswide Bank's public RMBS (residential mortgage-backed securities) and warehouse securitisation programs.

MPBS Holdings Pty Ltd held the property at 73 Victoria Street, Mackay. This property was sold on 19 October 2015 for \$2.32m.

Mortgage Risk Management Pty Ltd (MRM) was Auswide Bank's wholly-owned lenders' mortgage insurer, which ceased writing new business in August 2012. In response to a formal application by MRM, APRA revoked the authorisation under subsection 12(2) of the *Insurance Act 1973* (Cth), to carry on insurance business in Australia, effective 17 December 2015.

Auswide Performance Rights Pty Ltd is the trustee company for the Auswide Bank Performance Rights Plan, set up to assist in the retention and motivation of executives, senior managers and qualifying employees.

Auswide Bank retains a 25% interest in financial planners Financial Technology Securities Pty Ltd, which is reported on an equity accounting basis. In the 2012/13 financial year, the Auswide Bank Directors resolved that a provision for impairment for the investment be made as the recoverable amount was determined to be nil. The impairment was based on the view that there was significant uncertainty about dividend income to be derived. Therefore, it was determined that value-in-use was nil.

In December 2015, Auswide Bank entered into a strategic relationship with MoneyPlace, Australia's second fully licenced peer-to-peer lender. The long term relationship includes a conditional five year deal to fund up to \$60 million to invest in consumer loans. In addition, Auswide Bank has acquired a 19.3% equity stake in MoneyPlace which settled on 4th January 2016. The investment is expected to accelerate Auswide Bank's consumer finance ambitions nationally.

### 7.4 Corporate governance

Auswide Bank is overseen by the Auswide Bank Board which comprises four non-executive Directors and the Managing Director.

Operational management of the organisation is executed by the Managing Director and the leadership team comprising ten executives responsible for finance and treasury, information technology, operations, marketing and products, human resources, risk, sales and distribution, third party and business banking and internal audit.

Auswide Bank maintains corporate governance policies and practices which follow the recommendations outlined by the ASX and which comply with the Corporations Act, the ASX Listing Rules and APRA Prudential Standard CPS 510 - Governance.

The Auswide Bank Board has adopted a Corporate Governance Statement which sets out Auswide Bank's compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Corporate Governance Statement is available under the Governance section of Auswide Bank's website located at [www.auswidebankltd.com.au](http://www.auswidebankltd.com.au). The Governance section also details other relevant corporate governance information, including the Board and Committee Charters, policies and codes of conduct.

## **7.5 Auswide Bank's business**

The principal activities of the company are the raising of funds and the provision of finance for housing, personal loans (commenced in May 2013) and business banking (commenced in April 2014).

Personal banking products and services include:

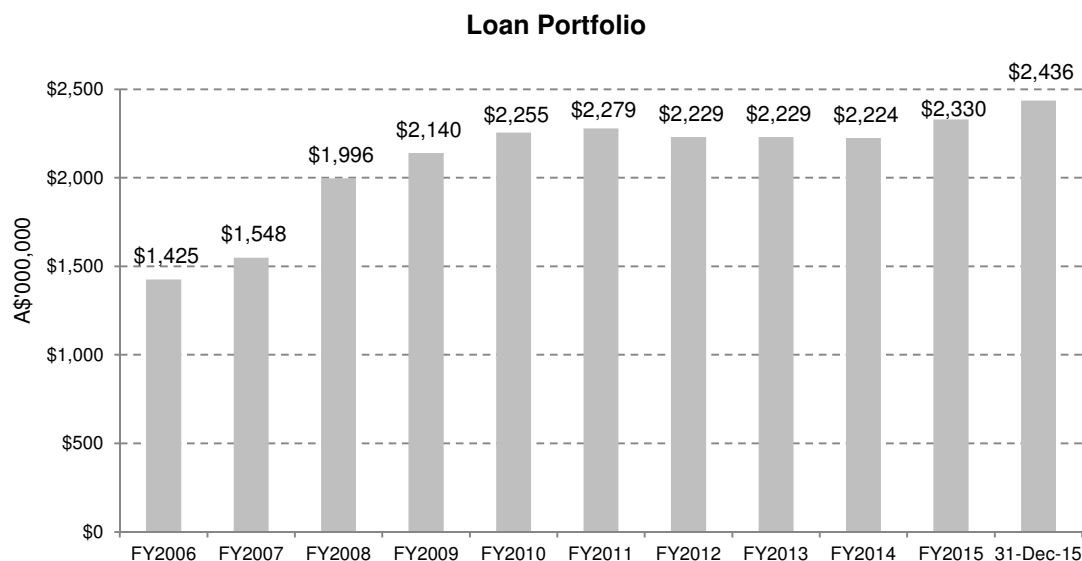
- transaction, savings and specialised accounts;
- home loans;
- car and personal loans;
- lines of credit;
- credit cards;
- term deposits;
- self-managed superannuation fund accounts;
- insurance (through its partnership with Allianz Insurance); and
- travel money and foreign exchange.

Business banking products and services include:

- business transaction accounts;
- business loans and overdrafts;
- term deposits;
- business insurance (through its partnership with Allianz Insurance); and
- business support services.

## 7.6 Loan Portfolio

The growth in Auswide Bank's loan portfolio since FY2006 is shown in the following chart:



As at 31 December 2015, residential mortgages were the largest contributor to Auswide Bank's total loans portfolio, accounting for 98.4% of all loans. Auswide Bank has not originated any low-doc or sub-prime loans.

Auswide Bank has been able to achieve strong growth in loans without compromising overall asset quality. As at 31 December 2015, loans in arrears in excess of 30 days represented less than 1.0% of Auswide Bank's loan book.

Auswide Bank has a diversified funding base which includes retail deposits, floating rate note program, RMBS securitisation program and negotiable certificates of deposit program.

Retail deposits comprise approximately 65% of funding.

Auswide Bank established its RMBS securitisation program in June 1997. To date, 11 public RMBS securitisation programs have been issued to capital markets totalling \$3.25 billion. Auswide Bank has RMBS warehouses in place with Westpac Banking Corporation and the Australia and New Zealand Banking Group which will assist Auswide Bank in funding its future growth of assets under management.



## 7.7 Distribution

Auswide Bank products are delivered across Australia via its Queensland branch network, a Queensland-based contact centre, through strategic relationships and online and digital channels.

The bank has 23 retail branches operating from Morayfield in Brisbane to Cairns in North Queensland. Auswide Bank mortgage broker service centres are located in Brisbane and the Gold Coast. The corporate head office is in Bundaberg in Queensland and it operates a corporate office in the Brisbane central business district.

Customers may also access their accounts via an Australia-wide ATM network consisting of both Auswide Bank and Westpac Banking Corporation branded ATM's. Accounts may also be accessed for deposits, withdrawals and balance enquiries nationwide at Australia Post using Bank@Post.

The approximate location of Auswide Bank's 23 branches and the two Auswide Bank mortgage broker service centres are shown on the following map:



Auswide Bank also originates lending through third parties such as finance brokers. Auswide Bank has an improved broker and mortgage alliance platform and there has been a significant increase in brokers seeking Auswide Bank accreditation. Broker-introduced loans accounted for 42% of Auswide Bank's loan approvals in the 12 months to 30 June 2015 and 54.4% of Auswide Bank's loan approvals in the 6 months to 31 December 2015.

## 7.8 Management Team

Title	Name
Managing Director	Martin Barrett
Chief Financial Officer and Company Secretary	Bill Schafer
Group Treasurer	Dale Hancock
Chief Information Officer	Stephen Caville
Chief Operating Officer	Mark Rasmussen
Chief Risk Officer	Craig Lonergan
General Manager – Sales and Distribution	Matthew Challies
General Manager – Third Party	Charlton Nevis
General Manager – Human Resources	Gayle Job
General Manager – Marketing and Products	Ray Linderberg
General Manager – Internal Audit	Michael McLennan

## 7.9 Board of Directors

The Directors of Auswide Bank are:

### **Mr John Humphrey, Chairman, Appointed February 2008**

Professor Humphrey was appointed Chairman of the Board following the 2009 annual general meeting. He was a senior partner in the Brisbane office of international law firm, King & Wood Mallesons until 1 January 2013, where he specialised in commercial law and corporate mergers and acquisitions. He is now Executive Dean of the Faculty of Law at Queensland University of Technology and is currently a Non-Executive Director of Horizon Oil Limited and Downer-EDI Limited.

### **Mr Martin Barrett, Managing Director, Appointed September 2013**

Mr Barrett was appointed as Chief Executive Officer in February 2013 and became Managing Director in September 2013. Mr Barrett has extensive experience in the banking sector, having previously held the positions of Managing Director (Queensland, Western Australia and National Motor Finance Business) and General Manager NSW/ACT Corporate & Business Bank at St George Bank Ltd. Prior to working at St George Bank, Mr Barrett held senior roles at regional financial institutions in the United Kingdom and at National Australia Bank.

### **Mr Barry Dangerfield, Non-Executive Director, Appointed November 2011**

Mr Dangerfield has had a successful 39 year banking career with Westpac Banking Corporation having held positions across Queensland and Northern Territory as Regional Manager of Business Banking, Head of Commercial and Agribusiness, and Regional General Manager of Retail Banking. Mr Dangerfield is a Director of the Bundaberg Friendly Society Medical Institute which operates the Friendly Society Private Hospital and Pharmacies in Bundaberg.

**Mr Greg Kenny, Non-Executive Director, Appointed November 2013**

Mr Kenny had a long and successful career with Westpac Banking Corporation and St George Bank Ltd, and prior to that with Bank of New York and Bank of America in Australia. At St George Bank he held the positions of Managing Director (NSW and ACT), General Manager Corporate and Business Bank, and General Manager Group Treasury and Capital Markets.

**Ms Sandra C Birkenleigh, Non-Executive Director, Appointed February 2015**

Ms Birkenleigh was a partner at PricewaterhouseCoopers for 16 years up until 2013. During her career, her predominant industry focus has been Financial Services (Banking and Wealth Management). Ms Birkenleigh has also advised on risk management in other sectors such as retail and consumer goods, retail and wholesale electricity companies, resources and the education sector. Ms Birkenleigh is currently a Non-Executive Director of five Wealth Management and Insurance subsidiaries of the National Australia Bank, a director of four responsible entities within the NabWealth Group, a Director of Horizon Oil Limited, an independent member of the Audit Committee of the Reserve Bank of Australia, and a Treasurer and Board of Management member of Children's Therapy Centre.

## **7.10 Recent share price of Auswide Bank**

The closing price for Auswide Bank Shares on ASX on 9 March 2016, the last trading day before the finalisation of this Scheme Booklet, was \$4.84.

During the three months ended 9 March 2016, the last trading day before the finalisation of this Scheme Booklet:

- the lowest recorded sale price for Auswide Bank Shares on the ASX was \$4.80 on 3 March 2016; and
- the highest recorded sale price for Auswide Bank Shares on the ASX was \$6.00 on 29 and 30 December 2015 and 4, 5, 6, 7 and 11 January 2016.

The last recorded sale price for Auswide Bank Shares on the ASX before the public announcement of the Merger Proposal was \$5.35 on 21 December 2015.

### Auswide Bank share price performance 1 July 2013 to 9 March 2016



Note\*: Auswide Bank share price as at 9 March 2016 was \$4.84

There can be no guarantee as to the performance of the price of Auswide Bank Shares in the future. If the Merger Proposal is approved, eligible YCU Members will receive New Auswide Bank Shares in return for their YCU Share. For a description of the risks with respect to the financial performance of the Merged Entity, including risks related to the Auswide Bank share price, refer to Section 10.

## 7.11 Historical financial overview

This Section outlines the consolidated summary of historical financial information of Auswide Bank. The information contained within this Section has been sourced from the audited financial statements of Auswide Bank for the financial year ended 30 June 2015 (Auswide Bank's latest annual report), Auswide Bank's interim financial report for the half year ended 31 December 2015 and its annual report for the financial year ended 30 June 2014. The information includes the following:

- Summary consolidated statements of profit or loss and other comprehensive income for the years ended 30 June 2014 and 30 June 2015 and half year ended 31 December 2015; and
- summary consolidated statements of financial position as at 30 June 2014, 30 June 2015 and 31 December 2015.

The accounting policies used to prepare the financial information below are based on the accounting policies of Auswide Bank contained in its audited financial statements for the year ended 30 June 2015, unless otherwise noted.

For further financial information, refer to Auswide Bank'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 Auswide Bank's website, [www.auswidebankltd.com.au](http://www.auswidebankltd.com.au) under the 'shareholder' section, and on the ASX website [www.asx.com.au](http://www.asx.com.au) under the code 'ABA'. Auswide Bank's annual reports contain details of Auswide Bank's accounting policies and a detailed management discussion and analysis of the financial results for each period.

**a) Consolidated Statement of Profit or Loss and Other Comprehensive Income**

	Year ended		6 mths to
	30-Jun-14	30-Jun-15	31-Dec-15
	Audited	Audited	Reviewed
	\$	\$	\$
Interest revenue	134,202,850	127,397,139	61,207,971
Borrowing costs	(84,549,451)	(76,194,046)	(34,665,475)
<b>Net interest revenue</b>	<b>49,653,399</b>	<b>51,203,093</b>	<b>26,542,496</b>
Other non-interest revenue	10,238,336	9,806,713	4,926,676
Employee benefits expense	(18,539,500)	(18,926,412)	(9,549,422)
Depreciation expense	(1,195,961)	(1,332,181)	(761,786)
Amortisation expense	(359,973)	(338,371)	(233,425)
Occupancy expense	(2,575,074)	(2,639,189)	(1,591,378)
Bad and doubtful debts expense	(360,473)	(457,948)	846,438
Other expenses	(16,668,615)	(18,287,373)	(11,517,574)
<b>Profit before income tax</b>	<b>20,192,139</b>	<b>19,028,332</b>	<b>8,662,025</b>
Income tax expense	(6,129,836)	(5,766,341)	(2,598,858)
<b>Profit from continuing operations</b>	<b>14,062,303</b>	<b>13,261,991</b>	<b>6,063,167</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Revaluation of Cash Flow Hedge to fair value	-	(1,466,387)	220,124
Income tax relating to this item	-	439,916	(66,037)
Revaluation of RMBS investments to fair value	(27,126)	(12,553)	(49,252)
Income tax relating to this item	8,138	3,766	14,776
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of land and buildings to fair value	-	(809,882)	-
Income tax relating to this item	-	242,965	-
<b>Other comprehensive income/(loss) for the year</b>	<b>(18,988)</b>	<b>(1,602,175)</b>	<b>119,611</b>
<b>Total comprehensive income for the year</b>	<b>14,043,315</b>	<b>11,659,816</b>	<b>6,182,778</b>
<b>Profit is attributable to:</b>			
Owners of the parent entity	14,062,638	13,261,991	6,063,167
Non-controlling interests	(335)	-	-
	<b>14,062,303</b>	<b>13,261,991</b>	<b>6,063,167</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent entity	14,043,650	11,659,816	6,182,778
Non-controlling interests	(335)	-	-
	<b>14,043,315</b>	<b>11,659,816</b>	<b>6,182,778</b>

## b) Consolidated Statement of Financial Position

	30-Jun-14 Audited \$	30-Jun-15 Audited \$	31-Dec-15 Reviewed \$
<b>ASSETS</b>			
Cash and cash equivalents	63,604,301	51,495,421	80,385,548
Due from other financial institutions	10,286,421	9,215,436	9,215,436
Accrued receivables	11,662,495	5,923,807	13,248,117
Financial assets	248,117,712	244,906,350	198,551,025
Current tax assets	149,714	256,206	(589,248)
Loans and advances	2,223,974,886	2,330,122,246	2,435,510,499
Other investments	336,504	394,658	467,799
Property, plant and equipment	18,070,737	17,946,390	17,156,743
Deferred income tax assets	6,690,630	5,903,417	6,422,607
Other assets	9,244,871	8,802,512	8,352,481
Goodwill	42,057,110	42,057,110	42,057,110
<b>Total assets</b>	<b>2,634,195,381</b>	<b>2,717,023,553</b>	<b>2,810,778,117</b>
<b>LIABILITIES</b>			
Deposits and short term borrowings	1,743,812,432	1,852,071,695	1,943,194,181
Payables and other liabilities	21,109,505	24,581,026	20,076,637
Securitized loans	634,130,085	603,657,502	614,804,971
Deferred income tax liabilities	2,267,848	1,563,280	1,362,058
Provisions	8,897,253	7,159,978	2,608,845
Subordinated capital notes	28,000,000	28,000,000	28,000,000
<b>Total liabilities</b>	<b>2,438,217,123</b>	<b>2,517,033,481</b>	<b>2,610,046,692</b>
<b>Net assets</b>	<b>195,978,258</b>	<b>199,990,072</b>	<b>200,731,425</b>
<b>EQUITY</b>			
<b>Parent entity interest in equity</b>			
Contributed equity	163,550,831	166,636,661	167,114,161
Reserves	14,482,677	13,817,409	13,385,528
Retained profits	18,015,375	19,536,002	20,231,736
<b>Total parent entity interest in equity</b>	<b>196,048,883</b>	<b>199,990,072</b>	<b>200,731,425</b>
<b>Non-controlling interests</b>			
Contributed equity	1,000	-	-
Retained profits	(71,625)	-	-
<b>Total non-controlling interests</b>	<b>(70,625)</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>195,978,258</b>	<b>199,990,072</b>	<b>200,731,425</b>

## c) Management discussion and analysis of historical financial information

### Profitability

Auswide Bank's total operating income for the half-year to 31 December 2015 increased to \$31.469 million compared to \$30.432 million for the corresponding period, an increase of 3.41%.

After adjusting the statutory consolidated net profit after tax for the effects of non-recurring items, the underlying cash profit for the group was \$6.782m for the half-year to 31 December 2015 compared to \$6.495 million in the prior corresponding period, an increase of 4.40%.

The statutory consolidated net profit after tax attributable to owners of the company for the half-year to 31 December 2015 was \$6.063 million. This represents a 6.67% decrease from \$6.495 million in the prior corresponding period.

Auswide Bank achieved a net profit after tax of \$14.063 million in FY2014 and \$13.262 million in FY2015. The decline from FY2014 to FY2015 was driven by the allowance for the costs associated with Auswide Bank's rebranding exercise as well as the outsourcing of its ATM fleet.

### **Net interest income**

Auswide Bank's net interest income increased by 3.12% during FY2015, from \$49.653 million in FY2014 to \$51.203 million in FY2015.

In the six months ended 31 December 2015, net interest increased by 2.65% compared to the corresponding half-year to 31 December 2014, from \$25.856 million to \$26.542 million. This result was achieved via a turnover and easing in the term deposit rates, with retail deposits comprising the major source of funding for the company.

### **Net interest margin**

Auswide Bank's net interest margin was 1.75% in FY2014, 1.79% in FY2015 and 1.83% in the six months ended 31 December 2015.

The net interest margin is calculated using the average balance for each of the major categories of interest bearing assets and liabilities and the amount of interest revenue or expense for the period. Month end averages are used as they are representative of the company's operations during the period.

### **Non-interest income**

In FY2015, approximately 7.15% of Auswide Bank's income was generated from sources other than interest. In the six months ended 31 December 2015, it was 7.45%. Non-interest income comprises such items as commissions, fees, dividends and other income from Auswide Bank's operations.

### **Expenses**

Auswide Bank's underlying cash cost to income ratio for the chief entity improved from 69.5% in FY2014 to 68.5% in FY2015. This improvement follows significant expenditure on technology, branch refurbishment, staff training and development and additional distribution channels, which has been offset by savings in administrative and operating expenses.

In the six months ended 31 December 2015, the underlying cash cost to income ratio for the consolidated group was 69.2%.

### **Home loan settlements and asset growth**

Home loan settlements reached \$450.5 million in FY2015, an increase of 23.4% over the FY2014 result. This increase was the result of extension of the third party network and sales initiatives. Auswide Bank experienced an increase in loan originations from South East Queensland. This growth in home loan settlements translated into growth in total loans under management of 4.8% to \$2,330.1 million.

In the six months ended 31 December 2015, home loan settlements reached \$303.1 million, an increase of 32.0% over the corresponding period to 31 December 2014. At 31 December 2015, the loan book recorded growth in total loans under management since 30 June 2015 of 9.05% (on an annualised basis) to \$2,435.5 million.

Auswide Bank's total assets have grown at a compound average growth rate of 5.9% over the past ten and a half years, increasing from \$1,525.9 million in FY2005 to \$2,810.8 million as at 31 December 2015.

### **Asset quality and provisioning**

In FY2015, bad debts of \$457,948 (0.02% of loans) were expensed compared with \$360,473 (0.016% of loans) in FY2014.

In the six months ended 31 December 2015, the total expense for bad and doubtful debts in the consolidated group was \$444,034 (including the underwriting expenses for MRM). The total

provision for doubtful debts for the consolidated group was \$5.205 million at 31 December 2015.

### **Retail deposit growth**

Auswide Bank retail deposits grew by 3.6% from \$1,605.3 million in FY2014 to \$1,663.5 million in FY2015. In the six months ended 31 December 2015, Auswide Bank deposits grew 0.8% from 30 June 2015 to \$1,677 million. This result was achieved in a market where strong competition for retail deposits continues.

### **Capital management**

Auswide Bank has maintained a strong capital base in the six months to 31 December 2015, with a total capital adequacy ratio of 14.89 % compared with 15.15% at 30 June 2015. The tier 1 capital adequacy ratio was 12.24 % at 31 December 2015. An additional \$10 million of tier 1 capital was released from MRM at 30 September 2015, further enhancing Auswide Bank's capital adequacy position. For further information in relation to the capital management of the Merged Entity, please refer to Section 8.6.

## **7.12 Material change in Auswide Bank's financial position since the last published accounts (31 December 2015)**

Except as set out elsewhere in this Scheme Booklet, there has been no material change in Auswide Bank's financial position since 31 December 2015, the date of Auswide Bank's last published financial statement.

## **7.13 Information on YCU Shares**

### **Auswide Bank's interest in YCU**

As at the date of this Scheme Booklet, Auswide Bank does not hold any interest in YCU Shares.

### **Acquisitions of YCU Shares by Auswide Bank in the previous four months**

In the four months to the date of this Scheme Booklet, there were no acquisitions of YCU Shares by Auswide Bank.

### **Pre-Scheme benefits**

During the four months before the date of this Scheme Booklet, neither Auswide Bank 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 Merger Proposal or to dispose of a YCU Share and where the benefit was not offered to all YCU Members.

### **Benefits to YCU Directors**

Auswide Bank will not be making any payment or giving any benefit to any current member of the YCU Board as compensation or consideration for, or otherwise in connection with, their resignation from the YCU Board if the Scheme becomes Effective and the YCU Board is accordingly reconstituted, other than as required under the relevant person's employment agreement with YCU, the Directors' Deeds and the YCU Board's Retirement Benefits Policy.

In clause 8.3 of the Merger Implementation Agreement, Auswide Bank and YCU agreed that the YCU Board be permitted to establish a special compensation and redundancy pool of a maximum value of \$900,000 to provide for the compensation of YCU Directors or employees who may be made redundant as a result of the implementation of the Merger Proposal. Any payments made will be in accordance with the relevant person's employment agreement with YCU, the Directors' Deeds and the YCU Board's Retirement Benefits Policy,



and otherwise in accordance with the Corporations Act. Refer to Sections 9.4 and 9.5 for more details.

#### **7.14 Publicly available information**

Auswide Bank is listed on the ASX. As such, Auswide Bank 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, Auswide Bank is subject to the ASX Listing Rules which require immediate disclosure to the market of any information of which Auswide Bank 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 Auswide Bank, and these may be obtained from or inspected at any office of ASIC. Information is also available on Auswide Bank's website at [www.auswidebankltd.com.au](http://www.auswidebankltd.com.au)

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## 8. Information about the Merged Entity

### 8.1 Rationale for the Merger Proposal

#### a) Overview

In comparison to YCU as a stand-alone entity as it presently exists, if the Merger Proposal is implemented, the Merged Entity is expected to have:

- a significantly enhanced presence in South East Queensland including a Brisbane central business district branch;
- a wide range of financial products and services;
- an expanded technological and digital capability; and
- the financial strength and enhanced capability of a larger banking organisation.

#### b) Expected synergies, integration costs and timing

The Merger Proposal may result in revenue opportunities, cost synergies and other benefits.

##### i. Revenue opportunities

Revenue synergies are expected (but not guaranteed) to arise in the future from cross selling and referral activities, where both companies will leverage the other's existing client bases.

##### ii. Cost synergies

It is anticipated that the Merger Proposal will ultimately provide annual pre-tax cost synergies of approximately \$2 million, commencing in the financial year ending 30 June 2017. These cost savings will be sourced from the Merged Entity and generated mainly through the consolidation of technology platforms and back office functions.

#### c) Integration costs and timing

In order to achieve the above cost synergies, it is anticipated that the Merged Entity will incur approximately \$1.5 million in one-off integration costs. The majority of these integration costs are expected to be incurred in the first six months following the Merger Proposal being implemented.

### 8.2 Auswide Bank's intentions for the business assets and employees of YCU

Following the Merger Proposal being implemented, Auswide Bank initially intends to continue operating two separate ADIs (i.e. Auswide Bank and YCU). Auswide Bank will in the future seek APRA's approval to consolidate the separate ADIs and transfer the business of YCU into Auswide Bank when it considers it appropriate to do so.

Regardless of the business and licence structure, Auswide Bank's intentions following implementation of the Merger Proposal include:

- ensuring on-going business and service continuity;
- identifying and realising available cost and revenue synergies across the Merged Entity; and
- continuing with the existing employment arrangements in place across the Merged Entity, except where there is a need to eliminate duplicate roles and responsibilities.

If the Merger Proposal is implemented, Auswide Bank's current intentions regarding the business assets and employees of YCU are as follows:

**a) Head office and branch**

Auswide Bank intends to retain YCU's branch in Brisbane with head office functions being consolidated into Auswide Bank's head offices in Bundaberg where duplication occurs.

**b) Product offering**

YCU Members will continue to receive competitive market rates on products. Price changes will continue to be managed in accordance with the terms and conditions of existing loan agreements or accounts, in response to changes in the official interest rates by the Reserve Bank of Australia or changed market conditions or where negotiated directly with individual members. Auswide Bank currently intends to maintain the existing terms and conditions on YCU Members' products, but reserves its right to amend those terms and conditions, where permitted, if it considers it appropriate to do so after the implementation of the Merger Proposal.

Subject to the previous paragraph, the existing product suites that YCU Members have are likely to be merged with those of Auswide Bank over time to give customers of both organisations access to the most attractive and comprehensive product and service offering.

**c) Operations**

It is Auswide Bank's intention to conduct a detailed review of YCU's:

- sales, marketing and technical functions;
- information technology platforms and systems; and
- contractual arrangements.

The intention of the detailed review will be to identify and attempt to realise all potential synergies that may result from merging the operations of Auswide Bank and YCU.

**d) Brand**

Auswide Bank intends to re-brand the YCU branch and products to reflect Auswide Bank's ownership of YCU.

**e) Directors**

If the Merger Proposal is implemented, Auswide Bank intends to replace all members of the YCU Board, and of any company in respect of which YCU has nominee directors, with Auswide Bank nominees. The Auswide Bank Board and profile summaries are contained at Section 7 of this Scheme Booklet.

**f) Employees**

The Merged Entity's executive team will continue to be led by the current Managing Director of Auswide Bank, Martin Barrett.

It is the current intention of Auswide Bank to continue the employment of YCU employees, subject to the need to adopt an appropriate management structure for the Merged Entity. This structure will recognise and reflect the geographic demands of YCU's and Auswide Bank's customers, while eliminating, where possible, unnecessary duplication of roles and responsibilities.

It is unfortunate but inevitable that the activities outlined above will result in some functions and positions at YCU becoming redundant. Until Auswide Bank has completed its detailed review of operations, Auswide Bank will not be in a final

position to determine the employees whose functions may be redundant or the timing of any redundancies.

To the extent that it is possible to reassign affected employees, it is Auswide Bank's intention to do so.

Employees whose positions are made redundant will receive payments and other benefits in accordance with their contractual and other legal entitlements. Refer to Section 9.4 of this Scheme Booklet for further information regarding the special compensation and redundancy pool that the YCU Board is permitted to establish under the terms of the Merger Implementation Agreement.

### **8.3 Implementation and integration process**

If the Merger Proposal is implemented, the Auswide Bank Board will establish a committee who will take overall responsibility for the integration through co-ordination of workstreams as well as communications to stakeholders.

To realise the potential benefits of the Merger Proposal, the integration risks need to be managed. 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 10.

### **8.4 Capital structure of the Merged Entity**

As at 19 February 2016, the last trading day before the finalisation of this Scheme Booklet, Auswide Bank has 37,140,133 fully paid ordinary shares on issue, with approximately 4,360 shareholders.

If the Merger Proposal is implemented, as part of the Scheme Consideration payable to YCU Members, Auswide Bank will issue 696 New Auswide Bank Shares for each YCU Share owned by a YCU Member. The number of YCU Shares on issue is 4,094.

Based on the undiluted issued share capital of Auswide Bank immediately following the issue of the New Auswide Bank Shares under the Merger Proposal, YCU Members will collectively own approximately 7.13% of the Merged Entity.<sup>9</sup>

Auswide Bank shares on issue as at the date of the Scheme Booklet	37,140,133
New Auswide Bank Shares to be issued to Scheme Participants	2,849,424
Total Auswide Bank Shares on issue immediately following Implementation	39,989,557
Percentage dilution based on issued share capital of Auswide Bank following Implementation	7.13%

### **8.5 Pro forma financial information**

This Section contains an unaudited pro forma summary historical consolidated statement of financial position for the Merged Entity as at 31 December 2015.

The pro forma financial information is presented to provide YCU Members with an indication of the Merged Entity's consolidated statement of financial position as if the Merger Proposal had been implemented as at 31 December 2015. As the Merger Proposal, if implemented, will be effected at a future date, the actual consolidated statement of financial position of the Merged Entity following implementation of the Merger Proposal will differ from that presented below.

<sup>9</sup> This percentage does not take into account the Ineligible Foreign Members or those YCU Members who elect to have their New Auswide Bank Shares sold under the Share Sale Facility.

The pro forma financial information in this Section should be read in conjunction with the risks described in Section 10 and other information contained in this Scheme Booklet.

### **Basis of preparation**

The unaudited pro forma historical consolidated statement of financial position of the Merged Entity as at 31 December 2015 has been based on:

- the unaudited consolidated statement of financial position of Auswide Bank as at 31 December 2015 extracted from Auswide Bank's reviewed interim financial statements for the half year ended 31 December 2015; and
- the unaudited consolidated statement of financial position of YCU as at 31 December 2015 extracted from YCU's reviewed interim financial statements for the half year ended 31 December 2015.

The accounting policies of the Merged Entity used to prepare the unaudited pro forma historical consolidated statement of financial position are based on the accounting policies of Auswide Bank contained in its audited financial statements for the year ended 30 June 2015 unless otherwise noted. Auswide Bank's audited financial statements are contained in Auswide Bank's 2015 annual report that can be accessed on its website at [www.auswidebankltd.com.au](http://www.auswidebankltd.com.au).

At this time, no adjustments have been made to the pro forma financial statements to align accounting policies. Certain adjustments have been made to align YCU's balance sheet classifications with those of Auswide Bank; these adjustments do not impact the Merged Entity unaudited pro forma consolidated statement of financial position.

### **Assumptions**

The unaudited pro forma summary financial information of the Merged Entity has been compiled according to the following transaction assumptions:

- under the Merger Proposal, each eligible YCU Member will receive the Scheme Consideration of A\$4,055 cash and 696 New Auswide Bank Shares for the YCU Share held by the YCU Member. Based on an Auswide Bank share price of \$5.19, this equates to a total consideration of \$31.4 million;
- revenue, expense, asset and liability items relating to transactions between Auswide Bank and YCU have not been adjusted, as they are considered not to be material;
- no adjustments have been made for transactions costs, expected integration costs or synergies, or amounts which may be payable from the special compensation and redundancy pool (referred to in section 9.4(b)) that may arise as a result of the Merger Proposal;
- the book value of assets and liabilities reported in YCU's reviewed half yearly financial statements for the six months ended 31 December 2015 are assumed to approximate their fair value at the date of acquisition; and
- all consideration in excess of the book value of YCU's existing identifiable net assets at 31 December 2015 has at this stage been allocated to goodwill. Any separately identifiable intangibles that are identified following the implementation of the Merger Proposal will result in a reduction in goodwill. If any separately identifiable intangibles are considered to have finite lives, they will be amortised over their estimated useful life.

## Pro Forma Statement of Financial Position

	A YCU 31-Dec-15 \$	B ABA 31-Dec-15 \$	C Adjustments \$	D = A + B + C Merged Entity \$
<b>ASSETS</b>				
Cash and cash equivalents	10,011,756	80,385,548	(16,601,170)	73,796,134
Due from other financial institutions	-	9,215,436		9,215,436
Accrued receivables	-	13,248,117		13,248,117
Financial assets	-	198,551,025		198,551,025
Held to maturity investments	54,900,466	-		54,900,466
Available for sale investments	422,650	-		422,650
Current tax asset	189,064	(589,248)		(400,184)
Loans and advances	128,447,032	2,435,510,499		2,563,957,531
Other investment	-	467,799		467,799
Property, plant and equipment	367,754	17,156,743		17,524,497
Intangible assets	188,500	-		188,500
Deferred tax asset	91,644	6,422,607		6,514,251
Other assets	320,158	8,352,481		8,672,639
Goodwill	-	42,057,110	3,871,254	45,928,364
<b>Total assets</b>	<b>194,939,024</b>	<b>2,810,778,117</b>	<b>(12,729,916)</b>	<b>2,992,987,225</b>
<b>LIABILITIES</b>				
Deposits and short-term borrowings	166,688,223	1,943,194,181		2,109,882,404
Other liabilities	502,136	20,076,637		20,578,773
Balances due to other banks	81,914	-		81,914
Securitized loans	-	614,804,971		614,804,971
Deferred income tax liabilities	-	1,362,058		1,362,058
Provisions	148,324	2,608,845		2,757,169
Subordinated capital notes	-	28,000,000		28,000,000
<b>Total liabilities</b>	<b>167,420,597</b>	<b>2,610,046,692</b>		<b>2,777,467,289</b>
<b>Net assets</b>	<b>27,518,427</b>	<b>200,731,425</b>	<b>(12,729,916)</b>	<b>215,519,936</b>
<b>EQUITY</b>				
Contributed equity	-	167,114,161	14,788,511	181,902,672
Redeemed preference share capital account	24,960	-	(24,960)	-
Reserves	27,493,467	13,385,528	(27,493,467)	13,385,528
Retained profits	-	20,231,736	-	20,231,736
<b>Total equity</b>	<b>27,518,427</b>	<b>200,731,425</b>	<b>(12,729,916)</b>	<b>215,519,936</b>

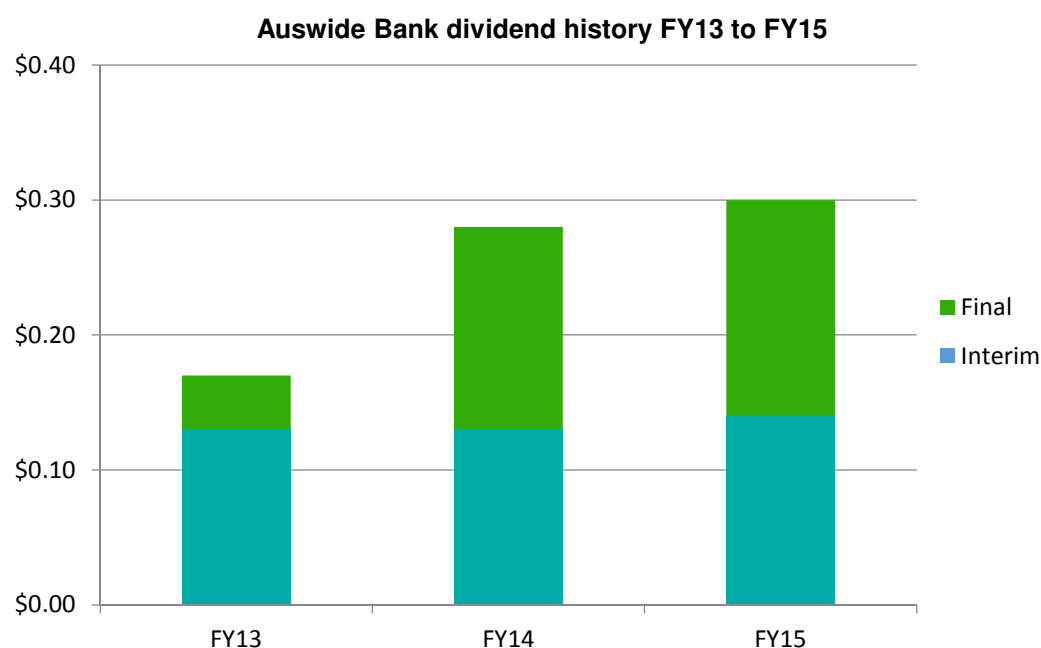
## 8.6 Capital management and dividend policy

The Merged Entity Board and management will regularly review the capital of the Merged Entity to ensure that it has capital in excess of minimum capital requirements and sufficient capital to support its growth. If the Merger Proposal proceeds, then having regard to budgeted growth in Auswide Bank's loan book, it is anticipated that the Merged Entity would seek to raise approximately A\$10 million of additional capital prior to 31 December 2016. A decision by the Merged Entity Board to raise additional capital (and the on timing, size, structure and terms of any capital raising) would be taken having regard to the market conditions and other factors prevailing at the relevant time.

The Merged Entity's Board will review the amount of any future dividends (if any) to be paid to Auswide Bank Shareholders from time to time, having regard to the Merged Entity's

profits, financial position and assessment of the capital required to grow the Merged Entity's businesses.

Auswide Bank's historical dividend history is shown in the graph below.



## 8.7 Outlook of the Merged Entity

Following careful consideration, the YCU Directors have concluded that they do not have a reasonable basis to provide forecast financial information for the Merged Entity that is sufficiently meaningful and reliable for YCU Members.

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 outside its control. These factors include:

- the current volatile state of the global financial markets impacting on the banking sector;
- interest rate outlook and movements in official rates which impact upon the net interest income of ADIs, as well as demand for housing loans;
- competitive forces and changes in customer behaviours and expectations which impact growth and revenue opportunities;
- future economic conditions in Australia and in particularly in Queensland, which can be impacted by both global and local events and government policies, as well as natural disasters and climatic conditions; and
- uncertainties in the regulatory environment, including the impacts of new prudential standards.

All of the above factors might have significant impacts on the assumptions relating to the Merged Entity's revenue, cost and impairment drivers which are subject to significant volatility and uncertainty. For these reasons, the risk that YCU Members may be misled by such information outweighs the potential value of that information to YCU Members.

For further discussion on the risk factors impacting the Merged Entity, refer to Section 10.

Notwithstanding the above qualification, YCU notes that YCU's Independent Expert, (see Attachment I) has concluded that the Merger Proposal is fair and reasonable, and that the Scheme is therefore in the best interests of YCU Members as a whole, in the absence of a Superior Proposal.



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## 9. Additional information

This Section sets out the information required by section 412(1) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations and additional information that the YCU Directors consider material to the decision that YCU Members will be making when they vote on the Scheme Resolution.

Each YCU Director recommends that YCU Members vote in favour of the Scheme Resolution for the reasons set out in Section 2 of this Scheme Booklet.

In this Section, the terms 'associate', 'executive officer', 'marketable securities', 'related body corporate' and 'subsidiary' have the meanings given to them in the Corporations Act.

### 9.1 Capital structure of YCU and YCU Members

YCU has 4,094 fully paid YCU Shares on issue, held by 4,094 YCU Members. Each YCU Member holds one fully paid \$10 share. YCU Shares are not transferable, but are redeemable.

The 4,094 YCU Members includes 27 Foreign YCU Members (as defined in this Scheme Booklet). The membership includes 138 minors, 2 of whom are foreign.

### 9.2 YCU Directors' intentions in relation to the voting rights attached to their YCU Shares

The YCU Board consists of the following six YCU Directors:

- Gordon Rutherford (Chairman)
- John Strachan (Deputy Chairman)
- Stephen Barnard (Managing Director)
- Allan Richardson
- Chris Johnson
- Heather Hansen

Each YCU Director holds one YCU Share in their own name or jointly, each will have one vote for their own share and each will receive the Scheme Consideration on the same terms as all other YCU Members, so long as they remain a YCU Member on the Record Date.

There have been no purchases or disposals of YCU Shares by any YCU Director or their associates since 22 December 2015.

Some of the YCU Directors have interests in related companies or superannuation funds which are YCU Members. None of the shares held by related companies or superannuation funds were acquired in the last 12 months. As at the date of this Scheme Booklet, the total number of YCU Shares held in their own name and by or on behalf of each of the YCU Directors in related companies or superannuation funds which are YCU Members is as follows:

Gordon Rutherford	3
John Strachan	2
Stephen Barnard	4
Allan Richardson	1
Chris Johnson	1

Heather Hansen	1
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Each YCU Director will be entitled to vote at the Scheme Meeting and intends to vote in favour of the Scheme Resolution, in the absence of a Superior Proposal. No Superior Proposal has been received as at the date of this Scheme Booklet.

### 9.3 Remuneration of YCU Directors

The YCU Constitution provides that the non-executive YCU Directors are entitled to remuneration which must not exceed in aggregate the maximum amount determined by the YCU annual general meeting until the next annual general meeting. The YCU Board may determine the allocation of the aggregate amount of remuneration among the YCU Directors.

As at the date of this Scheme Booklet, the aggregate remuneration of the non-executive YCU Directors may not exceed \$224,863 until the next annual general meeting.

The YCU Directors are also entitled to all travel and other expenses properly incurred in connection with YCU Board meetings and the business of YCU. YCU also pays insurance premiums for the YCU Directors for directors' liability insurance and personal accident insurance.

Under each non-executive Director's Deed and YCU's Retirement Benefits Policy, a retiring non-executive YCU Director is entitled to an amount equal to the then current annual director's fees.

### 9.4 Benefits and agreements

#### a) Benefits in connection with retirement from office

Except as follows, no payment or other benefit is proposed to be made or given to any YCU Director, company secretary or executive officer of YCU as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in YCU in connection with the Merger Proposal other than in his or her capacity as a YCU Member.

#### b) Special compensation and redundancy pool

In clause 8.3 of the Merger Implementation Agreement, Auswide Bank and YCU agreed that the YCU Board be permitted to establish a special compensation and redundancy pool of a maximum value of \$900,000 to provide for the compensation of YCU Directors or employees who may be made redundant as a result of the implementation of the Merger Proposal. Any payments made will be in accordance with the relevant person's employment agreement with YCU, the Directors' Deeds and the YCU Board's Retirement Benefits Policy, and otherwise in accordance with the Corporations Act.

YCU does not expect the full pool amount to be utilised, as outlined below. No amounts will become payable if the Scheme is not approved by the Court.

The amount specifically provided by the YCU Board amounts to the following items:

#### Amounts that are certain as YCU Directors will not be continuing if the Scheme completes:

Total YCU Director retirement benefits (refer to Section 9.5)	\$187,385
YCU Directors insurance run-off premium	\$17,500
<b>Total certain</b>	<b>\$204,885</b>

**Amounts that are uncertain as payment will be dependent upon the employee ceasing to be employed following the implementation of the Merger Proposal and this is unknown as at the date of the Scheme Booklet:**

YCU executives and staff termination provisions	\$450,491
<b>Total uncertain</b>	<b>\$450,491</b>
<b>Total redundancy pool to be provided</b>	<b>\$655,376</b>
<b>Total redundancy pool allowed as per the Merger Implementation Agreement</b>	<b>\$900,000</b>

### **c) Insurance**

YCU will pay in advance the premiums for a run-off policy for seven years from the Second Court Date, in respect of directors' and officers' (D&O) insurance for the benefit of the YCU Directors and executive officers. Under clause 15.3(c) of the Merger Implementation Agreement the insurance premiums will be funded from the special compensation and redundancy pool referred to in clause 8.3 of that agreement.

## **9.5 Impact of Merger Proposal on YCU Directors**

- (i) Each YCU Director holds at least one account with YCU (such as a deposit account or loan account) and, as a consequence of the Merger Proposal, each YCU Director will become a customer of Auswide Bank in respect of any such accounts.
- (ii) Each of the YCU Directors were elected for a term of three years.
- (iii) None of the YCU Directors will become a director of the Merged Entity.
- (iv) Under the Merger Implementation Agreement, as soon as practicable after the Second Court Date, YCU must use its best endeavours to:
  - (a) cause the appointment of Auswide Bank's nominees as directors to the YCU Board; and
  - (b) procure that each of the YCU Directors as at the Second Court Date retire from the YCU Board and provide written notice to the effect that they have no claim outstanding for loss of office, remuneration or otherwise against YCU.

YCU has executed a deed with each non-executive YCU Director under which a retiring non-executive YCU Director is entitled to an amount equal to the then current annual director's fees. Accordingly each of the five non-executive YCU Directors will be paid by YCU prior to their retirement, the amount of \$37,477 (being the equivalent of the current annual remuneration for a non-executive director), a total of \$187,385. The retirement payments will be funded from the pool referred to in Section 9.4(b).

Stephen Barnard, Managing Director of YCU, will also cease to be a YCU Director after the Second Court Date. However, he will not receive a payment as a consequence of losing office. If his employment is terminated, he will be entitled to a termination payment under his employment contract.

## **9.6 Agreements connected with or conditional on the Scheme**

Except as set out below or otherwise disclosed in this Scheme Booklet:

- (i) no YCU Director has any other interests in a contract entered into by Auswide Bank;
- (ii) there are no contracts or arrangements between a YCU Director and any person in connection with or conditional upon the outcome of the Merger Proposal; and

- (iii) no YCU Director has a material interest in relation to the Merger Proposal other than in their capacity as a YCU Member.

## **9.7 Marketable securities of Auswide Bank held by or on behalf of YCU Directors**

None of the YCU Directors, nor any of their associates holds, or has any relevant interest in, marketable securities of Auswide Bank or any related body corporate of Auswide Bank. There has been no dealing by any YCU Director in any marketable securities of Auswide Bank or any related body corporate of Auswide Bank in the four months preceding the date of this Scheme Booklet.

## **9.8 YCU Share sales**

YCU Shares are not able to be sold or transferred. As such, no YCU Shares were sold in the six months immediately prior to the date this Scheme Booklet was lodged for registration with ASIC.

## **9.9 YCU Directors' interests in any contracts with Auswide Bank**

No YCU Director, nor any of their associates has entered into, or otherwise has any interest in, any contract with Auswide Bank or any of its associates.

## **9.10 YCU employees**

YCU has entered into employee retention arrangements with the employees (including the YCU Managing Director) it considers are crucial to the continued operation of YCU's business leading up to, and after, the Implementation Date. Under these retention arrangements, each of the key employees will, subject to their remaining employed by YCU, receive payments if they are made redundant after that date.

These retention arrangements are common in acquisition transactions in order to ensure key employees and their knowledge are retained.

Certain key employees may be entitled to termination payments if they cease to be employed following the implementation of the Merger Proposal. The details of these are outlined below.

Further details regarding YCU's compensation of the YCU Directors and key management personnel can be found in YCU's 2015 annual report.

### **a) Stephen Barnard, Managing Director**

YCU or Mr Barnard may terminate employment by not less than six months' prior written notice or provide payment in lieu of the notice period. A severance amount of four weeks for every completed year of service (pro-rata) may also be payable. Mr Barnard commenced employment with YCU in November 2014.

Payment on termination due to a takeover or merger and not being offered ongoing employment in an equivalent position, is equal to six months' salary in addition to any notice payment that may be made in lieu. No severance amount is payable.

### **b) Neill McCann, Risk and Corporate Services Manager**

YCU or Mr McCann may terminate employment by not less than one months' prior written notice or provide payment in lieu of the notice period. A severance amount of one week for every completed year of service (pro-rata) may also be payable. Mr McCann commenced employment with YCU in August 2015.

Payment on termination due to a takeover or merger and not being offered ongoing employment in an equivalent position, is equal to three months' salary in addition to any notice payment that may be made in lieu. No severance amount is payable.

**c) Employment Contract – Prateek Khandelwal, Finance Manager**

YCU or Mr Khandelwal may terminate employment by not less than one months' prior written notice or provide payment in lieu of the notice period. A severance amount of one week for every completed year of service (pro-rata) may also be payable. Mr Khandelwal commenced employment with YCU in May 2014.

Payment on termination due to a takeover or merger and not being offered ongoing employment in an equivalent position, is equal to three months' salary in addition to any notice payment that may be made in lieu. No severance amount is payable.

**d) Employment Contract – Mark Stewart, Members Services Manager**

YCU or Mr Stewart may terminate employment by not less than five weeks' prior written notice or provide payment in lieu of the notice period. Mr Stewart commenced employment with YCU in March 2002.

Payment on termination due to redundancy, a takeover or merger and not being offered ongoing employment in an equivalent position, is equal to twelve weeks' salary in addition to any notice payment made in lieu.

## **9.11 Ranking of New Auswide Bank Shares**

New Auswide Bank Shares will rank equally with all other Auswide Bank Shares on issue. Further detail in relation to the rights attaching to Auswide Bank Shares is set out in Section 9.12.

## **9.12 Rights attaching to Auswide Bank Shares**

**a) General**

All Auswide Bank Shares are of the same class and rank equally in all respects. The Auswide Bank Board is empowered to issue shares of other classes with such rights as the Auswide Bank Directors determine.

**b) Notices**

Each Auswide Bank Shareholder is entitled to receive notice of and to attend and vote at all general meetings of Auswide Bank and to receive all notices, accounts and other documents required to be sent to Auswide Bank Shareholders under the Auswide Bank constitution, the Corporations Act or the ASX Listing Rules.

**c) General meetings and voting**

At a general meeting of Auswide Bank, subject to any restrictions, on a show of hands each holder of an Auswide Bank Share present in person, or by proxy, attorney or representative, has one vote.

On a poll, each holder of an Auswide Bank Share has:

- one vote for each fully paid Auswide Bank Share held by the member; and
- for each partly paid share held by the member, a fraction of a vote equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited on the Auswide Bank Share).

A resolution put to the vote at a members' meeting is decided on a show of hands, unless a poll is demanded in accordance with the Corporations Act.

The chairperson does not have a casting vote (in addition to the chairperson's votes as a member, proxy, attorney or representative) on a show of hands or on a poll.

The quorum required is 8 members present in person or by proxy, attorney or representative.

**d) Dividends**

Subject to the Corporations Act, the Auswide Bank Directors may determine that a dividend is payable and fix the amount, the time for payment and the method of payment.

The dividend to be paid to the holder of a partly paid share must not exceed that proportion of the dividend to be paid to the holder of a fully paid share that the amount paid up on the share (not credited as paid up) bears to the total issue price of the share (excluding amounts credited as paid up).

The Auswide Bank Directors may resolve that the method of payment of a dividend will be wholly or partly by the transfer or distribution of specific assets, including fully paid shares in, or debentures of, any other corporation.

If and to the extent authorised by resolution of Auswide Bank in general meeting, the Auswide Bank Directors may, subject to the ASX Listing Rules, establish a plan whereby members or any class of members may elect to reinvest cash dividends paid by the company by subscribing for shares in Auswide Bank.

**e) Shareholding limitations and enforcement of shareholding limitations**

Under the FSSA, the approval of the Commonwealth Treasurer is required for the purchase of a stake of more than 15% in any company in the financial sector. The same limit currently applies to Auswide Bank.

If approval from the Commonwealth Treasurer is not provided, and a particular person holds a stake in Auswide Bank of more than 15%, an unacceptable shareholding situation exists. If an unacceptable shareholding situation exists in relation to Auswide Bank, the Federal Court of Australia may, on application by the Commonwealth Treasurer or Auswide Bank, make such orders as the court considers appropriate for the purpose of ensuring that that situation ceases to exist.

**f) Transfer of Auswide Bank Shares**

Auswide Bank Shares, when quoted on ASX are transferable by:

- a written transfer instrument in any usual or common form, or in any other form approved by the Auswide Bank Directors; and
- any computerised or electronic system used for market settlement, securities transfer and registration conducted in accordance with the Corporations Act, the ASX Listing Rules and the ASX Operating Rules.

The Auswide Bank Directors may refuse to register a transfer of Auswide Bank Shares in circumstances permitted by the ASX Listing Rules, ASX or the Auswide Bank constitution.

**g) Non-marketable parcels**

Under Auswide Bank's constitution, it has no power to sell Auswide Bank Shares held by an Auswide Bank Shareholder where the number of Auswide Bank Shares is less than a marketable parcel.

**h) Share buy-backs**

Subject to the Corporations Act, Auswide Bank may buy back Auswide Bank Shares at times and on terms determined from time to time by the Auswide Bank Directors.

**i) Proportional takeover provisions**

The Auswide Bank constitution contains provisions requiring the approval of Auswide Bank 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. The resolution must be voted on at least 14 days before the close of the proportional takeover bid. These provisions will lapse in November 2018, unless renewed by a special resolution of Auswide Bank Shareholders.

**j) Winding up**

If Auswide Bank is wound up, the liquidator may, with the sanction of a special resolution of Auswide Bank:

- divide among the members in kind all or any of the company's assets; and
- for that purpose, determine how he or she will carry out the division between the different classes of members,

but may not require a member to accept any shares or other securities in respect of which there is any liability.

The liquidator may with the sanction of a special resolution of Auswide Bank, vest all or any of Auswide Bank's assets in a trustee on trusts determined by the liquidator for the benefit of the contributories.

**k) Auswide Bank Directors – appointment and removal**

Auswide Bank may from time to time by resolution passed at a general meeting increase or reduce the number of Auswide Bank Directors, but the number must not be less than 5 or more than 10 (unless the company resolves otherwise).

Auswide Bank may, subject to the Corporations Act, by resolution passed in general meeting:

- remove any director before the end of the director's period of office; and
- appoint another person in the director's place.

The Auswide Bank Directors may appoint any person as a director to fill a casual vacancy or as an addition to the number of existing directors. That director will then hold office until the next annual general meeting of the company when the director may be re-elected, but will not be taken into account in determining the number of directors who must retire by rotation.

Subject to the ASX Listing Rules, at each annual general meeting, one-third of the directors (except for the managing director), or, if their number is not a multiple of three, then the number nearest to but not more than one-third of the directors must retire from office.

**l) Auswide Bank's right to recover certain payments**

Auswide Bank has certain rights under its constitution to recover payments from an Auswide Bank Shareholder, including by way of imposing a lien over the Auswide Bank Shares, in certain limited circumstances, in relation to (amongst other things) amounts unpaid on partly paid shares in Auswide Bank.

The Auswide Bank Directors may deduct from a dividend payable to an Auswide Bank Shareholder, all sums presently payable by the Auswide Bank Shareholder to Auswide Bank on account of calls or otherwise in relation to Auswide Bank Shares.

**m) Alteration of Constitution**

The Auswide Bank constitution may only be amended by a special resolution passed by at least three quarters of the votes cast by Auswide Bank Shareholders present and voting at a general meeting.

## 9.13 Substantial Auswide Bank Shareholders

Auswide Bank's substantial shareholders' interests are outlined in the table below.

<b>Auswide Bank Shareholder</b>	<b>Auswide Bank Shares</b>	<b>% of issued ordinary share capital of Auswide Bank</b>
Hancock, RE (associated entities & associates)	2,174,188	5.85%

## 9.14 Documentation relating to Auswide Bank

Auswide Bank is a disclosing entity for the purposes of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. These obligations include compliance with the requirements of the ASX Listing Rules and the Corporations Act concerning notification of information to ASX and ASIC.

Additional information in relation to Auswide Bank and its operations is therefore available from ASX and ASIC. Copies of documents lodged by Auswide Bank with ASX may be inspected by visiting the ASX website at [www.asx.com.au](http://www.asx.com.au) and following directions to company announcements by Auswide Bank (Code: ABA). Copies of documents lodged by Auswide Bank with ASIC may be obtained from, or inspected at, an office of ASIC.

In addition, Auswide Bank will provide a copy of any of the following documents free of charge to any YCU Member who requests a copy prior to the Scheme Meeting or the Demutualisation Meeting:

- the constitution of Auswide Bank;
- the annual financial report lodged with ASIC by Auswide Bank for the financial year ended 30 June 2015;



- the half year financial report lodged with ASIC by Auswide Bank for the half year ended 31 December 2015; and
- any continuous disclosure notice given by Auswide Bank to ASX after the date of lodgement with ASIC of the annual financial report for the financial year ended 30 June 2015.

All announcements made by Auswide Bank to ASX from 16 October 2015 (being the date Auswide Bank lodged its 2014-15 Annual Report with ASX) to 8 March 2016 (being the date prior to the provision of this Scheme Booklet to the Court) are listed in the table below.

DATE	ANNOUNCEMENT
2 March 2016	Appendix 3Y - M Barrett Mar 2016
2 March 2016	Appendix 3Y - M Barrett Feb 2016
22 February 2016	Investor Presentation
22 February 2016	Auswide Bank Ltd (ABA) announces Interim Results
22 February 2016	Dividend/Distribution - ABA
22 February 2016	ABA Appendix 4D Half Year Report Period Ending 31 Dec 2015
22 December 2015	Your Credit Union and Auswide Bank announce merger
16 December 2015	Auswide Bank forms relationship with peer-to-peer lender
7 December 2015	Appendix 3B
18 November 2015	Video Recording of 2015 AGM Presentations
18 November 2015	Auswide Bank Constitution
18 November 2015	Auswide Bank Updated Constitution
18 November 2015	Outcome of Resolutions 2015 AGM
18 November 2015	Managing Director & CFO Presentations 2015 AGM
16 October 2015	Appendix 4G
16 October 2015	Corporate Governance Statement
16 October 2015	Notice of Annual General Meeting/Proxy Form

### 9.15 Auswide Bank's voting power in YCU

As at the date of this Scheme Booklet, Auswide Bank's voting power in YCU is nil.

### 9.16 Particulars of dealings

Except as disclosed in this Scheme Booklet, during the four months before the date of this Scheme Booklet, neither Auswide Bank, nor any associate of Auswide Bank has:

- provided, or agreed to provide, consideration for any YCU Shares; and
- given or 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 Merger

Proposal or dispose of YCU Shares which benefit is not offered to all YCU Members under the Merger Proposal.

## 9.17 How is Auswide Bank funding the cash consideration?

If the Merger Proposal is implemented, cash consideration of A\$4,055 cash will be paid as part of the Scheme Consideration for each YCU Share held by a YCU Member. There are 4,094 YCU Shares on issue.

Accordingly, the total cash consideration that Auswide Bank will be required to pay to YCU Members if the Merger Proposal is implemented is \$16.6 million.

Auswide Bank proposes to fund the cash consideration from its own existing cash reserves and diversified funding resources, including the securitisation and warehouse funding programs discussed in Section 7.

### Cash reserves

Auswide Bank has cash reserves in excess of the total cash consideration required to be paid by Auswide Bank if the Merger Proposal is implemented.

As at 31 December 2015, as outlined in Auswide Bank's condensed consolidated statement of financial position lodged with ASX on 22 February 2016, Auswide Bank had A\$80.4 million in cash and cash equivalents.

Auswide Bank's cash and cash equivalents are immediately available and are not subject to security interests or rights of set off and are not set aside for other arrangements.

### RMBS Warehouse Facilities

As outlined in Section 7 of this Scheme Booklet, Auswide Bank also has access to funding from two RMBS warehouse facilities ("**Warehouse Facilities**"), as identified in the table below. The funding available from each of these Warehouse Facilities is also in excess of the total cash consideration required to be paid by Auswide Bank if the Merger Proposal is implemented.

RMBS warehouse facility provider	Facility limit	Undrawn available balance
Westpac Banking Corporation	A\$175 million	A\$69.3 million
Australia and New Zealand Banking Group	A\$150 million	A\$44.5 million

The principal conditions on the utilisation of the Warehouse Facilities are that the pool of loans satisfy the eligibility criteria and relevant portfolio parameters set by each warehouse facility provider. Under the terms and conditions of the Warehouse Facilities, Auswide Bank is permitted to utilise funding from those facilities to pay the cash consideration under the Merger Proposal.

On the basis of the arrangements described above, Auswide Bank has a reasonable basis for believing, and it does believe, that it will be able to satisfy its obligation to pay the cash consideration as and when it is due under the terms of the Scheme.

## 9.18 Disclosure of interests of Auswide Bank Directors

Except as disclosed in this Scheme Booklet, no Auswide Bank Director or proposed Auswide Bank Director holds, or held at any time during the two years before the date of this Scheme Booklet any interests in:

- the formation or promotion of Auswide Bank; or

- property acquired or proposed to be acquired by Auswide Bank in connection with its formation or promotion or the offer of Auswide Bank Shares under the Merger Proposal; or
- the issue of New Auswide Bank Shares under the Merger Proposal.

### 9.19 Disclosure of fees and other benefits

No person has paid or agreed to pay any amount, or provided or agreed to provide any benefit to an Auswide Bank Director or proposed Auswide Bank Director:

- to induce them to become or to qualify as an Auswide Bank Director; or
- for services provided by that person in connection with the formation or promotion of Auswide Bank or the issue of Auswide Bank Shares under the Merger Proposal.

### 9.20 Quotation of Auswide Bank Shares

A total of 2,849,424 New Auswide Bank Shares will be issued under the Merger Proposal. Within 7 days after the date of this Scheme Booklet, Auswide Bank will make an application for the admission to quotation on ASX of the New Auswide Bank Shares to be issued pursuant to the Merger Proposal. Auswide Bank has no reason to believe that the New Auswide Bank Shares will not be admitted to quotation by ASX. The shares can be traded once they are quoted on the ASX.

### 9.21 Consents

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

- Bright Corporate Law as legal adviser to YCU;
- Lonergan Edwards & Associates as Independent Expert;
- Ernst & Young as auditor of YCU;
- Richards Advisory as taxation adviser to YCU; and
- Auswide Bank.

Each of the Independent Expert and the Taxation Adviser have also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, their written consent to the inclusion of the Independent Expert's Report and Taxation Adviser's Report (as applicable) in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that report in the form and context in which they appear.

Auswide Bank has also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, its written consent to the inclusion of the Auswide Bank Information in the form and context in which it is included and to all references in this Scheme Booklet to the Auswide Bank Information in the form and context in which they appear.

### 9.22 Disclaimers

None of the persons referred to in Section 9.21 (*Consents*) have authorised or caused the issue of this Scheme Booklet and do not make or purport to make, any statement in this Scheme Booklet other than those statements made in the capacity and to the extent the person has provided its consent, as referred to above. To the maximum extent permitted by law, each person referred to in Section 9.21 (*Consents*) disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Scheme Booklet other than as described in this Section with that person's consent.

## 9.23 Supplementary disclosure

YCU will issue a supplementary document to this Scheme Booklet if it becomes aware, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, that:

- a) a material statement in this Scheme Booklet is false or misleading in a material respect;
- b) there is a material omission from this Scheme Booklet;
- c) a significant change affecting a matter included in this Scheme Booklet has occurred;  
or
- d) a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

The form which the supplementary document may take will depend on the nature and timing of the new or changed circumstances and will be subject to any necessary regulatory or court approval.

## 9.24 Foreign jurisdictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. YCU disclaims all liabilities to such persons.

YCU Members who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

No action has been taken to register or qualify this Scheme Booklet or any aspect of the acquisition in any jurisdiction outside of Australia.

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

Except as set out in this Scheme Booklet, so far as the YCU Directors are aware, there is no information relating to:

- a) Auswide Bank; or
- b) Auswide Bank's intentions regarding YCU, YCU's employees and the funding of the Scheme Consideration,

material to the making of a decision by a YCU Member in relation to the Merger Proposal, being information that is within the knowledge of any YCU Director at the time of lodging this Scheme Booklet for registration with ASIC, which has not previously been disclosed to YCU Members.

The YCU Board believes that the Merger Proposal does not involve any circumstances in relation to the affairs of YCU that could reasonably be characterised as constituting unacceptable circumstances for the purposes of section 657A of the Corporations Act.

## 9.26 Intentions of YCU Directors

If the Scheme becomes Effective, the existing YCU Board will be reconstituted in accordance with the instructions of Auswide Bank after the Second Court Date, which is currently expected to be 4 May 2016. Accordingly, it is not possible for the Directors to provide a statement of their intentions regarding:

- the continuation of the business of YCU or how YCU's existing business will be conducted;

- any major changes to be made to the business of YCU, including any redeployment of the fixed assets of YCU; or
- the future employment of the present employees of YCU,

in each case, after the Scheme is implemented.

If the Scheme is implemented, Auswide Bank will own all of the YCU Shares and will be the Controller of YCU.

The intentions of Auswide Bank are as set out in Section 8.2.

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## **C. OTHER MERGER CONSIDERATIONS FOR YCU MEMBERS**

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## 10. Risk Factors

### 10.1 Introduction

If the Merger Proposal is approved, YCU will become a wholly owned subsidiary of Auswide Bank and YCU Members will receive New Auswide Bank Shares and cash as their Scheme Consideration.

YCU Shareholders who receive New Auswide Bank Shares should be aware of the risks outlined in this Section that may affect the performance of the Merged Entity and the value of Auswide Bank Shares. The financial performance and operations of the Merged Entity's business, the value of Auswide Bank Shares, and the amount and timing of any payment of dividends that Auswide Bank pays (if any) will be influenced by a range of factors.

The risk factors (which are both specific to the Merged Entity and of a general nature) may, either individually or in combination, affect the future operating performance, financial position, regulation, legal position, implementation of strategy or reputation of the Merged Entity, its business and its prospects. A significant number of these risks are, or will be, matters that are already relevant to YCU whether or not the Merger Proposal is approved. Many of the circumstances giving rise to these risks are beyond the control of the Merged Entity, its directors and management.

Generally, the market price of Auswide Bank Shares will be affected by factors that impact the market price of all ASX listed shares (such as economic policy or international market, economic or political conditions). In addition, the market price of Auswide Bank Shares is affected by factors specifically relevant to the financial services sector of the market. Accordingly, the market price of Auswide Bank Shares may rise or fall over any given period due to these factors.

This Section describes certain specific areas that are believed to be the major risks associated with investment in the Merged Entity. They include risk factors that:

- are specifically relevant to the financial services sector of the market and to the business of the Merged Entity - see Section 10.2;
- arise in relation to the Implementation of the Merger Proposal - see Section 10.3; and
- impact on the market price of all ASX listed shares, such as economic policy or international market, economic or political conditions - see Section 10.4.

Readers should note that this Section is not an exhaustive list of the risks associated with the Merged Entity and the information set out here should be considered in conjunction with other information disclosed in this Scheme Booklet.

Some of these risks may be mitigated by the use of safeguards and appropriate systems and controls. However, many will be outside the control of the Merged Entity and cannot be mitigated. There are also general risks associated with any investment in securities.

The YCU Board believe that the advantages of the Merger Proposal set out in Section 2 of this Scheme Booklet outweigh the potential risks associated with holding Auswide Bank Shares.

YCU Members should have regard to their own investment objectives and financial circumstances and should consider seeking professional guidance from their financial, legal or other independent adviser before deciding whether to vote in favour of the Merger Proposal.

In deciding whether to vote in favour of the Merger Proposal, you should read this Scheme Booklet in its entirety and carefully consider the risks outlined in this Section and elsewhere in this Scheme Booklet.

## 10.2 Business risks of the Merged Entity

### a) Industry risks

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

#### (i) Credit risk

Credit risk is the risk of loss resulting from a debtor or counterparty failing to meet its financial contractual obligations to the lender, or the failure to recover the recorded value of equity investments or specific investments. Credit risk is the most significant risk associated with the activities of both the Auswide Bank and YCU businesses.

Auswide Bank's and YCU'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 may expose the Merged Entity to increased risk that customers fail to meet their obligations.

However, should the Merged Entity's provisions for impairment charges prove inadequate there may be an impact on the financial performance of the Merged Entity.

#### (ii) Market risk and dislocation of global capital markets

Market risk is the risk of an adverse event in the financial markets causing a loss of earnings to the Merged Entity. This risk arises generally from either funding risk or interest rate risk:

- **(Funding risk)** – is the risk of over-reliance on a particular funding source, or the risk that the Merged Entity will not have access to sufficient capital or liquidity, which carries a risk of volatility in funding costs or funding availability (for further information in relation to the capital management of the Merged Entity, please refer to section 8.6); and
- **(Interest rate risk)** - this risk arises from a variety of sources including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates can affect earnings or the value of the Merged Entity.

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 affected 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 affect the financial performance of the Merged Entity.

#### (iii) Liquidity risk and solvency risk

Liquidity risk is the risk that the Merged Entity's financial performance or capital may be adversely affected if it is unable to fulfil its financial obligations when they fall due, because of an inability to source adequate funding, or if it is forced to liquidate assets at a loss.

Solvency risk arises from the possibility that the Merged Entity may have insufficient assets to cover its liabilities and is therefore the overall risk of the Merged Entity defaulting on its obligations.



*(iv) 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.

The existing businesses of YCU and Auswide Bank have adopted policies and procedures designed to control exposure to, and limit the extent of, these risks. Whilst there are inherent limitations in any risk management control system, the development and maintenance of effective control systems should provide a solid foundation for the Merged Entity to manage the risks described above.

**b) Operational risk**

Operational risk may arise as a result of the Merged Entity's inability to execute its business functions. Operational risks associated with the Merged Entity's business may include fraud, process error, system maintenance, and failure, and inadequate employee skills and performance. The Merged Entity will have 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 the Merged Entity's financial performance.

**c) Changes in technology**

Technology plays an increasingly important role in the delivery of financial services to customers in a cost effective manner. The Merged Entity's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate technology platform for the efficient delivery of its products and services.

**d) Competition**

The Australian banking industry, in which the Merged Entity will operate, is highly competitive. Factors contributing to this include industry deregulation, mergers, changes in customers' needs and preferences, entry of new participants, development of new distribution methods and increased diversification of products by competitors.

Competition from retail and commercial banks, asset managers, non-bank mortgage brokers, private banking firms, investment banking firms, brokerage firms and financial services providers is likely to increase. In addition, the trend towards consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power.

These factors could lead to the Merged Entity failing to achieve forecast growth or result in reduced profitability because of lower fees or margins. Increased competition, and particularly competitors offering comparable products at lower margins, could result in existing Auswide Bank customers leaving the Merged Entity for other financial institutions.

**e) Regulatory and tax**

Auswide Bank is regulated by various Regulatory Authorities in Australia including APRA, ASIC, ACCC and ASX. The earnings of the Merged Entity may be affected 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 the Merged Entity.

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

The Merged Entity cannot predict what legislative or regulatory changes will be made in the future, or the impact of future legislative or regulatory change on its business. Changes in law, regulations and interpretation of those laws and regulations, may positively or negatively affect the Merged Entity.

**f) Legal proceedings and contingent liabilities**

In the course of its operations, the Merged Entity may be involved in disputes and possible litigation. The extent of such disputes and litigation cannot be ascertained at this time. However, there is a risk that any material or costly dispute or litigation could adversely affect the value of the assets or future financial performance of the Merged Entity. No material disputes exist as at the date of this Scheme Booklet.

**g) Geographic risks**

The majority of the Merged Entity's operations are located in Queensland and focused on the residential mortgage market. This geographic concentration potentially represents a more risky profile than a nationally diversified bank.

### **10.3 Merger specific risks**

**a) Court delays**

There is a risk that the Court may not approve the Merger Proposal. There is also a risk that some or all of the aspects of the approvals required for the Merger Proposal to be implemented may be delayed or may not be granted.

**b) Issue of Auswide Bank Shares**

Auswide Bank will issue a significant number of New Auswide Bank Shares as a component of the Scheme Consideration. A risk in issuing such a large number of New Auswide Bank Shares is that the market price of Auswide Bank Shares may be affected if a significant number of YCU Members seek to sell their shares at commencement of trading or thereafter. However, the Share Sale Facility is expected to assist in reducing this risk by allowing for an orderly sale process for those YCU Members who do not wish to retain a shareholding in Auswide Bank.

**c) Implications for YCU if the Merger Proposal is not implemented**

If the Merger Proposal is not implemented, YCU will continue to operate its current businesses as a standalone entity. Each YCU Member will retain their YCU Shares and will not receive any Auswide Bank Shares. YCU will still incur a relative proportion of the transaction and other costs of the Merger Proposal. In those circumstances, YCU management would seek to continue to develop its existing projects and continue to maximise value for YCU Members.

**d) Change in risk profile and risk of investment in the Merged Entity**

If the Merger Proposal is implemented, there will be a change in the risk profile to which YCU Members are exposed. YCU Members are currently exposed to various risks as a result of their investment in YCU. If the Merger Proposal is implemented, YCU will merge its business with that of Auswide Bank and YCU Members will receive New Auswide Bank Shares. As a consequence, YCU Members will be exposed to risk factors relating to Auswide Bank, and to certain additional risks relating to the Merged Entity and the integration of the two companies. These include risks relating to the operation of a broader suite of financial services than YCU currently operates.

**e) Integration risks**

There is a risk that the Merged Entity's future profitability and prospects could be adversely affected if integration is not completed successfully.

Although Auswide Bank has already commenced integration planning and is clearly committed to the timely completion of this integration, there remains a risk that unforeseen issues or difficulties may arise that may result in integration benefits and/or synergies for the Merged Entity being delayed, or being achieved only in part, or not at all, or at the costs estimated in this Scheme Booklet.

Integration risks associated with the Merger Proposal may include:

- (i) 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;
- (ii) 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;
- (iii) higher than expected levels of customer attrition arising as a result of the merger of the two entities;
- (iv) the termination of contractual arrangements by third parties as a result of the change in control of YCU;
- (v) potential damage to the reputation of the brands of YCU and/or Auswide Bank due to potential actions from competitors, media and lobby groups in relation to the Merger Proposal; and
- (vi) possible conflict between the cultures of the two organisations arising from the Merger Proposal.

**f) Loss of key personnel**

Both YCU and Auswide Bank have key employees whose experience and expertise are important to the ongoing success of their businesses. There may be unintended losses of key personnel as a result of the Merger Proposal which may have an effect on the performance of the Merged Entity until any vacated positions are adequately filled.

**g) The exact value of the Scheme Consideration is not certain**

Under the terms of the Merger Proposal, eligible YCU Members will receive 696 New Auswide Bank Shares and \$4,055 cash for each YCU Share they hold. The exact value of this Scheme Consideration that would be realised by individual YCU Members will be dependent on the price at which the New Auswide Bank Shares trade on ASX after the Effective Date.

There are a number of factors which may cause the value of Auswide Bank Shares to change between the date that the Scheme becomes Effective and the period beyond that

date. Many of the factors which affect the market price of New Auswide Bank Shares are beyond the control of Auswide Bank. There is no guarantee that the market price of New Auswide Bank Shares will increase in the future.

YCU Members are encouraged to obtain current market quotations for Auswide Bank Shares. The market value of Auswide Bank Shares at the time at which they are received by YCU Members (and the value at which they trade beyond that date) may vary significantly from their market value on the date that the Scheme becomes Effective or the date on which a Sell Form is required to be received.

There is no guarantee that the market price of Auswide Bank Shares will increase in the future. The market price of Auswide Bank Shares may fall due to the factors described in this Section and other factors, some of which are beyond Auswide Bank's control, including, but not limited to:

- operating results that vary from expectations of securities analysts and investors;
- changes in expectations as to Auswide Bank's future financial performance, including financial estimates by securities analysts and investors;
- changes in market valuations of other banks or financial services institutions;
- inclusion of the Merged Entity on, or removal from, major market indices;
- the announcement of acquisitions, strategic partnerships, joint ventures or capital commitments by Auswide Bank or its competitors; and
- future issues of Auswide Bank debt or equity securities.

In addition, financial markets in general have historically experienced volatility that has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may materially adversely affect the trading price of Auswide Bank Shares, regardless of Auswide Bank's actual operating performance.

Historical market prices of Auswide Bank Shares should not be regarded as indicative of the future market price at which Auswide Bank Shares may trade.

#### **h) Regulatory approval**

The Merger Proposal is subject to a number of conditions precedent, including approval by the Treasurer of the Commonwealth of Australia for the purposes of the FSSA, and the Banking Act. YCU and Auswide Bank have made an application for these approvals, but have not received these approvals as at the date of this Scheme Booklet. Such approvals may be granted subject to conditions, which could be material to the Merged Entity's operations and profitability.

#### **i) Transaction and other costs**

Transaction and other costs incurred (or which are expected to be incurred) by YCU in relation to the implementation of the Merger Proposal are currently estimated at \$750,000, comprising adviser, legal, accounting and expert fees, employee costs, and various other costs. This amount does not include transaction costs that may be incurred in relation to the Merger Proposal by Auswide Bank.

#### **j) Tax consequences for Scheme Participants**

If the Merger Proposal is implemented, there may be tax implications for YCU Members which may include tax payable on any gain on the disposal of their YCU Share. However, YCU Members should seek their own professional advice regarding the individual tax consequences applicable to them. Further information on the tax consequence of the Merger Proposal is set out in Section 11 and Attachment VIII.

**k) Reliance on information**

Prior to entering into the Merger Implementation Agreement, Auswide Bank and YCU undertook due diligence on information about the respective parties. The YCU Board elected to proceed with the Merger 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.

**10.4 General risks**

**a) Changes in economic conditions**

The financial performance of the Merged Entity may be affected by changes in economic conditions in Australia and in international markets.

The Merged Entity's revenue and earnings is dependent on the level of financial services its respective customers require. In particular, levels of borrowing are heavily dependent on customer and investor confidence, the state of the economy, the home lending market and prevailing market interest rates from time to time.

Adverse changes in the following economic and other factors may have an impact on the outlook for the Merged Entity's business:

- (i) inflation and interest rates;
- (ii) employment levels and labour costs;
- (iii) economic growth, unemployment levels and consumer confidence;
- (iv) property markets in particular a decline in residential mortgage markets;
- (v) government, fiscal, monetary and regulatory policy, including specifically as it relates to the financial services sector; and
- (vi) relative changes in exchange rates.

Other key risks to the financial performance of the Merged Entity may include:

- (i) fluctuations in both debt and equity capital markets impacting access to funding, including securitisation markets; and
- (ii) instability in Australian and international political systems, economies and financial markets or the instability of national or international financial markets as a result of terrorist acts or war.

Although the Merged Entity will have 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 the Merged Entity's business and its operating results.

**b) Changes in government policy**

The Merged Entity may be affected by changes in general government policy or legislation applying to banks or the financial services sector.

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## 11. Taxation Considerations

This section is a general summary of the Taxation Report of Richards Advisory set out in Attachment VIII of this Scheme Booklet (the **Taxation Report**). You should refer to the Taxation Report for a complete analysis.

### 11.1 Purpose of the Taxation Report

The Taxation Report has been prepared to generally discuss the taxation implications of the Merger Proposal for Scheme Participants. The following summary and the Taxation Report is based on current Australian taxation laws in force as at 1 January 2016.

Whilst the information in the Taxation Report intends to provide a broad coverage of all of the taxation consequences of the Merger Proposal, **Scheme Participants should consult their independent professional taxation adviser having regard to their individual circumstances, including if they wish to sell any New Auswide Bank Shares they will receive if the Scheme becomes Effective.**

The following summary and the Taxation Report relates to the taxation treatment of Scheme Participants who acquired their YCU Share in order to be a customer of YCU. Any Scheme Participant who acquired their YCU Share for the purpose of profit making will need to seek separate taxation advice.

The terms used in this summary and the Taxation Report are as defined in the Glossary of the Scheme Booklet.

### 11.2 Summary of Taxation Consequences

Each stage of the Merger Proposal has separate taxation consequences.

#### a) Demutualisation

The constitutional changes proposed to permit Scheme Participants to transfer their YCU Share in order to implement the Scheme will have no immediate taxation consequences for any Scheme Participant.

#### b) Scheme

If the Scheme is implemented, Auswide Bank will acquire 100% of the YCU Shares. Scheme Participants will receive consideration for the transfer of their YCU Share to Auswide Bank in the form of cash and New Auswide Bank Shares.

The taxation implications of the Scheme for a Scheme Participant will differ depending on whether the Scheme Participant acquired their YCU Share before or after the introduction of CGT on 20 September 1985 (referred to as “pre CGT” or “post CGT” Scheme Participants).

##### (i) Pre CGT YCU Scheme Participants

For Scheme Participants who acquired their YCU Share prior to 20 September 1985, the taxation implications of the Scheme will be as follows:

- There will be no CGT liability resulting from the transfer of their YCU Share to Auswide Bank;
- Any capital gain or loss on the transfer of their YCU Share will be disregarded;
- CGT “rollover relief” will not be available;
- The CGT cost base of the New Auswide Bank Shares received in exchange for their YCU Share will be based on the market value of the New Auswide Bank Shares at the Implementation Date of the Scheme; and

- The New Auswide Shares received in exchange for their YCU Share will be treated, for CGT purposes, as having been acquired on the Implementation Date.

*(ii) Post CGT YCU Scheme Participants*

For Scheme Participants who acquired their YCU Share on or after 20 September 1985, the taxation implications of the Scheme will be as follows:

- The transfer of their YCU Share to Auswide Bank will be treated as a disposal of their YCU Share for CGT purposes;
- The capital proceeds from the transfer of their YCU Share will be the total of the cash received and the market value of the New Auswide Bank Shares received;
- The taxable gain for CGT purposes will be the difference between the capital proceeds received and cost base of their YCU Share (\$10);
- Rollover relief may be available to defer that part of a capital gain that is attributable to the receipt of the New Auswide Bank Shares. Rollover relief is not available for that part of the gain that relates to cash received. The amount of the gain that may be deferred will depend on the actual market value of the New Auswide Bank Shares on the Implementation Date;
- A Scheme Participant who is an individual and who has held their YCU Share for at least 12 months before the Implementation Date will be able to discount the amount of their capital gain for which they do not elect for rollover relief to apply by 50%. A discount is also available for trusts (50%) and complying superannuation funds (33.3%). No discount is available for companies; and
- The New Auswide Bank Shares received will have a cost base equal to:
  - (a) If rollover is not chosen, the market value of those Auswide Bank Shares on the Implementation Date;
  - (b) If rollover is chosen, the cost base of their YCU Share (which shall be apportioned across all of the New Auswide Bank Shares received).

### **11.3 Non-residents**

Scheme Participants who are non-residents of Australia will not have any CGT implications arising from the Merger Proposal. Non-residents are only subject to Australian CGT if the asset is taxable Australian property. YCU Shares are not taxable Australian property.

### **11.4 Sale of Auswide Bank shares**

Scheme Participants who sell their New Auswide Bank Shares, including Scheme Participants who participate in the Share Sale Facility, will make a capital gain if the capital proceeds from the sale exceed the cost base of the New Auswide Bank Shares that are sold.

The CGT discount is not available on the disposal of New Auswide Shares which are disposed of within 12 months of their acquisition date. For Scheme Participants who participate in the Share Sale Facility, the acquisition date of their New Auswide Shares will vary depending on when the Scheme Participant acquired their YCU Share and whether they choose to apply rollover relief on the exchange of their YCU Share for New Auswide Bank Shares (see above). It is recommended that Scheme Participants obtain independent taxation advice if they are in any doubt as to the tax treatment of selling their New Auswide Shares, including through participation in the Share Sale Facility.

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## 12. Share Sale Facility

### 12.1 Summary

If the Merger Proposal is implemented, Auswide Bank will acquire all of the issued share capital in YCU and eligible YCU Members will receive New Auswide Bank Shares and cash consideration.

While the YCU Directors believe that there are a number of advantages of obtaining Auswide Bank Shares if the Merger Proposal is implemented, Auswide Bank has established a Share Sale Facility for:

- Scheme Participants with their registered address in Australia who wish to sell their New Auswide Bank Shares that they have received under the Merger Proposal, and be paid the sale proceeds instead; and
- Ineligible Foreign Members, (i.e. those YCU Members with their registered address outside Australia), as these YCU Members cannot be issued New Auswide Bank Shares as part of their Scheme Consideration. For this reason, Ineligible Foreign Members automatically participate in the Share Sale Facility without having to make any election to do so.

If you wish to sell your New Auswide Bank Shares, but find the transaction costs prohibitive, or engaging a broker is inconvenient, this Share Sale Facility may be of interest to you. The Share Sale Facility is free of brokerage fees for Share Sale Facility Participants.

However, please note that none of Auswide Bank, YCU nor any other person involved in the Share Sale Facility makes any recommendation or gives any advice to you regarding whether to participate in the Share Sale Facility or in relation to any other matter. If you are in any doubt about whether to participate, please consult your own professional adviser.

YCU Members should be aware that participating in the Share Sale Facility will amount to a disposal of your New Auswide Bank Shares for taxation purposes. Any gain on shares sold through the sale facility within 12 months of receipt will not be eligible for a CGT discount.

The Share Sale Facility is entirely voluntary. You do not need to sell any New Auswide Bank Shares. It is entirely your decision.

The Share Sale Facility will only operate if the Merger Proposal is implemented and there is sufficient buying demand from the market for Auswide Bank Shares.

### 12.2 Am I eligible to participate in the Share Sale Facility?

The Share Sale Facility is available to YCU Members who have their registered address in Australia and who hold a YCU Share as at 5pm (Brisbane time) on 11 May 2016. It is also automatically made available to Foreign YCU Members (see below for further information).

### 12.3 How do I participate?

Scheme Participants (save for minors, being those YCU Members under the age of 18 as at 5.00pm (Brisbane time) on 11 May 2016 – minors should see the 'Minors Participation Instructions' below) wishing to sell their New Auswide Bank Shares using the Share Sale Facility should:

- carefully read the terms and conditions of the Share Sale Facility set out in Attachment VII to this Scheme Booklet;
- refer to the enclosed Sell Form, check that your name and address details on the form are correct and amend if necessary;
- sign the Sell Form or make an election online in accordance with the instructions on the Sell Form; and



- return the completed Sell Form to Computershare in accordance with the instructions between 10 May 2016 and 5.00pm on 23 May 2016.

#### *Minors participation instructions*

Minors (those Scheme Participants under the age of 18 as at 5.00pm (Brisbane time) on 11 May 2016) wishing to sell their New Auswide Bank Shares using the Share Sale Facility should, with the assistance of their parent or guardian (being a person over the age of 18 as at 5.00pm (Brisbane time) on 11 May 2016):

- carefully read the terms and conditions of the Share Sale Facility set out in Attachment VII to this Scheme Booklet;
- refer to the enclosed Sell Form, check that your name and address details on the form are correct and amend if necessary;
- a parent or guardian (over the age of 18 as at 5.00pm (Brisbane time) on 11 May 2016) of the minor is required to execute the Sell Form on behalf of the minor or make the election online in accordance with the instructions on the Sell Form; and
- return the completed Sell Form to Computershare in accordance with the instructions between 10 May 2016 and 5.00pm on 23 May 2016.

If Computershare does not receive a Sell Form from you or receive an election online from you before 5.00pm on 23 May 2016, you will be deemed to have elected not to participate in the Share Sale Facility and will be issued your New Auswide Bank Shares under the mechanics described in Section 13. The Share Sale Facility is entirely voluntary. You do not have to sell any Auswide Bank Shares. It is entirely your decision.

#### *Ineligible Foreign Members*

Under the Merger Proposal, Ineligible Foreign Members (i.e. those YCU Members with their registered address outside Australia) cannot be issued New Auswide Bank Shares as part of their Scheme Consideration. For this reason, Ineligible Foreign Members automatically participate in the Share Sale Facility and do not need to lodge a Sell Form (refer to section 4.6).

## **12.4 When is the Share Sale Facility open?**

The Offer Period during which eligible YCU Members can elect to participate in the Share Sale Facility will be from 10 May 2016 to 23 May 2016 inclusive.

Auswide Bank may extend or shorten the Offer Period or suspend or terminate the Share Sale Facility at any time up until the close of the Offer Period. If it does so, Auswide Bank will make an announcement to the ASX either before or as soon as practicable after doing so.

If you are a Share Sale Facility Participant, all of the New Auswide Bank Shares you receive or are entitled to receive under the Merger Proposal, will be available to be sold during the Sale Period, however there is no guarantee that they will be sold at any specific price, or on any specific date, or at all.

The Sale Period will be from 23 May 2016 to 24 June 2016 (inclusive), which at Auswide Bank's election (subject to obtaining ASIC approval), may be extended for a further period of up to 60 days if necessary to complete the sale of the New Auswide Bank Shares under the Share Sale Facility.

## **12.5 How and when will my New Auswide Bank Shares be sold?**

You should note that if you elect to sell your New Auswide Bank Shares using the Share Sale Facility, then you irrevocably appoint the Broker as "execution-only broker" to hold all of your New Auswide Bank Shares on your behalf in accordance with the Share Sale Facility Terms

and Conditions. The Broker will use its best endeavours to sell them for you through the Share Sale Facility on ASX in the ordinary course of business during the Sale Period.

However, Auswide Bank, YCU and the Broker do not provide any assurance or guarantee that any sale of New Auswide Bank Shares will occur during the Sale Period. Auswide Bank will pay all of the transaction costs associated with the sale (this excludes any tax liability that may be incurred on the sale of the New Auswide Bank Shares).

If you elect to use the Share Sale Facility, you should be aware that sales of New Auswide Bank Shares to be sold in accordance with the Share Sale Facility may occur at any time during the Sale Period and may be sold in a number of different batches at differing prices and to different buyers.

Sales will occur in conjunction with the sale of the New Auswide Bank Shares of Ineligible Foreign Members (refer to paragraph 4.6), although the New Auswide Bank Shares of Ineligible Foreign Members will be sold under the Share Sale Facility in first priority to the sale of New Auswide Bank Shares of Share Sale Facility Participants. The proceeds from the sale of all New Auswide Bank Shares will then be aggregated and divided (according to the volume weighted average price of all New Auswide Bank Shares sold) equally between each of the Share Facility Participants.

## **12.6 What price will I receive?**

Whilst the Broker will use its best endeavours to realise the best possible sale price, the price you receive for your New Auswide Bank Shares will depend on the price that can be obtained during the Sale Period by the Broker. The price you receive per New Auswide Bank Share will be the volume weighted average price of all New Auswide Bank Shares sold through the Share Sale Facility during the Sale Period.

However, you should note that that price may be different to the price for Auswide Bank Shares appearing in the newspaper or quoted by the ASX on the day that your Sell Form is completed or on any other day, and may not be the best price obtained on the trading day or trading days that your New Auswide Bank shares are sold.

Share Sale Facility Participants should refer to Section 10.3(g) regarding some of the general share market risks that may be relevant to participating in the Share Sale Facility and the discussion at pages 26 to 27 of the Independent Expert's Report concerning the Auswide Bank share price.

Share Sale Facility Participants should note that the price of Auswide Bank Shares is subject to change from time to time. The implementation of the Share Sale Facility may result in a significant number of New Auswide Bank Shares being offered for sale at the same or within a relatively short time. This could have the effect of depressing the sale price for Auswide Bank Shares.

Up-to-date information on the price of Auswide Bank Shares can be obtained from a number of sources including daily newspapers and the ASX website at [www.asx.com.au](http://www.asx.com.au).

## **12.7 When will I receive the proceeds?**

If you are a Share Sale Facility Participant, the proceeds from the sale will be deposited to your YCU savings account or dispatched to you as soon as reasonably possible but no later than 10 days after the expiry of the Sale Period. In the case of Share Sale Facility Participants over the age of 18 as at 5.00pm on 11 May 2016, the proceeds will be deposited to your YCU savings account or sent to the name and address set out in the Sell Form (as amended by the Scheme Participant or parent or guardian of the Share Scheme Facility Participant under the age of 18 (as applicable) when completing the Sell Form).

## **12.8 What if there is not a sufficient demand to buy my New Auswide Bank Shares under the Share Sale Facility?**

In the event that not all of the New Auswide Bank Shares are sold through the Share Sale Facility by the expiry of the Sale Period, then any remaining, unsold New Auswide Bank Shares

and the proceeds obtained from the sale of the New Auswide Bank Shares during the Sale Period (less the proceeds which will be paid to Share Sale Facility Participants who have registered addresses outside Australia) will be aggregated and equally divided among the Share Sale Facility Participants who have a registered address in Australia.

In these circumstances, Share Sale Facility Participants who have registered addresses in Australia will each have their payment deposited to their YCU savings account or be sent a cheque for their portion of the aggregate proceeds obtained from the sale of the New Auswide Bank Shares during the Sale Period, together with a holding statement for the balance of the unsold New Auswide Bank Shares to which they are entitled to under the Merger Proposal.

Share Sale Facility Participants with registered addresses outside Australia will receive their payment in their YCU savings account or via a cheque for all of their New Auswide Bank Shares given their New Auswide Bank Shares will be sold in first priority under the Share Sale Facility.

## 12.9 Can I withdraw my form?

The Offer Period commences on 10 May 2016. In the event that you provide your signed Sell Form to Computershare prior to the commencement of the Offer Period, Computershare will not process the Sell Form. Accordingly, you will be permitted to withdraw your election to participate in the Share Sale Facility at any time prior to 10 May 2016.

If you have not withdrawn your Sell Form by 10 May 2016, you are irrevocably bound to sell the number of Auswide Bank Shares you are entitled to as Scheme Consideration and you will not be able to cancel your election to sell or the sale process.

## 12.10 How does trading my Auswide Bank Shares through the Share Sale Facility compare with trading them on the ASX?

If you do not elect to sell your New Auswide Bank Shares using the Share Sale Facility you may sell your New Auswide Bank Shares at any other time after they have been issued and allotted to you provided Auswide Bank Shares continue to trade on ASX and provided that you wish to sell on a day the exchange is open for trade. Some different features of each method are outlined below:

<b><i>Selling New Auswide Bank Shares through the Share Sale Facility</i></b>	<b><i>Selling New Auswide Bank Shares through your broker on the ASX</i></b>
<b>You can only sell all of your New Auswide Bank Shares through the Share Sale Facility.</b>	You can sell all or a portion of your New Auswide Bank Shares.
<b>To participate, simply complete and return the Sell Form or make an election online. There is no need to appoint a broker.</b>	If you have never used a broker then you must first appoint one to represent you and establish an account.
<b>You will receive the average price of all New Auswide Bank Shares sold through the Share Sale Facility. You cannot set a sale price.</b>	You will receive the market price at the time your transaction request is acted upon – that price may be higher or lower than the average price of all New Auswide Bank Shares sold through the Share Sale Facility.
<b>The date on which your transaction request is acted on depends on the operation of the Share Sale Facility, however, there is no guarantee as to the price achieved through the Share Sale Facility.</b>	You can control the date on which your transaction request is acted on through your specific directions given to your broker.

**There will be zero brokerage fees paid for using the Share Sale Facility.**

You must pay all brokerage fees that are agreed with your broker (plus any applicable GST).

**12.11 Will I receive interest on amounts held on my behalf in the nominated account?**

No. Interest will not be paid on any balances.

**12.12 Important dates for the Share Sale Facility**

The timetable below is indicative only. Auswide Bank has the right to vary any or all of these dates and times and will provide reasonable notice of any such variation. Certain dates and times are conditional on the Scheme becoming Effective.

Offer Period opens	10 May 2016
Offer Period ends (last date for submitting your Sell Form to participate in the Share Sale Facility)	23 May 2016
Holding statements dispatched to Scheme Participants for Auswide Bank Shares issued under the Scheme	19 May 2016
Sale Period	23 May 2016 – 24 June 2016
Cheques posted to participants for shares sold under the Share Sale Facility	No later than 4 July 2016.

**12.13 Further information**

Full terms and conditions of the Share Sale Facility are contained in Attachment VII to this Scheme Booklet.

You should be aware that the sale of New Auswide Bank Shares using the Share Sale Facility may affect your Australian tax position. It is recommended that YCU Members obtain independent tax advice if they are in any doubt as to the tax treatment of the benefits they will receive under the Merger Proposal and also consider the taxation considerations outlined in Section 11 and Attachment VIII to this Scheme Booklet.

If any further information relating to the Share Sale Facility is made available by Auswide Bank, it will be announced by Auswide Bank to ASX where it may be accessed on ASX's website ([www.asx.com.au](http://www.asx.com.au)).

If Scheme Participants have any further questions about the Share Sale Facility, they can ring the YCU Member Information Line on 07 3020 5423 or via email at [contact@ycu.com.au](mailto:contact@ycu.com.au).

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## **D. MERGER MECHANICS AND MEETINGS**

## 13. Important Dates

Event	Time and Date
Date of this Scheme Booklet	11 March 2016
Latest time and date for receipt of Proxy Forms for the Scheme Meeting*	5pm on 16 April 2016
Latest time and date for receipt of Proxy Forms for the Demutualisation Meeting*	5.30pm on 16 April 2016
Time and date for determining eligibility to vote at the Scheme Meeting* and the Demutualisation Meeting*	5pm on 15 April 2016
Meeting of YCU Members to vote on the Scheme ( <b>Scheme Meeting*</b> )	5pm on 18 April 2016
Meeting of YCU Members to vote on the Demutualisation ( <b>Demutualisation Meeting*</b> )	5.30pm on 18 April 2016
<i>*The meetings will be held at City Hall - Kedron Room, 64 Adelaide Street, Brisbane</i>	
<b>If the Scheme and Demutualisation are approved by YCU Members</b>	
Second Court Date for approval of the Scheme	3 May 2016
Court order lodged with ASIC and Scheme takes effect ( <b>Effective Date</b> )	4 May 2016
Offer Period opens: first time and date when Sell Forms can be lodged	9.00am on 10 May 2016
Record Date for determining entitlement to receive Scheme Consideration ( <b>Record Date</b> )	5.00pm on 11 May 2016
Implementation of the Scheme ( <b>Implementation Date</b> ) - Scheme Participants receive the Scheme Consideration (i.e. payment of cash consideration and the issue of New Auswide Bank Shares)	19 May 2016
Expected dispatch of holding statements for New Auswide Bank Shares	19 May 2016
Close of Offer Period: last time and date by which Sell Forms can be lodged	5.00pm on 23 May 2016
New Auswide Bank Shares commence trading on the ASX on a normal settlement basis	23 May 2016
Expected date for transfer of net proceeds from the sale of New Auswide Bank Shares under the Share Sale Facility to YCU Members who elected to have their New Auswide Bank Shares sold	4 July 2016

The timetable above is indicative only. YCU has the right to vary any or all of these dates and times and will provide reasonable notice of any such variation. Certain dates and times are conditional on the approval of the Scheme and the Demutualisation by YCU Members and by the Court and Regulatory Authorities. Any changes to the below timetable (which may include an earlier Second Court Date) will be announced on YCU's website: [www.ycu.com.au](http://www.ycu.com.au)

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## **14. The Scheme Meeting**

### **14.1 Introduction**

If the Scheme is approved by YCU Members at the Scheme Meeting and all the Merger Conditions (other than Court approval of the Scheme) have been satisfied or waived (as applicable), then the following steps will apply. The description of these general steps is based on the obligations that YCU and Auswide Bank have under the Merger Implementation Agreement (Attachment II).

This Section:

- discusses the voting eligibility of YCU Members;
- discusses the eligibility of Scheme Participants to receipt of benefits of the Merger Proposal;
- discusses the purpose and effect of the Scheme;
- provides a summary of the Merger Implementation Agreement;
- provides a summary of the Scheme document and the Deed Poll; and
- provides a summary about approvals which are being sought under applicable legislation for the implementation of the Scheme.

All dates referred to in this Section are indicative only. The actual dates on which events referred to in this Section occur will depend upon the time at which the Merger Conditions are satisfied or, if applicable, waived. Those Merger Conditions are summarised in Section 14.7.

YCU has the right to vary all dates subject to the approval of such variation by Auswide Bank, the Court and the ASX where required. Any variation to the dates referred to in this Section will be published online at: [www.ycu.com.au](http://www.ycu.com.au).

### **14.2 Eligibility criteria regarding voting**

Pursuant to YCU's Constitution, except for YCU Members who are minors, each YCU Member shall have only one (1) vote, except if that person has been appointed as the trustee for an unincorporated association, family trust or incorporated body, in which case he or she may have one vote as an individual YCU Member and one vote in that other capacity.

### **14.3 Eligibility criteria regarding receipt of the benefits of the Merger Proposal**

Only YCU Members who have fully paid YCU Shares can participate in the Scheme and receive the Scheme Consideration.

### **14.4 The Scheme and the Merger Proposal**

#### **a) Purpose**

The purpose of the Scheme is to implement the terms of an arrangement between YCU and Scheme Participants that gives effect to the Merger Proposal. If approved, the Scheme is the mechanism by which each Scheme Participant will transfer their YCU Shares to Auswide Bank, in exchange for the Scheme Consideration.

The terms of the Scheme are set out in full in Attachment IV of this Scheme Booklet.

**b) Legal effect**

The Scheme, if approved as set out below, will constitute a binding arrangement between YCU and each Scheme Participant. Specifically, the Scheme will operate as a statutory mechanism under which:

- all YCU Shares held by each Scheme Participant (including those who do not vote on the Scheme and those who vote against it) will be transferred to Auswide Bank, without the need for any action on the part of the Scheme Participants; and
- each Scheme Participant (including those who do not vote on the Scheme and those who vote against it) will receive the Scheme Consideration as consideration in full for the transfer of all of their YCU Shares to Auswide Bank.

**c) Classes of members affected by the Scheme**

YCU has only one class of shares on issue - YCU Shares, and consequently they are the only class of YCU Members who will be affected by the Scheme.

The effect of the Scheme on YCU Members is that, if all of the necessary conditions and approvals are satisfied, each YCU Member will cease to be a holder of, or have any interest in, YCU Shares in return for receiving the Scheme Consideration.

**d) Certificates**

As certificates are not required to be issued for YCU Shares, certificates are not required for the transfer of shares.

## **14.5 Scheme Meeting**

**a) Purpose**

On 10 March 2016, the Court ordered YCU to convene a meeting of YCU Members to consider and vote on the Scheme.

The notice convening the Scheme Meeting is set out in Attachment V of this Scheme Booklet. The order of the Court convening the Scheme Meeting is not and should not be treated as an endorsement of, or any other expression of opinion by the Court of, the Merger Proposal.

**b) Resolution**

The following resolution will be put at the Scheme Meeting:

“That, pursuant to and in accordance with section 411 of the Corporations Act, subject to the Merger Conditions being satisfied or waived, YCU Members are in favour of the Scheme proposed between YCU and the YCU Members, the terms of which are contained in and more particularly described in the Scheme Booklet (of which the notice convening the Scheme Meeting forms part), with or without such modifications or conditions as approved by the Court and, subject to approval of the Scheme by the Court, the YCU Board is authorised to implement the Scheme with any such modifications or conditions.”

**c) Eligibility to vote at the Scheme Meeting**

Each person who is registered on the YCU Register as a YCU Member as at 5pm on 15 April 2016 (other than minors) is entitled to vote at the Scheme Meeting, either in person, by proxy or attorney or, in the case of a corporate YCU Member or proxy, by a representative.



Section 3 of this Scheme Booklet sets out the instructions for how to vote at the Scheme Meeting. A proxy form for the Scheme Meeting is enclosed with this Scheme Booklet.

**d) Voting majority required**

The Scheme Resolution is subject to approval by the Requisite Majorities required under section 411(4)(a)(ii) of the Corporations Act. The Scheme Resolution must be approved by:

- a majority in number (more than 50%) of YCU Members present and voting at the Scheme Meeting (whether in person, by proxy, attorney or, in the case of corporate YCU Members or proxies by corporate representative); and
- YCU Members whose YCU Shares in aggregate account for at least 75% of the votes cast on the Scheme Resolution.

## **14.6 Demutualisation Meeting**

**a) Purpose**

Before the Merger Proposal can be implemented, YCU must demutualise. The Demutualisation will require YCU Member approval of the Constitutional Amendments described in Section 15.5.

The purpose of the Demutualisation Meeting is to seek approval from YCU Members to amend the YCU Constitution to vary the rights of YCU Shares to effect the Demutualisation of YCU and enable the transfer of YCU Shares to Auswide Bank.

The Demutualisation Meeting will only take place if the Scheme Resolution is approved by the Requisite Majority.

The Demutualisation of YCU is conditional on the Scheme becoming Effective. If the Constitutional Amendment Resolution is approved by the Requisite Majority, but the Scheme does not become Effective, the Demutualisation will not take place and the Constitutional Amendments will not occur.

**b) Resolution**

The following resolution will be put at the Demutualisation Meeting:

“That, if the Scheme is approved by the Court (with or without modifications), the YCU Constitution be amended pursuant to section 136(2) and 246B(2) of the Corporations Act and for all other purposes with effect from the time the Scheme becomes Effective in the manner described in section 15.5 of the Scheme Booklet (of which the notice convening the Demutualisation Meeting forms part) and more particularly as shown in the copy of the YCU Constitution tabled at the meeting and signed and dated by the Chairman of the meeting for the purposes of identification.”

**c) Implications of Demutualisation**

The Demutualisation will change the rights of YCU Members. Currently, each YCU Member has the right to only one vote at general meetings, whether they hold one or more YCU Shares. Each YCU Member has the right to participate in the winding up of YCU, and the right to redeem his or her YCU Shares. There is no entitlement to dividends, and YCU Shares are not transferable.

If the Merger Proposal is implemented, YCU Members will give up these rights in exchange for ordinary shares in Auswide Bank. The rights attaching to those ordinary shares will be different, and are as set out in Section 9.12 (*Rights attaching to Auswide Bank Shares*). The rights attached to the Auswide Bank Shares include the ability to

transfer ownership of those shares, the right to receive dividends and the right to vote at meetings of Auswide Bank Shareholders with one vote for every Auswide Bank Share held.

Significantly, with ordinary shares a holder has the ability to increase their investment in a company and voting power on matters requiring shareholder decision or approval by purchasing additional ordinary shares. It is not currently possible for YCU Members to increase their investment or voting power as each YCU Member (usually) holds only one YCU Share.

The Demutualisation Meeting details are set out in Section 15 and Attachment VI.

## 14.7 Merger Implementation Agreement

On 22 December 2015, YCU and Auswide Bank entered into the Merger Implementation Agreement under which YCU agreed to the Merger Proposal. A summary of the key terms of the Merger Implementation Agreement is set out below and a copy of the Merger Implementation Agreement is provided in Attachment II (*Merger Implementation Agreement*).

### a) Conditions Precedent to the Scheme

Implementation of the Merger Proposal is conditional on, and will have no force or effect until, the satisfaction or waiver of the following conditions precedent, which are contained in the Scheme of Arrangement, the terms of which are reproduced in full in Attachment IV of this Scheme Booklet:

- as at 8.00am on the Second Court Date, the Deed Poll and Merger Implementation Agreement not having been terminated. The circumstances in which the Merger Implementation Agreement may be terminated are set out in full in the Merger Implementation Agreement in Attachment II and are summarised below;
- all of the conditions precedent in schedule 3 of the Merger Implementation Agreement (set out in the table below) having been satisfied or waived (other than the conditions precedent which cannot be waived, being items 1(c), 2, 3, or 4) in accordance with the terms of the Merger Implementation Agreement;
- the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act subject to such alterations or conditions as the Court thinks just, and if applicable, YCU and Auswide Bank having accepted in writing such modifications or conditions made or required by the Court under section 411(6) of the Corporations Act;
- the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

As at the date of this Scheme Booklet, neither YCU nor Auswide Bank is aware of any circumstances which would cause the outstanding Merger Conditions not to be satisfied or waived. YCU will update YCU Members on the status of the remaining Merger Conditions at the Scheme Meeting.

Item	Merger Condition	Status
1	<b>Regulatory Approvals</b>  Before 8.00am on the Second Court Date, the specified regulatory approvals are received, being:	

	<p>a) (<b>ASIC and ASX</b>) all ASIC and ASX approvals which the parties agree are necessary to implement the Merger Proposal;</p>	YCU is not aware of any ASIC or ASX approvals required to implement the Merger Proposal, following registration of the Explanatory Statement and Demutualisation Disclosure Statement by ASIC
	<p>b) (<b>Competition and Consumer Act 2010</b>) either:</p> <ul style="list-style-type: none"> <li>(i) the ACCC has not commenced or threatened to commence proceedings to restrain the Merger Proposal; or</li> <li>(ii) the ACCC has advised Auswide Bank in writing that it does not intend to oppose the Merger Proposal or it does not intend to oppose the Merger Proposal, subject to undertakings that are acceptable to Auswide Bank and YCU.</li> </ul>	YCU is not aware of any action, threatened or otherwise, taken by the ACCC to restrain the Merger Proposal or any indication that the ACCC intends to oppose the Merger Proposal.
	c) ( <b>Treasurer approval under FSSA and Banking Act</b> ) summarised below	On 22 January 2016, YCU and Auswide Bank jointly made an application for these approvals but no approval has been received as at the date of this Scheme Booklet.
	d) ( <b>Regulatory Authority</b> ) all other approvals of a Regulatory Authority that Auswide Bank and YCU agree are necessary to implement the Merger Proposal are obtained; and	Apart from the consent required by YCU under section 66 of the Banking Act to continue using the words "credit union" in relation to YCU for up to six months after the Effective Date, YCU is not aware of any further consents or approvals of a Regulatory Authority that are required to implement the Merger Proposal.
	e) ( <b>Court orders</b> ) no Court or Regulatory Authority has issued, or taken steps to issue, any kind of order or action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Merger Proposal and no such order or action is in effect.	YCU is not aware of any restraints or prohibitions.
2	<b>Demutualisation</b> – YCU Members approve the Demutualisation by the Requisite Majority.	The Demutualisation Meeting is to be held on 18 April 2016 at City Hall - Kedron Room, 64 Adelaide Street, Brisbane commencing at 5.30pm (Brisbane time) (or immediately after the conclusion of the Scheme Meeting, whichever occurs later).
3	<b>Scheme Meeting approval</b> – YCU Members approve the Scheme Resolution by the Requisite Majorities.	The Scheme Meeting is to be held on 18 April 2016 at City Hall - Kedron Room, 64 Adelaide Street, Brisbane commencing at 5pm.

4	<b>Court approval</b> – The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.	On 10 March 2016 the Court made an order to convene the Scheme Meeting.  Court approval of the Merger Proposal will be sought on or about 3 May 2016 (i.e. the Second Court Date).
5	<b>Third Party consents</b> – all other approvals of a third party which Auswide Bank and YCU agree are necessary to implement the Merger Proposal are obtained.	YCU is not aware of any consents or approvals from a third party that are required to implement the Merger Proposal.
6	<b>Independent Expert</b> – the Independent Expert issues a report which concludes that the Scheme and the Demutualisation are each in the best interests of YCU Members as a whole before the date on which the Scheme Booklet is lodged with ASIC.	Satisfied.
7	<b>No YCU Prescribed Event</b> occurs between the date of this document and 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, YCU is not aware of anything that will cause a YCU Prescribed Event to occur
8	<b>No YCU Material Adverse Change</b> occurs or becomes apparent between the date of this document and 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, YCU is not aware of anything that will cause a YCU Material Adverse Change to occur
9	<b>No Auswide Bank Prescribed Event</b> occurs between the date of this document and 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, YCU is not aware of anything that will cause an Auswide Bank Prescribed Event to occur
10	<b>No Auswide Bank Material Adverse Change</b> occurs or becomes apparent between the date of this document and 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, YCU is not aware of anything that will cause an Auswide Bank Material Adverse Change to occur
11	<b>Quotation</b> - the New Auswide Bank Shares to be issued pursuant to the Scheme have, before 8.00am on the Second Court Date, been approved for official quotation on the ASX.	Auswide Bank will apply to the ASX for quotation of the New Auswide Bank Shares
12	<b>No termination</b> - the Merger Implementation Agreement has not been terminated in accordance with clause 14 (summarised below)	As at the date of this Scheme Booklet, YCU, is not aware of anything that will cause the Merger Implementation Agreement to be terminated
13	<b>Deed Poll</b> - between the date of this document and the date of sending the Scheme Booklet, Auswide Bank signs and delivers the Deed Poll.	Auswide Bank has executed and delivered the Deed Poll on 26 February 2016
14	<b>YCU representations and warranties</b> - the representations and warranties given by YCU are true and correct in all respects as at the date of this document and as at 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, YCU is not aware of any material inaccuracies in its representations and warranties

15	<b>Auswide Bank representations and warranties-</b> the representations and warranties given by Auswide Bank are true and correct in all respects as at the date of this document and as at 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, Auswide Bank is not aware of any material inaccuracies in its representations and warranties
16	<p><b>Change of control</b> - No person exercises, purports to exercise, or states an intention to exercise, any rights under any instrument to which YCU or any Subsidiary of YCU is a party, or by or to which YCU or any Subsidiary of YCU or any of its assets may be bound, which may result (to a material extent) in:</p> <ul style="list-style-type: none"> <li>a) any monies borrowed by YCU or any Subsidiary of YCU being or becoming repayable or being capable of being declared repayable immediately or earlier than the repayment date stated in such agreement or other instrument;</li> <li>b) any such instrument being terminated or modified or any action being taken or arising thereunder;</li> <li>c) the interest of YCU or any subsidiary of YCU in any firm, joint venture, trust, corporation or other entity (or any arrangements relating to such interest) being terminated or modified; or</li> <li>d) the business of YCU or any Subsidiary of YCU with any other person being adversely affected,</li> </ul> <p>as a result of the acquisition of YCU Shares by Auswide Bank.</p>	YCU is not aware of any circumstances that would give rise to the events described here at item 16.
17	<b>Due diligence – YCU</b> – no material YCU Information becomes or is discovered to be misleading or deceptive, including by omission, in any material respect.	As at the date of this Scheme Booklet, YCU is not aware of anything that would result in the YCU Information being misleading or deceptive
18	<b>Due diligence – Auswide Bank</b> - no material Auswide Bank Information becomes or is discovered to be misleading or deceptive, including by omission, in any material respect.	As at the date of this Scheme Booklet, YCU is not aware of anything that would result in the Auswide Bank Information being misleading or deceptive

#### b) Treasurer's Approval

The FSSA prevents a person from acquiring a stake in a financial sector company of more than 15% without first obtaining the approval of the Treasurer of the Commonwealth of Australia.

The Merger Proposal is conditional on the Treasurer granting his approval under section 13 of the FSSA to Auswide Bank acquiring 100% of the shares in YCU.

Under section 63 of the Banking Act, it is an offence to effect a reconstruction of an ADI or enter into an arrangement or agreement for any sale or disposal of the ADI's business by amalgamation or otherwise without the Treasurer's prior written consent. Importantly, a reference to a reconstruction of an ADI includes a reference to a demutualisation of an ADI.

The Merger Proposal is also conditional on the Treasurer having given YCU his consent or indicating that he does not object to the Merger Proposal for the purposes of section 63 of the Banking Act.

Auswide and YCU jointly lodged an application with APRA on 22 January 2016 for the Treasurer's approvals and both Auswide Bank and YCU do not believe that there are any issues that will cause the Treasurer to object to the Merger Proposal. However, YCU and Auswide Bank cannot give any assurance as to the outcome of its application to the Treasurer.

### c) Implementation Committee

A committee comprising the managing director of each of YCU and Auswide Bank and such other persons agreed by the parties act as a forum for consultation and planning in relation to the implementation of the Merger Proposal. The business of each party will continue to operate separately until the Implementation Date.

### d) Exclusivity

- **(No shop)** Under the terms of the Merger Implementation Agreement, during the Exclusivity Period, YCU must ensure that neither it nor any of its Related Bodies Corporate, nor any of its Representatives directly or indirectly:
  - (a) solicits, invites, encourages or initiates any enquiries, negotiations or discussions; or
  - (b) communicates any intention to do any of these things, with a view to obtaining any offer, proposal or expression of interest from any person in relation to a Competing Transaction.

Nothing prevents YCU from continuing to make normal presentations to, and to respond to enquiries from, any person in the ordinary course in relation to the Merger or its business generally.

- **(No talk)** During the Exclusivity Period, YCU must ensure that neither it nor any of its Related Bodies Corporate nor any of its Representatives:
  - (a) negotiates or enters into;
  - (b) provides any non-public information (including due diligence information) to a third party in connection with (or with a view to obtaining); or
  - (c) participates in negotiations or discussions with any other person regarding, a Competing Transaction, even if that person's Competing Transaction was not directly or indirectly solicited, invited, encouraged or initiated by YCU or any of its Related Bodies Corporate or Representatives or the person has publicly announced the Competing Transaction.
- **(No due diligence)** YCU must ensure that neither it nor any of its Related Bodies Corporate or Representatives:
  - (a) solicits, invites, initiates, encourages or permits any other person other than Auswide Bank and their Representatives to undertake due diligence investigations on YCU or any of its Related Bodies Corporate; or

- (b) makes available to any other person or permits any other person to receive other than Auswide Bank and its Representatives any non-public information relating to YCU or any of its Related Bodies Corporate.
  - **(Notice of unsolicited approach)** YCU must promptly inform Auswide Bank if it, or any of its Related Bodies Corporate or Representatives, receives any unsolicited approach with respect to any Competing Transaction and must disclose to Auswide Bank the fact that such an approach has been made and the general nature of the approach.
  - **(Exceptions)** The “no-talk” and “no due diligence” provisions do not apply to the extent they restrict YCU or the YCU Board from taking or refusing to take any action with respect to a bona fide Competing Transaction (which was not solicited, invited, encouraged or initiated) provided that the YCU Board has determined, in good faith that:
    - (a) after consultation with its financial advisors, such a bona fide Competing Transaction could reasonably be considered to become a Superior Proposal; and
    - (b) after receiving written legal advice from Queen’s Counsel or Senior Counsel, that failing to respond to such a bona fide Competing Transaction would be reasonably likely to constitute a breach of the YCU Board’s fiduciary or statutory obligations.
  - **(Matching Right)** during the Exclusivity Period, YCU:
    - (a) must not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) pursuant to which a third party or YCU proposes to undertake or give effect to a Competing Transaction; and
    - (b) must use its best endeavours to procure that none of its directors change their recommendation in favour of the Demutualisation and the Scheme to publicly recommend a Competing Transaction,
- unless
- (c) the YCU Board acting in good faith determines that the Competing Transaction would or would likely to be a Superior Proposal;
  - (d) YCU has provided Auswide Bank with the material terms and conditions of the Competing Transaction, including price and the identity of the party making the proposal; and
  - (e) YCU has given Auswide Bank at least 5 Business Days after the provision of the information referred to above at (d) to provide a matching or superior proposal (“**Matching Offer**”) to the terms of the Competing Transaction (this has repeating application).

If the YCU Board consider the Matching Offer to be more favourable than the Competing Transaction then the parties must use their best endeavours to agree to amend the Merger Implementation Agreement and the contents of the Scheme Booklet as necessary.

#### e) Termination

The Merger Implementation Agreement may be terminated:

- **(End Date)** by either party if the Scheme has not become Effective on or before the End Date (30 June 2016);

- (***lack of support or breach***) at any time prior to 8.00am on the Second Court Date:
  - by Auswide Bank if the YCU Board changes its recommendation to the Scheme Participants or YCU Members (as applicable) that they vote in favour of the Resolutions, including any adverse modification to its recommendation, or otherwise makes a public statement indicating that it no longer supports the Merger Proposal;
  - by Auswide Bank or YCU if the other is in material breach of any clause of the Merger Implementation Agreement (including a warranty), taken in the context of the Merger Proposal as a whole, provided that either party, as the case may be, has, if practicable, given notice to the other setting out the relevant circumstances and stating an intention to terminate and, the relevant circumstances continue to exist five Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date) after the time such notice is given;
- (***not approved***) by either party if the Constitutional Amendment Resolution or the Scheme Resolution is not approved by the Requisite Majority;
- (***restraint***) by either party if the Merger Proposal is not approved by a Court or other Regulatory Authority;
- (***consultation*** or appeal failure) in accordance with and pursuant to:
  - clause 3.9(a) of the Merger Implementation Agreement;
  - clause 3.9(b) of the Merger Implementation Agreement; or
  - clause 13.1 of the Merger Implementation Agreement;
- (***Independent Expert***) by either party if the Independent Expert opines that the Demutualisation or the Scheme is not in the best interests of YCU Members as a whole or that the Demutualisation or the Scheme is not fair or not reasonable;
- (***Insolvency***) by either party if the other party or any of their Related Bodies Corporate become insolvent; or
- (***agreement***) if agreed to in writing by Auswide Bank and YCU.

#### 14.8 Deemed warranty on transfer of shares to Auswide Bank

The terms of the Scheme provide that each Scheme Participant will be deemed to have warranted that:

- a) all of their YCU Shares (including any rights and entitlements attaching to those shares) transferred to Auswide Bank under the Scheme will, as at the date of the transfer, be fully paid and free from all mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement or any other security arrangements having the same effect; and
- b) they have the full power and capacity to sell and transfer their YCU Shares (including any rights and entitlements attached to those YCU Shares) to Auswide Bank under the Scheme.



## 14.9 Reimbursement Amount

### ***Payment by YCU to Auswide Bank***

YCU must pay Auswide Bank the Reimbursement Amount in the following circumstances:

- a) (***Competing Transaction***) if on or before 30 June 2016:
  - a. YCU enters into a legally binding agreement to undertake a Competing Transaction;
  - b. any member of the YCU Board recommends a Competing Transaction; or
  - c. the YCU Board determines or announces that a Competing Transaction is a Superior Proposal;
- b) (***change of recommendation***) any member of the YCU Board fails to recommend the Scheme or withdraws their recommendation **except if**:
  - (i) the director changes their recommendation following the receipt of the Independent Expert's Report where that report states that in the Independent Expert's opinion, the Demutualisation or the Scheme is not in the best interests of YCU Members as a whole or is not fair or not reasonable (other than where a Competing Transaction has been proposed or announced before the report is issued which the Independent Expert may reasonably regard to be on more favourable terms than the Merger Proposal);
  - (ii) there is a failure of a condition precedent in the Merger Implementation Agreement in schedule 3, items 1 (regulatory approvals), 2 (demutualisation), 3 (share scheme approval), 4 (court approval) or the Merger Implementation Agreement is terminated under clause 14.1 (restraint) other than as a result of a breach by YCU of its obligation to use reasonable endeavours; or
  - (iii) YCU validly terminates the Merger Implementation Agreement.
- c) (***material breach***) YCU is in material breach of the Merger Implementation Agreement and Auswide Bank validly terminates the Merger Implementation Agreement in accordance with clause 14.1(b)(ii) of that agreement as a result;
- d) (***YCU Prescribed Event or YCU Material Adverse Change***) all of the following are satisfied:
  - (i) a YCU Prescribed Event or a YCU Material Adverse Change occurs prior to 8.00am on the Second Court Date; and
  - (ii) this agreement is terminated in accordance with clause 14; and
  - (iii) all of the following apply in relation to the YCU Prescribed Event or the YCU Material Adverse Change:
    - (A) the prevention of the YCU Prescribed Event or YCU Material Adverse Change was within the control of YCU; and
    - (B) had the YCU Prescribed Event or YCU Material Adverse Change occurred prior to the date of this agreement, the YCU Prescribed Event or YCU Material Adverse Change might reasonably be expected to have resulted in Auswide Bank not entering into this agreement; and
    - (C) YCU has failed to rectify the YCU Prescribed Event or YCU Material Adverse Change within 10 Business Days after receipt of notice from Auswide Bank requiring YCU to do so; or

- e) (**exclusivity**) YCU is in breach of its 'exclusivity arrangements' and fails to cease the conduct which caused the breach within one Business Day following written notice from Auswide Bank outlining the nature of the breach.

### **Payment by Auswide Bank to YCU**

Auswide Bank must pay the Reimbursement Amount to YCU if the Merger Proposal does not proceed because Auswide Bank is in material breach of the Merger Implementation Agreement and YCU validly terminates the Merger Implementation Agreement in accordance with clause 14.1(b)(ii) of that agreement as a result.

No amount is payable by either YCU or Auswide Bank if the Scheme becomes Effective.

## **14.10 The Scheme document**

### **(a) Implementation of the Merger Proposal**

The Scheme is intended to bind YCU and any YCU Member at the Record Date and provides for various conditions precedent all of which will have been satisfied if the approval of the Court is given.

### **(b) When the Scheme becomes Effective**

The Scheme becomes Effective when an office copy of the order of the Court is lodged with ASIC.

### **(c) Consent to variation of rights attaching to YCU Shares**

It is a condition precedent that the YCU Members agree to vary the rights attached to YCU Shares to, amongst other things, permit YCU Shares to be transferred.

### **(d) Implementation steps**

The key steps are obtaining approval of the YCU Members at the Scheme Meeting and the Demutualisation Meeting and then obtaining Court approval.

On the Implementation Date, subject to the provision of the Scheme Consideration for the YCU Share, together with all rights and entitlements attaching to the YCU Share as at the Implementation Date, which is 10 business days after the Effective Date, will be transferred to Auswide Bank without the need for any further act by any Scheme Participant.

### **(e) Scheme Consideration**

The Scheme Consideration to be paid to each eligible YCU Member is \$4055 cash and 696 New Auswide Bank Shares on the Implementation Date.

### **(f) Foreign YCU Members**

The obligation of Auswide Bank to issue New Auswide Bank Shares to a Scheme Participant who is a Foreign YCU Member will be satisfied by Auswide Bank issuing the New Auswide Bank Shares to which the Scheme Participant would have been entitled (were they not a Foreign YCU Member) to the Broker, who will sell the shares for the benefit of the Foreign YCU Member.

### **(g) Covenants by Scheme Participants**

Under the Scheme each of the Scheme Participants:

- (i) irrevocably consents to YCU and Auswide Bank doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (ii) acknowledges that this Scheme binds YCU and all Scheme Participants (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) and, to

the extent of any inconsistency and to the extent permitted by law, overrides the constitution of YCU.

Each Scheme Participant agrees to any variation, alteration or condition of the Scheme which the Court thinks fit to impose and which has been consented to by YCU.

**(h) Shares to rank equally**

Auswide Bank covenants in favour of YCU (in its own right and on behalf of each Scheme Participant) that:

- (i) all New Auswide Bank Shares will rank equally to all other Auswide Bank Shares on issue;
- (ii) it will do everything reasonably necessary to ensure the New Auswide Bank Shares commence trading no later than the first Business Day after the Implementation Date; and
- (iii) on issue, each New Auswide Bank Share will be fully paid and free from any encumbrance.

**(i) Sale facility** (please see summary provided above at paragraph 12)

**14.11 No encumbrances on transfer of YCU Shares to Auswide Bank**

YCU Members' attention is drawn to clause 5.7 (*Transfer free of encumbrances*) of the Scheme which provides that, to the extent permitted by law, all shares in YCU (including any rights and entitlements attaching to those shares) which are transferred to Auswide Bank under the Scheme will, at the date of the transfer of them to Auswide Bank, vest in Auswide Bank free from all mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement or any other security arrangement having the same effect – see Attachment IV (*Scheme of Arrangement*).

**14.12 Deed Poll**

On 26 February 2016, Auswide Bank executed the Deed Poll pursuant to which Auswide Bank agreed, subject to the Scheme becoming Effective, to provide the Scheme Consideration to each Scheme Participant. A copy of the Deed Poll is included in Attachment III (*Deed Poll*).

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

**14.13 Court approval**

YCU will apply to the Court for an order approving the Scheme if:

- a) the Scheme is approved by the Requisite Majority at the Scheme Meeting; and
- b) the Constitutional Amendment Resolution is approved by the Requisite Majority at the Demutualisation Meeting.

The Court has a discretion as to whether to grant the orders approving the Scheme, even if the Scheme is approved by the Requisite Majority.

Each YCU Member and, with the Court's permission, any other interested person, has the right to appear at the Second Court Hearing.

If you wish to oppose the approval of the Scheme at the Second Court Hearing you may do so by filing with the Court and serving on YCU an interlocutory application in the prescribed form together with any affidavit on which you wish to rely at the hearing. With leave of the Court, you may also oppose the approval of the Scheme by appearing at the Second Court Hearing and

applying to raise any objections you may have at the hearing. YCU should be notified in advance of an intention to object. The date for the Second Court Hearing is currently scheduled to be 3 May 2016, though an earlier date may be sought. Any change to this date will be notified on YCU's website ([www.ycu.com.au](http://www.ycu.com.au)).

#### **14.14 Scheme Record Date**

The YCU Members on the YCU Register at the Record Date, being 5pm on 11 May 2016 (Brisbane time) on the fifth Business Day after the Effective Date, will be entitled to receive the Scheme Consideration in respect of the YCU Shares they hold as at the Record Date.

#### **14.15 Determination of persons entitled to the Scheme Consideration**

To establish the identity of the Scheme Participants, dealings in YCU Shares will only be recognised by YCU if:

- a) the transferee is registered in the YCU Register as the holder of the relevant YCU Share on or before 5.00pm on the Record Date; and
- b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the YCU Register is kept.

#### **14.16 YCU Register**

YCU must register any registrable transmission applications or transfers of the YCU Shares received in accordance with Section 14.15 (*Determination of persons entitled to the Scheme Consideration*) on or before 5.00pm on the Record Date.

#### **14.17 No disposals after Effective Date**

If the Scheme becomes Effective, YCU Members may not dispose of or purport or agree to dispose of any YCU Shares after the Effective Date. Any dealings in YCU Shares after this time will not be recognised.

#### **14.18 Maintenance of the YCU Register**

For the purpose of determining entitlements to the Scheme Consideration, YCU will maintain the YCU Register until the Scheme Consideration has been received by the Scheme Participants and Auswide Bank has been entered in the YCU Register as the holder of all the YCU Shares. The YCU Register in this form will solely determine entitlements to the Scheme Consideration.

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## 15. Demutualisation information

### 15.1 Introduction

This Section is designed to help you decide whether to vote for or against the Constitutional Amendment Resolution at the Demutualisation Meeting. The Merger Proposal described in this Scheme Booklet cannot proceed unless the Constitutional Amendment Resolution is passed at the Demutualisation Meeting.

The Demutualisation information should be read in conjunction with the following documents which are included in the Scheme Booklet:

- a) the Notice of Demutualisation Meeting (Attachment VI); and
- b) Independent Expert's Report (Attachment I).

A Proxy Form for the Demutualisation Meeting accompanies the Scheme Booklet.

The Demutualisation Meeting will be held at the City Hall - Kedron Room, 64 Adelaide Street, Brisbane, at **5.30pm (Brisbane time) on Monday 18 April 2016** or immediately after the conclusion of the Scheme Meeting (whichever occurs later).

This Section:

- a) explains the terms and effect of the Constitutional Amendment Resolution;
- b) states any material interests of the YCU Directors, whether as YCU Directors, YCU Members or otherwise, and the effect of the Demutualisation on those interests as far as that effect is different from the effect on similar interests of other persons; and
- c) provides such information as is prescribed by the Corporations Act and the Corporations Regulations or as is otherwise material to the decision of YCU Members whether to approve the Demutualisation.

An explanation of words, terms and abbreviations used in this Section is set out in the Glossary Section at the end of this Scheme Booklet.

### 15.2 What is demutualisation?

YCU is a mutual which is permitted to call itself a credit union within the meaning prescribed by the Banking Act and APRA.

One of the principles of mutuality is that each member is only entitled to hold one share and that share only confers the right to one vote.

In the case of credit unions, demutualisation separates a member's interests as a customer from their interests as a shareholder.

Demutualisation is the process where the principles of mutuality (including the "one share, one vote" principle) are relinquished, modified or repealed through changes to the constitution or through the restructure of the business or entity. The YCU Board has proposed a special resolution to adopt the Constitutional Amendment Resolution set out in Section 15.5.

Approval of the Constitutional Amendment Resolution means that YCU will cease to be a mutual and the YCU Member's YCU Shares will be transferable to Auswide Bank.

If the credit union is no longer a mutual, it will not be entitled to call itself a "credit union", without obtaining APRA approval in accordance with the Banking Act.

The YCU Directors believe that the Demutualisation is in the best interests of YCU and the YCU Members as a whole and therefore recommend that you vote in favour of the Constitutional

Amendment Resolution. This recommendation is also supported by the Independent Expert (see section 15.4 for further information).

### **15.3 ASIC and the Corporations Act**

Pursuant to Schedule 4 of the Corporations Act, ASIC has a supervisory role in respect of the demutualisation of mutuals such as YCU.

The demutualisation triggers the operation of Part 5 of Schedule 4 of the Corporations Act as the proposal involves modifying the YCU Constitution so as to vary the rights of members.

Part 5 requires that a meeting of members be called. Prior to the meeting, the credit union must send:

- members a disclosure statement that satisfies the requirements of Part 5 and that is registered with ASIC;
- an estimate of the financial benefits (if any) that members will be offered; and
- an expert's report.

The disclosure statement must give members all the information they would reasonably require and expect to be given to make an informed decision about the proposal. The expert's report must state whether in the expert's opinion, the proposal is in the best interests of the members of the company as a whole, give the expert's reasons for that opinion, and comply with various other requirements.

In accordance with section 32(1) of Schedule 4 of the Corporations Act, the Demutualisation Disclosure Statement contained in the Scheme Booklet was registered with ASIC on 11 March 2016 on the basis that it sets out or explains the matters in clause 32(1) of Schedule 4 of the Corporations Act. Registration of this Demutualisation Disclosure Statement does not mean that ASIC has considered whether the Demutualisation is in the best interests of YCU Members as a whole.

### **15.4 Independent Expert's Report**

Throughout this Section there are references to, and extracts from, the Independent Expert's Report prepared by Lonergan Edwards & Associates. These references and extracts are included subject to the assumptions, qualifications and context in which they appear in the Independent Expert's Report which is included at Attachment I.

The Independent Expert has concluded that the Demutualisation of YCU is fair and reasonable and in the best interests of YCU members as a whole.

The Independent Expert's reasons for the opinion are:

1. the Scheme is fair and reasonable and in the best interests of YCU Members as a whole;
2. the Demutualisation is required in order to implement the Scheme; and
3. the Scheme provides YCU Members with the ability to realise the full underlying value of their YCU Shares. Such a liquidity event is not possible under YCU's existing constitution in the absence of the Demutualisation.

YCU Members should refer to and carefully consider the content of the Independent Expert's Report.

## 15.5 What are the proposed Constitutional Amendments?

The Constitutional Amendments will change the YCU Constitution principally to enable YCU Shares to be transferred to Auswide Bank so that the Merger Proposal can be implemented. The Merger Proposal is conditional on the Constitutional Amendment Resolution being approved and taking effect, and involves the:

- i. amendment of the YCU Constitution; and
- ii. Eligibility to vote at the Demutualisation Meeting  
Except for members who are minors, each YCU member shall have only one (1) vote, except if that person has been appointed as the trustee for an unincorporated association, family trust or incorporated body, in which case he or she may have one vote as an individual YCU member and one vote in that other capacity.
- iii. Voting majority required  
The Constitutional Amendments require a special resolution. In order to pass a special resolution, at least 75% of the votes cast by YCU Members (whether in person or by proxy) must be in favour of the resolution.

The Resolution proposes the Constitutional Amendments which include the following:

- a) removal of the prohibition on the transfer of YCU Shares and providing that a person ceases to be a YCU Member when their YCU Share is transferred;
- b) removing the limit of one YCU Share per member (to enable Auswide Bank to acquire all of the shares in YCU) and one vote per YCU Member;
- c) permitting the payment of a dividend on YCU Shares;
- d) permitting a person who is not a YCU Member to be a YCU Director;
- e) removing the requirement that customers must be YCU Members;
- f) if there is only one YCU Member, permitting the quorum for a member's meeting to be that one YCU Member; and
- g) replacing references to "credit union" with "company" wherever it is used in the YCU Constitution; and
- h) insert transitional provisions for the period between the Demutualisation Meeting and the Effective Date.

A copy of the marked-up amended YCU Constitution is available on YCU's website at [www.ycu.com.au](http://www.ycu.com.au) and will be sent to any YCU Member upon request. A copy of the amended YCU Constitution will also be available for inspection at YCU's registered office during normal business hours prior to the Demutualisation Meeting and available for inspection at the Demutualisation Meeting.

The Constitutional Amendment Resolution is also being proposed for the purposes of sanctioning the variation under section 246B of the Corporations Act of the rights attaching to YCU Shares. The Constitutional Amendment Resolution will constitute a resolution of YCU, as well as a resolution of the affected class (i.e. all YCU Members) for the purposes of section 246B of the Corporations Act.

The Constitutional Amendment Resolution is conditional on the Scheme becoming Effective.

Accordingly, if the Scheme Resolution is not approved or one or more of the other Resolutions is not passed by the Requisite Majority, or the Merger Conditions are not satisfied or waived (as applicable), the Constitutional Amendments will not come into effect and the current YCU Constitution will continue to govern the rights and liabilities of YCU Members.

As the proposed Constitutional Amendments are conditional upon the Scheme becoming Effective, YCU Members' rights will not be affected by these amendments. This is because, upon satisfaction of the Merger Conditions, YCU Members will cease to have any rights in relation to YCU. The Constitutional Amendments will facilitate the transfer of all YCU Shares to Auswide Bank which is required to implement the Merger Proposal.

The result of the Scheme becoming Effective will be that all YCU Members will receive the Scheme Consideration on the Implementation Date.

The Demutualisation will not affect any loan or deposit accounts or other services provided by YCU. In terms of day-to-day operational matters, it will be "business as usual" for all customers.

All YCU Members (except for minors) are entitled to vote on the Constitutional Amendment Resolution. The YCU Board unanimously recommends that you vote in favour of the Constitutional Amendment Resolution at the Demutualisation Meeting in order to give effect to the Demutualisation. Refer to Section 2 for detailed reasons for the recommendation of the YCU Board.

As further described in Section 14.6, the Constitutional Amendment will only take effect on and from the Effective Date, following the approval of the Scheme at the Scheme Meeting and Court approval.

Similarly, the retirement of the current YCU Directors and the appointment of the Auswide Bank nominee directors will only occur following approval of the Resolutions and following Court Approval.

In other words, the Demutualisation is an "all-or-nothing" proposal and the Resolutions must be approved by the Requisite Majorities in order to give effect to the Merger Proposal.

The Demutualisation of YCU is conditional on the Scheme being Effective. If the Constitutional Amendment Resolution is approved by the Requisite Majority, but the Scheme does not become Effective, the Demutualisation will not occur and the Constitutional Amendments will not occur.

Refer to Section 10 for the consequences if the Merger Proposal does not proceed.

## **15.6 Effect of the Demutualisation on YCU's Members**

If the Resolutions are approved by the Requisite Majorities and the Scheme becomes Effective, the Merger Proposal will be implemented and YCU's membership structure will change. If the Resolutions are not approved, or if the Scheme does not become Effective, YCU's present structure will continue, and no Scheme Consideration will be paid under the Merger Proposal.

As at the date of this Scheme Booklet, the capital structure of YCU comprises of 4,094 YCU Shares.

Each YCU Member holds a YCU Share (paid up to \$10.00) with the rights described in this Section.

YCU Members currently have certain rights under the YCU Constitution. These rights include:

- i. the right to attend and vote at YCU Members' meetings (unless the YCU Member is a minor);
- ii. the right to elect YCU Directors; and
- iii. the right to share in any surplus assets of YCU in the event that YCU is wound up.

Following implementation of the Merger Proposal, YCU will be a wholly-owned subsidiary of Auswide Bank. Current YCU Members will have no YCU membership rights; they will be customers only. They will have no right to vote other than the right they have as an Auswide Bank Shareholder, provided that they hold onto their New Auswide Bank Shares that will be



issued as part of the Scheme Consideration. YCU Members will have no right to share equally in YCU's surplus assets in the event that it is ever wound up. If YCU Members continue to hold onto their New Auswide Bank Shares, Auswide Bank Shareholders have the right in a winding up to participate equally in the distribution of the assets of Auswide Bank (both capital and surplus), subject only to any amounts unpaid on the ordinary share.

A comparison of the rights of YCU Members before (as a YCU Member) and after (as an Auswide Bank Shareholder) the implementation of the Merger Proposal is set out below:

	<b>Rights under YCU Constitution</b>	<b>Rights under Auswide Bank constitution if the Merger Proposal is implemented and a YCU Member retains their New Auswide Bank Shares</b>
<b>Voting Rights</b>	<p>A YCU Member has the right to attend and vote at a YCU Members' meeting.</p> <p>Each YCU Member is entitled to only one vote either on a show of hands or on a poll. YCU Members who are less than 18 years old may not vote.</p>	<p>At a general meeting of Auswide Bank, subject to any restrictions, on a show of hands each holder of an Auswide Bank Share present in person, or by proxy, attorney or representative, has one vote.</p> <p>On a poll, each holder of an Auswide Bank Share has:</p> <ul style="list-style-type: none"> <li>• one vote for each fully paid Auswide Bank Share held by the member; and</li> <li>• for each partly paid share held by the member, a fraction of a vote equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited on the share).</li> </ul> <p>A resolution put to the vote at an Auswide Bank shareholder's meeting is decided on a show of hands unless a poll is demanded in accordance with the Corporations Act.</p> <p>The chairperson does not have a casting vote (in addition to the chairperson's votes as a member, proxy, attorney or representative) on a show of hands or on a poll.</p> <p>The quorum at a general meeting is 8 members present in person or by proxy, attorney or representative.</p>
<b>Transfer of Share</b>	<p>Generally, YCU Members may not transfer their YCU Shares.</p>	<p>Auswide Bank Shares, when quoted on ASX are transferable by:</p> <ul style="list-style-type: none"> <li>• a written transfer instrument in any usual or common form, or in any other form approved by the Auswide Bank Directors;</li> <li>• any computerised or electronic system used for market settlement, securities transfer and registration conducted in accordance with the Corporations Act, the Listing Rules and the ASX Operating Rules.</li> </ul>

	<b>Rights under YCU Constitution</b>	<b>Rights under Auswide Bank constitution if the Merger Proposal is implemented and a YCU Member retains their New Auswide Bank Shares</b>
		The Auswide Bank Directors may refuse to register a transfer of Auswide Bank Shares in circumstances permitted by the Listing Rules, ASX or the Auswide Bank constitution.
<b>Rights on a winding up</b>	On a winding up, a YCU Member has the right to receive payment of the subscription paid for each YCU Share that the YCU Member holds and to participate in any surplus of assets on an equal basis with other holders of YCU Shares.	<p>Auswide Bank Shareholders have the right in a winding up to participate equally in the distribution of the assets of Auswide Bank (both capital and surplus), subject only to any amounts unpaid on the ordinary share.</p> <p>If Auswide Bank is wound up, the liquidator may, with the sanction of a special resolution of Auswide Bank Shareholders:</p> <ul style="list-style-type: none"> <li>a) divide among the members in kind all or any of the company's assets; and</li> <li>b) for that purpose, determine how he or she will carry out the division between the different classes of members,</li> </ul> <p>but may not require a member to accept any shares or other securities in respect of which there is any liability.</p> <p>The liquidator may with the sanction of a special resolution of Auswide Bank Shareholders, vest all or any of Auswide Bank's assets in a trustee on trusts determined by the liquidator for the benefit of the contributories.</p>
<b>Dividends</b>	No dividend may be paid in respect of any YCU Share.	<p>Subject to the Corporations Act, the Auswide Bank Directors may determine that a dividend is payable and fix the amount, the time for payment and the method of payment.</p> <p>The dividend to be paid to the holder of a partly paid share must not exceed that proportion of the dividend to be paid to the holder of a fully paid share that the amount paid up on the share (not credited as paid up) bears to the total issue price of the share (excluding amounts credited as paid up).</p> <p>The Auswide Bank Directors may resolve that the method of payment of a dividend will be wholly or partly by the transfer or distribution of specific assets, including fully paid shares in, or debentures of, any other corporation.</p> <p>If and to the extent authorised by resolution of Auswide Bank in general meeting, the</p>

	<b>Rights under YCU Constitution</b>	<b>Rights under Auswide Bank constitution if the Merger Proposal is implemented and a YCU Member retains their New Auswide Bank Shares</b>
		Auswide Bank Directors may subject to the Listing Rules, establish a plan whereby members or any class of members may elect to reinvest cash dividends paid by the company by subscribing for shares in Auswide Bank.
<b>Directors</b>	Only YCU Members are eligible to be appointed as YCU Directors, who may be elected following a nomination and election process involving a ballot, or they may be appointed by the YCU Board to fill a casual vacancy.	<p>Auswide Bank may from time to time by resolution passed at a general meeting increase or reduce the number of directors, but the number must not be less than 5 or more than 10 (unless the company resolves otherwise).</p> <p>The Auswide Bank Directors may appoint any person as a director to fill a casual vacancy or as an addition to the number of existing directors. That director will then hold office until the next annual general meeting of the company when the director may be re-elected but will not be taken into account in determining the number of directors who must retire by rotation.</p>

All YCU Members who continue to hold a YCU account, regardless of whether or not they retain Auswide Bank Shares pursuant to the Merger Proposal will continue to be valued customers of Auswide Bank.

## 15.7 Auswide Bank Shares

Refer to Section 9 for an explanation in relation to the New Auswide Bank Shares to be issued as part of the Scheme Consideration including with respect to:

- (a) who will and will not receive shares under the issue; and
- (b) the rights and obligations attached to the shares; and
- (c) the implications of the share issue for the management and structure of the company.

## 15.8 Financial benefits

No direct financial benefit will be paid to any YCU Member in relation to the Demutualisation.

However, if the Merger Proposal is implemented, YCU Members will receive the Scheme Consideration.

Each eligible YCU Member will receive the same Scheme Consideration: \$4055 cash and 696 New Auswide Bank Shares.

There is no minimum period of membership that a YCU Member must satisfy to receive the Scheme Consideration. The Scheme Consideration will be paid to all YCU Members as at the Record Date.

YCU Members are not required to pay any amount or provide other value to participate in the Scheme.

No preferential allocation of benefits will be given to YCU Members, or a class of YCU Members, except as set out below.

### **15.9 Benefits to officers**

No officer of YCU, whether current or retiring, will receive any direct financial benefit in connection with Demutualisation.

Officers of YCU, who are all YCU Members, may receive the Scheme Consideration. Any such indirect benefit will accrue by virtue of that person's membership and not by virtue of their being an officer.

YCU does not provide services to officers on terms more favourable than those available to YCU Members generally.

No retirement or severance benefit is payable to officers other than:

- a) superannuation Guarantee Legislation contributions which are included in aggregate remuneration paid to YCU Directors;
- b) superannuation contributions which form part of aggregate remuneration of employees;
- c) YCU Directors' retirement benefits under the Directors' Deeds and Board Retirement Benefits Policy (see Section 9); and
- d) severance benefits which may be payable to an employee as a consequence of termination of employment.

The YCU Board may be permitted to establish a special compensation and redundancy pool in relation to the Scheme from which the entitlements of YCU Directors and employees may be paid. For further information, please refer to Sections 9.4 and 9.5 of this Scheme Booklet.

There will be no special allocation of Auswide Bank Shares to any party (including directors and employees) in addition to the New Auswide Bank Shares they are eligible to receive as part of the Scheme Consideration in their personal capacity as eligible YCU Members.

Officers who are YCU Members who receive New Auswide Bank Shares will be entitled to receive dividends declared on those Auswide Bank Shares.

### **15.10 YCU Directors' interests and the impact of the Demutualisation**

As required by the current YCU Constitution, each YCU Director is a YCU Member. The YCU Directors do not have any material interests in respect of the Demutualisation other than in their capacity as a YCU Member and YCU Director. Each YCU Director will participate in and be affected by the Demutualisation to the same extent and in the same manner as other YCU Members. Refer to Section 9 for disclosure of YCU Directors' interests and retirement payments.

The YCU Board may be permitted to establish a special compensation and redundancy pool in relation to the Scheme which YCU Directors and employees may be permitted to access. For further information, please refer to Sections 9.4 and 9.5 of this Scheme Booklet.

### **15.11 Other changes**

If the resolutions are approved by the Requisite Majorities, then the Court will be asked to approve the Scheme. The Demutualisation of YCU will not take place until the Scheme becomes Effective. On the Implementation Date, all of the YCU Shares will be transferred to Auswide Bank.

## 15.12 Company name

On 23 February 2016, YCU applied to APRA under section 66 of the Banking Act for approval for YCU to use “credit union” in its name during the transition after implementation of the Merger Proposal. In its application to APRA, YCU sought approval to continue to use the trading name, “YCU”, for a period of up to 6 months after the Effective Date. After the 6 month period has elapsed, the use of the brand “YCU” will be discontinued as it will be effectively folded into the Auswide Bank brand.

## 15.13 Procedural steps

The procedural steps required to amend the YCU Constitution are:

- (i) After the giving of proper notice, YCU Members must pass the Constitutional Amendment Resolution to give effect to the Constitutional Amendments.
- (ii) The Demutualisation Resolution will be considered by YCU members at the Demutualisation Meeting, scheduled for Monday 18 April 2016 at 5.30pm (Brisbane time).
- (iii) To be passed, the Constitutional Amendment Resolution must be approved by a majority of not less than 75% of votes cast by YCU members, either in person or by proxy at a duly convened YCU Members' meeting.
- (iv) If the Constitutional Amendment Resolution is passed, the Constitutional Amendments must then be lodged with ASIC and APRA.
- (v) If the YCU Members approve the Scheme at the Scheme Meeting and the Demutualisation at the Demutualisation Meeting, the Scheme must then be approved by the Court before the Scheme Consideration is paid to Scheme Participants.
- (vi) The Demutualisation will only take effect when the Scheme becomes Effective.
- (vii) As soon as practicable after the Second Court Date, the YCU Board will appoint the directors nominated by Auswide Bank and the current YCU Directors will retire.

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## **E. ATTACHMENTS**

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## **I: Independent Expert's Report**

The Directors  
Queensland Professional Credit Union Ltd  
100 Eagle Street  
Brisbane QLD 4000

22 February 2016

**Subject: Proposed merger with Auswide Bank Limited by way of a scheme of arrangement**

Dear Directors

## **Introduction**

- 1 On 22 December 2015, Queensland Professional Credit Union Ltd, trading as Your Credit Union (YCU), and Auswide Bank Limited (Auswide Bank) announced that they had entered into a Merger Implementation Agreement (MIA) 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 YCU members and the Court, Auswide Bank will acquire all the member shares in YCU. Under the Scheme, YCU members will receive \$4,055 in cash and 696 Auswide Bank shares for every member share held in YCU at the Scheme Record Date (the Scheme Consideration). The Scheme values all the member shares in YCU at approximately \$32 million<sup>1</sup>.
- 3 The Scheme is subject to the Court convening a meeting of YCU members. Under the *Corporations Act 2001* (Cth) (Corporations Act), the Scheme is approved by YCU members if a resolution in favour of the Scheme is passed by a majority in number of YCU members 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 members who hold shares in YCU at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).
- 4 In order to implement the Scheme, YCU must also demutualise<sup>2</sup>. Accordingly, YCU members will also be asked at a special general meeting to approve the demutualisation of the company.

<sup>1</sup> Based upon the closing price of Auswide shares (\$5.35 per share) on the day immediately prior to the announcement of the Scheme (21 December 2015).

<sup>2</sup> The Scheme and associated demutualisation are inter-conditional.



## YCU

- 5 YCU is a mutual financial institution that has been providing professional financial services since 1967. YCU is incorporated under the *Banking Act (1959)* (Cth) and is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA). YCU operates from a single branch located in Brisbane and employs 11 staff. It provides a range of banking products and services to its members including transaction and savings accounts, term deposits, home loans, car loans, personal loans and overdraft facilities. YCU currently has 4,094 members that are predominantly current and former public sector employees and their families.

## Auswide Bank

- 6 Auswide Bank (formerly Wide Bay Australia) is an Australian Stock Exchange (ASX) listed ADI operating predominately in Queensland. The bank provides an extensive range of personal and business banking products and services issued directly or in partnership with leading service providers via an omni-channel distribution network of branches, strategic relationships and online and digital channels. Auswide Bank manages total assets of some \$2.8 billion, predominantly represented by loans and advances.

## Purpose of report

- 7 An independent expert's report (IER) is required to be obtained in relation to the proposed demutualisation pursuant to clause 29(4)(c) of Part 5, Schedule 4 of the Corporations Act. Further, both the Scheme and YCU Directors' recommendation in favour of the Scheme are subject to an independent expert concluding that the Scheme is in the best interests of YCU members. In addition, as the Scheme (if approved and implemented) will result in 100% of the member shares in YCU being held by Auswide Bank, the Australian Securities & Investment Commission's (ASIC) 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 members of YCU.
- 8 The Directors of YCU have therefore requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether:
- (a) the proposed acquisition of the member shares in YCU by Auswide Bank under the Scheme is fair and reasonable and in the best interests of YCU members
  - (b) the proposed demutualisation of YCU (which is necessary to implement the Scheme) is fair and reasonable and in the best interests of YCU members.
- 9 LEA is independent of YCU and Auswide Bank and has no other involvement or interest in the Scheme.

## Summary of opinion - Scheme

- 10 In our opinion, the Scheme is fair and reasonable and in the best interests of YCU members as a whole in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

## Value of YCU

- 11 We have assessed the value of YCU using the NTA multiple and capitalisation of earnings approaches. The YCU assessed values under each valuation approach are summarised below:

<b>YCU – Summary of valuation outcomes</b>			
<b>Valuation method</b>		<b>Low</b>	<b>High</b>
NTA multiple approach	\$m	29.0	32.0
Capitalisation of earnings	\$m	28.0	29.5
Adopted range	\$m	29.0	32.0
Number of member shares <sup>(1)</sup>	#	4,094	4,094
Value per member share	\$	7,084	7,816

**Note:**

1 Number of member shares entitled to participate in the Scheme.

- 12 We have placed more reliance on the results of our NTA multiple approach. This is because:
- (a) YCU is currently run for the benefit of its members and does not seek to maximise profit (making any assessment of value by reference to current earnings less appropriate)
  - (b) as the carrying value of loans and deposits in YCU's financial statements approximates their fair values, the NTA of YCU is an appropriate starting point from which to assess value
  - (c) due to the costs and effort avoided by acquiring YCU rather than originating an equivalent loan portfolio, together with the price to NTA multiples implied by recent transactions and listed banking stocks, it is reasonable to value YCU at a premium to the NTA of \$27.3 million as at 31 December 2015.

**Value of Scheme Consideration**

- 13 Under the Scheme, YCU members will receive \$4,055 in cash and 696 Auswide Bank shares for every member share held in YCU at the Scheme Record Date (the Scheme Consideration).
- 14 Having regard to recent share market trading, we have assessed the value of Auswide Bank shares to be received as consideration under the Scheme (after adjusting for the Auswide Bank interim dividend for the six months to 31 December 2015) at between \$4.86 to \$5.36 per Auswide Bank share. On this basis the value of the total Scheme Consideration is as follows:

<b>Value of Scheme Consideration</b>		
	<b>Low</b>	<b>High</b>
	<b>\$ per share</b>	<b>\$ per share</b>
Assessed realisable value of Auswide Bank shares	5.00	5.50
Less Auswide Bank's interim dividend per share for FY16	(0.14)	(0.14)
Assessed realisable value of Auswide Bank shares (net of dividend)	4.86	5.36
Number of Auswide Bank shares received per YCU member share	696	696
Scrip consideration per YCU member share	3,382	3,731
Cash consideration per YCU member share	4,055	4,055
<b>Assessed value of Scheme Consideration</b>	<b>7,437</b>	<b>7,786</b>

## Fair and reasonable opinion

- 15 Pursuant to RG 111 a scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for YCU member shares is shown below:

Comparison of Scheme Consideration to value of YCU			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Scheme Consideration per member share	7,437	7,786	7,612
Value of 100% of YCU per member share	7,084	7,816	7,450
Extent to which the Scheme Consideration exceeds (or is less than) the value of YCU	353	(30)	162

- 16 Having regard to the overall range of values, we consider that the Scheme is fair as our assessed value of the Scheme Consideration is consistent with our valuation range for YCU member shares on a 100% controlling interest basis<sup>3</sup>.
- 17 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and/or reasonable” it must also be “in the best interests” of members in the absence of a superior proposal.
- 18 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of YCU members in the absence of a superior proposal.

## Advantages and disadvantages

- 19 We summarise below the likely advantages and disadvantages for YCU members if the Scheme proceeds.

### Advantages

- 20 The Scheme has the following benefits for YCU members:
- (a) YCU members will receive consideration which we have valued at \$7,437 to \$7,786 per member share. This represents a significant benefit compared to:
    - (i) the price paid by each member for their member shares (i.e. \$10 per share)
    - (ii) their redemption value (i.e. \$10 per share) if a member’s membership of YCU is terminated or the member’s deposit accounts with YCU become dormant
  - (b) the Scheme provides YCU members with the ability to realise the full underlying value of their member shares in YCU. Such a liquidity event is not possible under YCU’s existing constitution in the absence of demutualisation
  - (c) our assessed value of the Scheme Consideration falls within our valuation range of YCU shares on a 100% controlling interest basis and is therefore considered fair pursuant to RG 111

<sup>3</sup> We note that the Scheme would not technically be fair based on a comparison of our high end values (as the high end of our assessed value of YCU exceeds the high end of our assessed value of the Scheme consideration by around 0.4%). However, the difference in high end values is not material. Further, in our opinion, it is more appropriate to have regard to the overall range of values.

- (d) in our opinion, YCU members are being paid a significant share of the synergy benefits which Auswide Bank expects to generate as a result of the acquisition of YCU pursuant to the Scheme. In addition, YCU members will (in aggregate) own around 7.1% of the merged entity (Merged Entity) and will therefore participate to a limited extent in the expected realisation of the synergy benefits
- (e) as YCU members receive Auswide Bank shares as part consideration under the Scheme, if the Scheme proceeds they will therefore hold an interest in a much larger entity with greater diversification and liquidity.

### ***Disadvantages***

- 21 YCU members should note that if the Scheme is approved they will no longer hold a direct interest in YCU. However, as noted above, YCU members (in aggregate) will own approximately 7.1% of the Merged Entity and will therefore participate (albeit only on a pro rata basis) in any future value created by YCU (as part of the Merged Entity) as a result of ongoing operations over and above that reflected in the Scheme Consideration.

### ***Conclusion***

- 22 Given the above, we consider that the advantages of the Scheme outweigh the disadvantages.

### ***Likelihood of an alternative proposal***

- 23 It should also be noted that, although YCU 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. However, no alternative proposal has emerged subsequent to the announcement of the Scheme.

### ***Summary of opinion - Demutualisation***

- 24 In our opinion the proposed demutualisation of YCU is fair and reasonable and in the best interests of YCU members as a whole. We are of this opinion because:
- (a) in our view, the Scheme is fair and reasonable and in the best interests of YCU members as a whole (for the reasons set out above)
  - (b) the proposed demutualisation is required in order to implement the Scheme.

### ***General***

- 25 In preparing this report we have considered the interests of YCU members as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual members.
- 26 The impact of approving the Scheme on the tax position of YCU members depends on the individual circumstances of each investor. YCU members should read the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

- 27 The ultimate decision whether to approve the Scheme (and related demutualisation) should be based on each member's assessment of their own circumstances. If YCU members are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, members should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that YCU members read the remainder of our report.

Yours faithfully



Craig Edwards  
Authorised Representative



Martin Holt  
Authorised Representative

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# **I Key terms of the Scheme**

## **Key terms**

- 28 On 22 December 2015, Queensland Professional Credit Union Ltd, trading as Your Credit Union (YCU), and Auswide Bank Limited (Auswide Bank) announced that they had entered into a Merger Implementation Agreement (MIA) to merge the two companies by way of a scheme of arrangement (the Scheme).
- 29 If the Scheme (which is subject to a number of conditions precedent) is approved by YCU members and the Court, Auswide Bank will acquire all the member shares in YCU. Under the Scheme, YCU members will receive \$4,055 in cash and 696 Auswide Bank shares for every member share held in YCU at the Scheme Record Date (the Scheme Consideration).
- 30 In order to implement the Scheme, YCU must also demutualise. As a result, YCU members will also be asked at a special general meeting to approve demutualisation.

## **Conditions**

- 31 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the MIA between YCU and Auswide Bank dated 22 December 2015:
- (a) receipt of all required regulatory approvals including ASIC, the ASX and the Federal Treasurer under both the *Banking Act 1959* (Cth) and the *Financial Sector (Shareholdings) Act 1998* (Cth)
  - (b) the Australian Competition and Consumer Commission (ACCC) not having commenced or threatened to commence proceedings to restrain the proposed merger, or having advised in writing that it does not oppose the merger
  - (c) 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
  - (d) YCU members approve the Demutualisation of the company by the requisite majority
  - (e) YCU members approve the Scheme by the requisite majority
  - (f) approval of the Scheme by the Court in accordance with s411(4)(b) of the Corporations Act
  - (g) all third party approvals which Auswide Bank and YCU agree are necessary or desirable to implement the merger are obtained
  - (h) an independent expert issues a report which concludes that both the Scheme and the Demutualisation are in the best interests of YCU members
  - (i) no “YCU Prescribed Event” or “Auswide Prescribed Event” (as defined the MIA) takes place in respect of either YCU or Auswide Bank on or before 8.00 am on the Second Court Date
  - (j) no “YCU Material Adverse Change” or “Auswide Material Adverse Change” (as defined the MIA) takes place in respect of either YCU or Auswide Bank on or before 8.00 am on the Second Court Date



- (k) the Auswide Bank shares issued as part consideration under the Scheme have been approved for official quotation on the ASX
- (l) the MIA is not terminated in accordance with Clause 14 of the MIA
- (m) the representations and warranties given by YCU and Auswide Bank are true and correct in all material respects and are not misleading or deceptive in any material respects
- (n) no person exercises or purports to exercise, or states an intention to exercise, any rights under any agreement to which the YCU group is a party which either has or could result in a material impact on YCU
- (o) no material information is discovered under due diligence (or otherwise) which has or is expected to have a material impact on YCU or Auswide Bank.

32 In addition, YCU has agreed that, up until the earlier of the termination of the MIA and 30 June 2016, it will not (in broad terms), subject to certain conditions including those detailed in Clause 10 of the MIA:

- (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.

33 YCU is permitted to consider a bona fide competing proposal that has been received after the date of the MIA 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
- (c) based on written advice from its legal advisers, the Board of YCU determines that ongoing compliance with exclusivity obligations would involve a breach of fiduciary duties or would otherwise be unlawful.

34 The MIA may be terminated if, amongst other things:

- (a) either YCU or Auswide Bank is found to be in material breach of the MIA
- (b) the majority of YCU's Board changes or withdraws their recommendation to YCU members to vote in favour of the Scheme (or recommends a competing proposal).

35 A reimbursement fee of \$0.75 million (plus GST, if any) is payable by either YCU to Auswide Bank or Auswide Bank to YCU in certain circumstances as specified in the MIA.

## **Resolutions**

- 36 YCU members will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.
- 37 If the Scheme resolution is passed by the requisite majorities, YCU 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 members in YCU at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).
- 38 In order to implement the Scheme, YCU must also demutualise<sup>4</sup>. Accordingly, YCU members will also be asked at a special general meeting to approve the demutualisation of the Company.

<sup>4</sup> The Scheme and associated demutualisation are inter-conditional.

## II Scope of our report

### Purpose

- 39 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 members in relation to a members' scheme of arrangement pursuant to s411 of the Corporations Act.
- 40 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 members and state reasons for that opinion.
- 41 Whilst an IER is not required pursuant to paragraph 8303 of Schedule 8 of the Corporations Regulations, an IER is required to be obtained in relation to the proposed demutualisation pursuant to clause 29(4)(c) of Part 5, Schedule 4 of the Corporations Act. Further, both the Scheme and the YCU Directors' recommendation in favour of the Scheme are subject to an independent expert concluding that the Scheme is in the best interests of YCU members. In addition, as the Scheme (if approved and implemented) will result in 100% of YCU being held by Auswide Bank, 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 members of YCU.
- 42 The Directors of YCU have therefore requested LEA to prepare an IER stating whether:
- (a) the proposed acquisition of the member shares in YCU by Auswide under the Scheme is fair and reasonable and in the best interests of YCU members
  - (b) the proposed demutualisation of YCU (which is necessary to implement the Scheme) is fair and reasonable and in the best interests of YCU members.
- 43 This report has been prepared by LEA for the benefit of YCU members to assist them in considering the resolutions to approve the Scheme and related demutualisation. Our report will accompany the Notice of Meeting and Scheme Booklet to be sent to YCU members. The sole purpose of our report is to determine whether, in our opinion, the Scheme and related demutualisation is fair and reasonable and in the best interests of YCU members.
- 44 The ultimate decision whether to approve the Scheme (and related demutualisation) should be based on each member's assessment of their own circumstances. If YCU members are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, members should seek independent professional advice.

## Basis of assessment

- 45 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.
- 46 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”, the expert believes that there are sufficient reasons for members to approve the Scheme in the absence of a superior proposal.
- 47 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 members to vote in favour of the Scheme in the absence of a higher offer.
- 48 In our opinion, if the Scheme is “fair” and “reasonable” under RG 111 it must also be “in the best interests” of YCU members.
- 49 Our report has therefore considered:
- (a) the market value of 100% of YCU having regard to, inter-alia:
    - (i) YCU’s current earnings
    - (ii) the potential cost savings and synergies available to a prospective acquirer
    - (iii) the level of surplus capital held by YCU
    - (iv) the net tangible asset value of YCU
  - (b) the value of the consideration offered by Auswide Bank, being \$4,055 in cash per eligible member plus 696 Auswide Bank shares
  - (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 YCU members are being paid a share of the synergies likely to be generated pursuant to the potential transaction
  - (e) the value of YCU to an alternative offeror and the likelihood of a superior proposal being made for YCU prior to the date of the Scheme meeting
  - (f) the implications for YCU members if the Scheme is not implemented (in the absence of a superior proposal)
  - (g) the advantages and disadvantages of the Scheme from the perspective of YCU members
  - (h) other qualitative and strategic issues associated with the Scheme.

## **Limitations and reliance on information**

- 50 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.
- 51 Our report is also based upon financial and other information provided by YCU and Auswide Bank 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.
- 52 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 (and related demutualisation) from the perspective of YCU members. 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.
- 53 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.
- 54 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.
- 55 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.
- 56 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 this report.

### III Profile of YCU

#### Overview

57 YCU is a Queensland based mutual financial institution that has been providing professional financial services since 1967. YCU operates from a single branch located in Brisbane and employs 11 staff. It provides a range of banking products and services to its members including transaction and savings accounts, term deposits, home loans, car loans, personal loans and overdraft facilities. YCU currently has 4,094 members that are predominantly current and former public sector employees and their families. YCU is incorporated under the *Banking Act 1959* (Cth) and is an ADI regulated by APRA.

#### Financial performance

58 The financial performance of YCU for the three years ended 30 June 2015 (FY15) and the half year ended 31 December 2015 (1HY16), is set out below:

YCU – consolidated financial performance <sup>(1)</sup>				
	FY13 Audited \$000	FY14 Audited \$000	FY15 Audited \$000	1HY16 Unaudited \$000
Interest income	9,773	8,408	7,974	3,626
Interest expense	(5,949)	(4,865)	(4,320)	(1,804)
<b>Net interest income</b>	3,824	3,543	3,654	1,822
Non-interest income <sup>(2)</sup>	503	491	420	135
<b>Total income</b>	4,327	4,035	4,074	1,957
Operating expenses	(3,198)	(3,069)	(3,715)	(1,593)
<b>Net profit before loan impairment and tax</b>	1,129	966	359	364
Impairment expense	(358)	(32)	-	180
<b>Net profit before tax</b>	771	934	359	544
Income tax expense	(228)	(276)	(106)	(162)
<b>Net profit after tax (NPAT)</b>	543	658	252	382
<i>Net interest margin (NIM)<sup>(3)</sup></i>	2.1%	1.9%	1.9%	1.9%
<i>Non-interest income / total income</i>	11.6%	12.2%	10.3%	6.9%
<i>Cost to income ratio (CTI)</i>	73.9%	76.1%	91.2%	81.4%

**Note:**

- 1 Rounding differences exist.
- 2 Includes fees and commission revenue, dividend income, rental income in relation to a sub-let office and other income.
- 3 Calculated as net interest income to average interest earning assets.

59 With respect to the financial performance of YCU over the above periods, we note that:

- (a) due to a declining loan book (attributable to conservative lending practices and high credit standards, limited marketing initiatives, a declining interest rate environment and a highly competitive lending environment), YCU's interest income has generally reduced in recent periods
- (b) non-interest income has also reduced in recent periods due to a declining membership base and greater customer reliance on internet-based transactions that incur fewer charges. In addition, YCU eliminated its outward direct credit fees and reduced its transaction fees in FY13

- (c) YCU's total income reduced some \$0.2 million to \$4.1 million over the two years to FY15. However, due to higher operating expenses in FY15, YCU's profit was more materially (negatively) impacted. These additional expenses related primarily to the implementation of a number of new initiatives (including investments in information technology, business process enhancements, the sales and marketing function and new product development), together with significant items of some \$0.3 million (in relation to business relocation and CEO termination costs) which were designed to enhance YCU's distribution network and support business growth
- (d) during 1HY16, YCU achieved a net profit before tax which exceeded that of FY15. This was largely due to the reversal of a provision during the period following the repayment of a significant loan that had been previously impaired. In addition, YCU's operating costs relative to income were lower than FY15.

## Financial position

60 The financial position of YCU as at 30 June 2014, 2015 and 31 December 2015 is set out below:

<b>YCU – consolidated financial position<sup>(1)</sup></b>			
	<b>30 Jun 14</b>	<b>30 Jun 15</b>	<b>31 Dec 15</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Cash and cash equivalents	14.9	10.3	10.0
Loans and advances	134.5	124.7	128.4
Held to maturity investments	40.1	56.6	54.9
Available for sale investments	0.1	0.4	0.4
Property, plant and equipment	0.1	0.4	0.4
Intangible assets (relates to software intangibles)	0.3	0.2	0.2
Current tax asset	-	0.2	0.2
Deferred tax asset	0.2	0.1	0.1
Other assets	0.1	0.2	0.3
<b>Total assets</b>	<b>190.4</b>	<b>193.2</b>	<b>194.9</b>
Balances due to other banks	0.2	0.3	0.1
Deposits	162.6	164.8	166.7
Other liabilities	0.6	0.9	0.5
Provisions	0.2	0.1	0.1
<b>Total liabilities</b>	<b>163.6</b>	<b>166.1</b>	<b>167.4</b>
<b>Net assets</b>	<b>26.8</b>	<b>27.1</b>	<b>27.5</b>

### Note:

1 Rounding differences exist.

## Loans and advances

61 The loan book of YCU as at 30 June 2014, 2015 and 31 December 2015 is set out below:

YCU – loans and advances			
	30 Jun 14	30 Jun 15	31 Dec 15
	\$m	\$m	\$m
Term loans	134.8	125.0	128.6
Overdrafts	0.2	0.2	0.1
<b>Gross loans and advances (GLA)</b>	135.0	125.2	128.7
Provision for impairment	(0.5)	(0.5)	(0.3)
<b>Net loans and advances (NLA)</b>	134.5	124.7	128.4
 <b>Total risk-weighted assets (RWA)</b>	 97.2	 95.6	 96.7
 <i>Growth in GLA</i>	 (4.7%)	 (7.3%)	 2.8%
<i>RWA / GLA</i>	72.0%	76.4%	75.1%

- 62 YCU's loan book is predominantly comprised of term loans. The majority of YCU's term loans are housing loans which are secured by eligible residential mortgages. Given YCU's Queensland focus, more than 95% of its GLA is geographically concentrated in this state.
- 63 As mentioned above, YCU's lending activity has been gradually declining for a number years due to limited marketing activity, high credit standards and conservative lending practices in past years. As shown above, YCU's GLA reduced by 4.7% and 7.3% as at 30 June 2014 and 30 June 2015 respectively. However, as at 31 December 2015, YCU's loan book slightly increased by 2.8% to 128.7 million.

#### Asset quality

- 64 As at 30 June 2015, 83.4% of YCU's housing loans had a loan to valuation ratio (LVR) of less than 80%. Of the remaining loans that had an LVR of more than 80%, 36.3% had acceptable mortgage insurance. In addition, all of YCU's housing loans are secured by registered mortgages.
- 65 A summary of YCU's loan provisions as at 30 June 2014, 2015 and 31 December 2015 is shown below:

YCU – loan provisions			
	30 Jun 14	30 Jun 15	31 Dec 15
	\$m	\$m	\$m
Specific provision	(0.3)	(0.4)	(0.2)
Collective provision	(0.2)	(0.1)	(0.1)
<b>Total provisions</b>	(0.5)	(0.5)	(0.3)
 Past due but not impaired loans	 0.2	 -	 -
Impaired loans	1.4	1.4	1.8
 Impaired loans / GLA	 1.0%	 1.1%	 1.4%
90+ days past due / past due but not impaired	-	-	-
Specific provision / impaired loans	24.6%	27.2%	11.1%
Total provisions / GLA	0.4%	0.4%	0.2%
Total provisions / RWA	0.5%	0.5%	0.3%



66 In respect of the above we note the following:

- (a) YCU's past due but not impaired loans as at 31 December 2015 reduced to zero, down from \$0.2 million as at 30 June 2014
- (b) impaired loans relative to GLA were 1.4% as at 31 December 2015, marginally higher than the prior corresponding period
- (c) total provisions relative to GLA and RWA as at 31 December 2015 were slightly lower than the prior corresponding period. As previously mentioned, YCU received repayment of a large loan which resulted in a lower specific provision.

### Held to maturity investments

67 The composition of YCU's held to maturity investments is shown in the table below:

<b>YCU – held to maturity investments<sup>(1)</sup></b>			
	<b>30 Jun 14</b>	<b>30 Jun 15</b>	<b>31 Dec 15</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Interest bearing deposits with other ADIs	38.3	39.6	25.6
ADI issued bonds	-	15.6	27.6
Deposits held with Indue Ltd	1.7	1.4	1.4
<b>Total held to maturity investments</b>	<b>40.0</b>	<b>56.6</b>	<b>54.6</b>

68 YCU's held to maturity investments represent surplus funds that are invested with counterparties that have been approved by YCU's Board. The largest component of held to maturity investments is typically deposits held with other ADIs. As at 31 December 2015, YCU also had a significant investment in bonds issued by other ADIs.

### Available for sale investments

69 Available for sale investments relate to YCU's holdings in Indue Limited and Queensland Country Credit Union, both of which are unlisted public entities. As of 31 December 2015 these investments had a combined book value of \$0.4 million.

### Deposits

70 YCU funds its portfolio of GLA from member deposits. The composition of YCU's deposits as at 30 June 2014, 2015 and 31 December 2015 is set out in the table below:

<b>YCU – deposits</b>			
	<b>30 Jun 14</b>	<b>30 Jun 15</b>	<b>31 Dec 15</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Call deposits <sup>(1)</sup>	125.1	127.9	134.4
Term deposits	37.5	36.9	32.3
<b>Gross deposits</b>	<b>162.6</b>	<b>164.8</b>	<b>166.7</b>
<i>Growth in gross deposits</i>	<i>2.7%</i>	<i>1.4%</i>	<i>1.2%</i>

**Note:**

1 Includes withdrawable shares.

## Capital adequacy

- 71 As an ADI, YCU is subject to minimum capital requirements established by APRA. APRA requires that ADIs maintain a Tier 1 capital ratio of 6.0% and a total capital ratio (being the sum of Tier 1 and Tier 2 capital) of 8.0%<sup>5</sup> on both a group and individual basis.
- 72 The capital ratios of YCU for the most recent financial periods are as follows:

YCU – capital adequacy ratios			
	30 Jun 14	30 Jun 15	31 Dec 15
	\$m	\$m	\$m
Tier 1 capital	26.3	26.4	27.0
Tier 2 capital	-	-	0.1
<b>Total capital</b>	<b>26.3</b>	<b>26.4</b>	<b>27.1</b>
 <b>RWA</b>	 97.2	 95.6	 96.7
 <i>Tier 1 capital ratio</i>	 27.1%	 27.6%	 27.9%
<i>Tier 2 capital ratio</i>	-	-	0.1%
<b>Total capital ratio</b>	<b>27.1%</b>	<b>27.6%</b>	<b>28.0%</b>

- 73 YCU has historically held high levels of capital relative to its RWA. As at 31 December 2015, YCU had a total capital ratio of 28.0% which predominantly consisted of Tier 1 capital. YCU's level of capital adequacy exceeds that of the credit union industry generally, which had a total capital ratio of 16.2% as at 30 June 2015<sup>6</sup>.

## Membership and shares on issue

- 74 YCU is a mutual organisation that is owned by its customer base. It requires all customers to become members / shareholders through the purchase of a member share and a person cannot continue to hold shares unless they remain a customer (the shares are redeemable at the amount that is equal to their purchase price of \$10).
- 75 As at the Scheme Implementation Date, there were 4,094 eligible member shares on issue. A member share confers the right to one vote, and only one vote, at member meetings. A member share also confers the right to participate in the surplus assets (if any) in the event of a wind-up. However, no dividends are payable in respect of any member share, and ordinarily, member shares are not transferrable or saleable.

<sup>5</sup> Source: APRA Prudential Standard 110.

<sup>6</sup> Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance September 2015*.

## IV Profile of Auswide Bank

### Overview

- 76 Auswide Bank (formerly Wide Bay Australia) is an ASX listed ADI operating predominately in Queensland. The bank provides an extensive range of personal and business banking products and services issued directly or in partnership with leading service providers via an omni-channel distribution network of branches, strategic relationships and online and digital channels. Auswide Bank manages total assets of some \$2.8 billion, predominantly represented by loans and advances.

### History

- 77 Auswide Bank's origins date back to 1966, when Burnett Permanent Building Society was established, based in Bundaberg. Wide Bay Capricorn Building Society (WBC) was formed in 1979 from the merger of Burnett Permanent Building Society and the Maryborough Permanent Building Society. WBC subsequently merged with the Gympie & North Coast Building Society in 1981 and Gladstone based Port Curtis Building Society in 1983. WBC listed on the ASX in 1994. In December 2003 it changed its name to Wide Bay Australia Ltd. Wide Bay Australia Ltd completed the acquisition of Mackay Permanent Building Society in June 2008, which increased assets under management to over \$2.2 billion.
- 78 On 1 April 2015, Wide Bay Australia Ltd converted from a building society to a bank<sup>7</sup> and officially rebranded as Auswide Bank Ltd<sup>8</sup>, becoming Queensland's third and Australia's tenth bank to be listed on the ASX.

### Current operations

- 79 Auswide Bank holds an Australian Credit License and an Australian Financial Services Licence issued by ASIC. It is headquartered in Bundaberg in central Queensland and also maintains a corporate office in the Brisbane central business district (CBD). Auswide Bank employs 248 staff. Its products and services include deposits and banking services, consumer and business finance, insurance and foreign exchange services. Auswide Bank operates a network of 23 retail branches across Queensland and mortgage service centres in Brisbane and the Gold Coast, while servicing the national market. As part of its strategic plan, the bank has also invested in technology with recent upgrades to its core banking system, customer relationship management, website and internet banking, as well as launching new human resources and mortgage origination systems and a smart phone banking app.
- 80 Auswide Bank operates under the following business lines:
- (a) **retail banking services** – includes transactional and internet banking, home loans, personal loans, savings and investment, insurance and international support
  - (b) **business banking services** – targets small to medium enterprise customers primarily in Queensland. Auswide Bank introduced business banking services in April 2014.

<sup>7</sup> Refer Industry overview, Section V for more information.

<sup>8</sup> Following shareholder approval on 20 January 2015 and APRA consent on 5 February 2015.

- 81 In November 2013, Auswide Bank introduced its Third Party Mortgage Broker channel, including a number of initiatives to establish relationships with accredited mortgage brokers in each of Australia's state capitals. The Third Party Mortgage Broker business grew substantially in FY15, with future growth to be supported by the establishment of a broker centre in the Brisbane CBD, a broker office in Robina and the addition of a broker representative in Sydney. On 16 December 2015, Auswide Bank announced that it had entered into a strategic long-term relationship deal with peer-to-peer lender MoneyPlace. This included a five year deal for Auswide Bank to fund up to \$60 million in consumer loans as well as acquiring a 20% equity holding in MoneyPlace.

## Financial performance

- 82 A summary of Auswide Bank's historical financial performance for the three years to FY15 and the six months to 1HY16 is set out below:

<b>Auswide Bank – consolidated financial performance<sup>(1)</sup></b>				
	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>1HY16</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Reviewed</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Interest income	154.3	134.2	127.4	61.2
Interest expense	(103.3)	(84.5)	(76.2)	(34.7)
<b>Net interest income</b>	50.9	49.7	51.2	26.6
Non-interest income <sup>(2)</sup>	11.6	10.2	9.8	4.9
<b>Total income</b>	62.5	59.9	61.0	31.5
Operating expenses	(56.4)	(39.3)	(41.5)	(23.6)
<b>Net profit before loan impairment and tax</b>	6.1	20.6	19.5	7.9
Impairment expense	(2.4)	(0.4)	(0.5)	0.8
<b>Net profit before tax</b>	3.7	20.2	19.0	8.7
Income tax expense	(0.8)	(6.1)	(5.8)	(2.6)
<b>Net profit after tax (NPAT)</b>	2.9	14.1	13.3	6.1
<i>Net interest margin (NIM)<sup>(3)</sup></i>	1.8%	1.8%	1.8%	1.8%
<i>Non-interest income / total income</i>	18.5%	17.1%	16.1%	15.6%
<i>Cost to income ratio (CTI)</i>	90.3%	65.7%	68.1%	74.9%
<i>Basic / diluted earnings per share (cents)<sup>(4)</sup></i>	6.8	38.8	36.1	16.4
<i>Dividends per share (cents)</i>	17.0	28.0	30.0	14.0
<i>Dividend payout ratio<sup>(5)</sup></i>	250.7%	72.3%	83.2%	85.4%

### Note:

- 1 Rounding differences exist.
- 2 Includes equity accounted profit of \$0.2 million in FY13.
- 3 As reported by Auswide.
- 4 There are no potentially dilutive equity instruments outstanding.
- 5 Declared dividends for the relevant financial year divided by earnings per share.

- 83 Below is a summary of the key factors that have impacted on the reported annual financial performance of Auswide Bank in FY13, FY14, FY15 and 1HY16.

### Year to 30 June 2013 (FY13)

- reported NPAT decreased by 83.6%, however Auswide Bank's underlying NPAT reduced by only 17.3% (to \$12.1 million), after adjusting for the following significant items:

- abnormal provisions in the Mortgage Risk Management Pty Ltd (MRM) business (a wholly owned mortgage insurer) of \$4.8 million following a re-examination and revised modelling of the insured loan book<sup>9</sup>
- the write down of the investment in Financial Technology Securities Pty Ltd to zero (an impairment of \$7.4 million), due to uncertainty regarding its recoverable amount
- other one off significant items with respect to acquisition and other costs (totalling some \$2 million)

#### **Year to 30 June 2014 (FY14)**

- reported NPAT increased 16.0% above the underlying cash NPAT for FY13
- in the face of an intensely competitive residential lending market, Auswide Bank reported:
  - growth in its home loan book from the second half of FY14 (following previous financial period declines), and
  - an increase in home loan approvals of some 24% (on the previous year)

#### **Year to 30 June 2015 (FY15)**

- reported NPAT declined 5.7%, however this was after allowance for the costs of \$0.5 million associated with rebranding as well as the outsourcing of its automatic teller machine (ATM) fleet
- Auswide Bank completed its restructure from a building society to a bank, including a comprehensive rebranding exercise
- Auswide Bank's home loan approvals increased 8.5% to \$449 million, while its total loan book increased by 4.8% to \$2.33 billion as at 30 June 2015

#### **Half-year ended 31 December 2015 (1HY16)**

- Auswide Bank's total operating income for the six months to 31 December 2015 increased to \$31.469 million compared to \$30.432 million for the corresponding period, an increase of 3.4%
- after adjusting for the effects of non-recurring items, the underlying cash profit for the group was \$6.782 million for the six months to 31 December 2015, compared to \$6.495 million in the prior corresponding period, an increase of 4.4%
- Auswide Bank undertook a branch rationalisation program in the period, with total costs incurred to close six branches and combine two branches into a single outlet of \$682,000. It is estimated by management that the branch rationalisation will reduce overheads by \$525,000 in the second half of the financial year
- in addition, there were one-off expenses attributable to merger and acquisition projects totalling \$267,000. Costs relating to the final write-off of signage assets for the rebranding of the bank to "Auswide" were \$78,000.

<sup>9</sup> In FY12 the insurance in respect of a portfolio of loans was transferred from MRM to QBE Insurance Limited, with the latter also responsible for the insurance of new loan business in excess of 80% LVR.

## Outlook

- 84 Auswide Bank provided no specific earnings guidance for FY16, but noted that competition from the major and regional banks is expected to remain intense. However, we note that:
- (a) the loan book grew on an annualised basis by 9.05% in the six months to 31 December 2015 (providing scope for increased net interest income)
  - (b) the branch rationalisation program (referred to above) will result in cost savings in the second half of FY16.

## Financial position

- 85 The financial position of Auswide Bank as at 30 June 2014, 30 June 2015 and 31 December 2015 is set out below:

<b>Auswide Bank – consolidated financial position<sup>(1)</sup></b>			
	<b>30 Jun 14 Audited \$m</b>	<b>30 Jun 15 Audited \$m</b>	<b>31 Dec 15 Reviewed \$m</b>
Cash and cash equivalents	63.6	51.5	80.3
Due from other financial institutions	10.3	9.2	9.2
Accrued receivables	11.7	5.9	13.2
Financial assets	248.1	244.9	198.6
Current tax assets	0.1	0.3	(0.6)
Loans and advances	2,224.0	2,330.1	2,435.5
Other investments	0.3	0.4	0.5
Property, plant and equipment	18.1	17.9	17.2
Deferred tax assets	6.7	5.9	6.4
Other assets	9.2	8.8	8.4
Goodwill	42.1	42.1	42.1
<b>Total assets</b>	<b>2,634.2</b>	<b>2,717.0</b>	<b>2,810.8</b>
Deposits and short term borrowings	1,743.8	1,852.1	1,943.2
Payables and other liabilities	21.1	24.6	20.1
Securitised loans	634.1	603.7	614.8
Deferred tax liabilities	2.3	1.6	1.4
Provisions	8.9	7.2	2.6
Subordinated capital notes	28.0	28.0	28.0
<b>Total liabilities</b>	<b>2,438.2</b>	<b>2,517.0</b>	<b>2,610.0</b>
<b>Net assets</b>	<b>196.0</b>	<b>200.0</b>	<b>200.7</b>
<b>Net tangible assets (NTA)</b>	<b>153.9</b>	<b>157.9</b>	<b>158.6</b>

### Note:

- 1 Rounding differences exist.

- 86 In respect of the above consolidated position we note:

- (a) **other investments** – include \$0.5 million unlisted shares held as at 31 December 2015
- (b) **goodwill** – this arose on the acquisition of Mackay Permanent Building Society Ltd in 2008. Goodwill is tested annually for impairment using the value-in-use method.

## Financial assets

87 The composition of Auswide Bank's financial assets is shown in the table below:

Auswide Bank – financial assets			
	30 Jun 14	30 Jun 15	31 Dec 15
	\$m	\$m	\$m
Certificates of deposit (held to maturity)	172.1	190.9	173.0
RMBS investments (available for sale)	5.1	3.5	2.7
Investments in floating rate notes	5.5	3.1	-
Notes – securitisation program and other	65.4	47.3	22.8
	248.1	244.9	198.6

### Note:

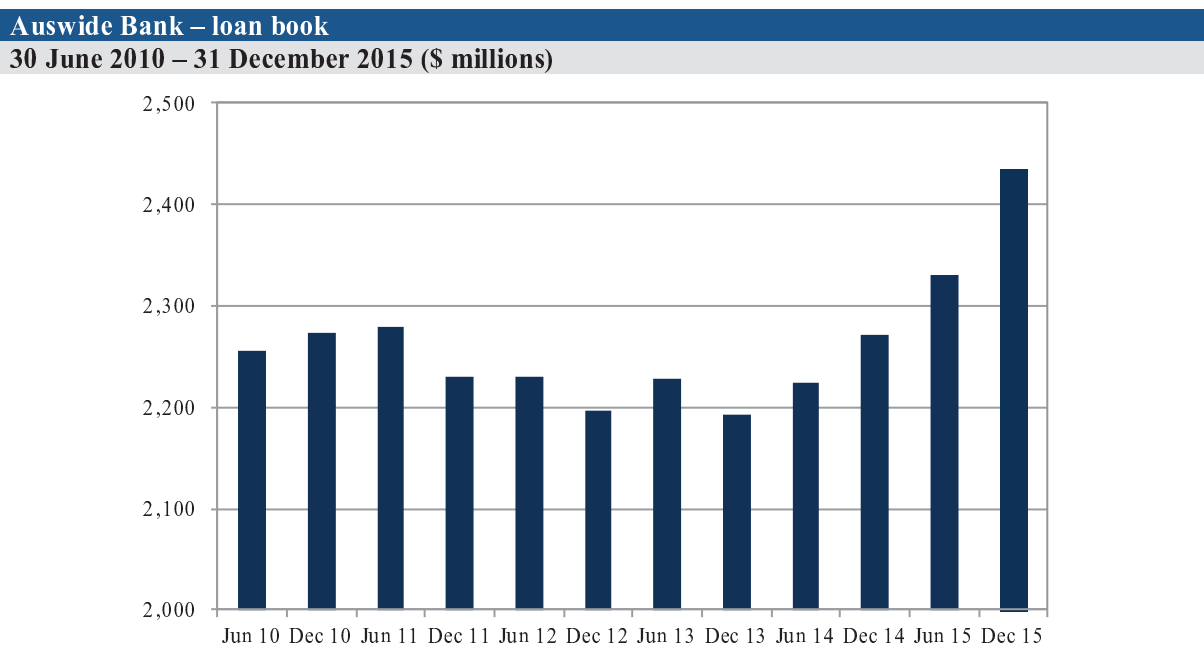
1 Rounding differences exist.

## Loans and advances

88 The majority of Auswide Bank's loan book comprises term loans, which are primarily residential loans secured by mortgages over residential properties (generally of a first home or investment nature).

89 Auswide Bank commenced offering personal loans in the last quarter of FY13. Whilst not material to Auswide Bank's total loan portfolio, this business has continued to grow to date, with a loan book of \$8.2 million as at 30 June 2015.

90 Below is a graph outlining the movements in Auswide Bank's loan book from June 2010 to 31 December 2015:



- 91 Auswide Bank's total loan book has been growing relatively strongly since the second half of FY14. This has been attributable to a combination of strong demand for residential loans from its home markets in Queensland and growth in the Third Party Mortgage Broker platform.

### Asset quality

- 92 In the six months to 31 December 2015, arrears continued to trend downwards, with total arrears past due 30 days (excluding the effects of hardship accounts) decreasing from \$22.307 million at 30 June 2015 to \$20.271 million at 31 December 2015. Arrears past due 30 days represented 0.83% of total loans and advances at 31 December 2015 compared to 0.96% at 30 June 2015.

### Funding mix

- 93 Gross deposits represent the largest source of Auswide Bank's funding. As at 30 June 2015, gross deposits accounted for 67.0% of the bank's total funding (excluding equity). Auswide Bank's other sources of funding include:
- (a) **negotiable certificates of deposit** – Auswide Bank issues negotiable certificates of deposit in the wholesale debt market
  - (b) **securitisation** – Auswide Bank sets aside certain loans for the purpose of raising additional funds through the issue of securitisation notes. Securitisation notes cover a 30 year period and are eligible for repayment once the balance of the securitisation trust falls below 10% of the invested amount. Interest is paid monthly at a margin above the bank bill swap reference rate (BBSW)
  - (c) **subordinated debt** – on 19 August 2015, Auswide Bank announced that it had raised \$25 million via the issue of senior unsecured floating rate notes to diversify its funding sources. The notes carry an interest rate at a margin of 65 basis points above the relevant BBSW.

### Capital adequacy

- 94 As an ADI, Auswide Bank is subject to minimum capital requirements established by APRA (as is YCU). In addition, the Board of Auswide Bank has established a total capital ratio target of 13.0% (including both Tier 1 and Tier 2 capital).
- 95 Auswide Bank's capital adequacy ratios as at 30 June 2014, 2015 and 31 December 2015 are set out below:

Auswide Bank – capital adequacy ratios			
	30 Jun 14	30 Jun 15	31 Dec 15
	\$m	\$m	\$m
Tier 1 capital	124.2	130.2	140.6
Tier 2 capital	27.8	26.5	30.4
<b>Total capital</b>	<b>152.0</b>	<b>156.7</b>	<b>171.0</b>
<b>RWA</b>	<b>1,063.4</b>	<b>1,033.8</b>	<b>1,148.7</b>
<i>Tier 1 capital ratio</i>	<i>11.7%</i>	<i>12.6%</i>	<i>12.2%</i>
<i>Tier 2 capital ratio</i>	<i>2.6%</i>	<i>2.6%</i>	<i>2.7%</i>
<b>Total capital ratio</b>	<b>14.3%</b>	<b>15.2%</b>	<b>14.9%</b>



- 96 As indicated above, Auswide Bank has consistently maintained capital adequacy ratios in excess of APRA's requirements. As at 31 December 2015, Auswide Bank had a Tier 1 capital ratio of 12.2% and a total capital ratio of 14.9%. At the same date, the bank held \$21.8 million in capital above the Board's target.
- 97 On 13 August 2015, Auswide Bank announced that it would wind up the captive lenders' mortgage insurance subsidiary, MRM. The effective date was 30 September 2015, and released some \$10 million of Tier 1 capital that was previously invested in MRM.

## Share capital and performance

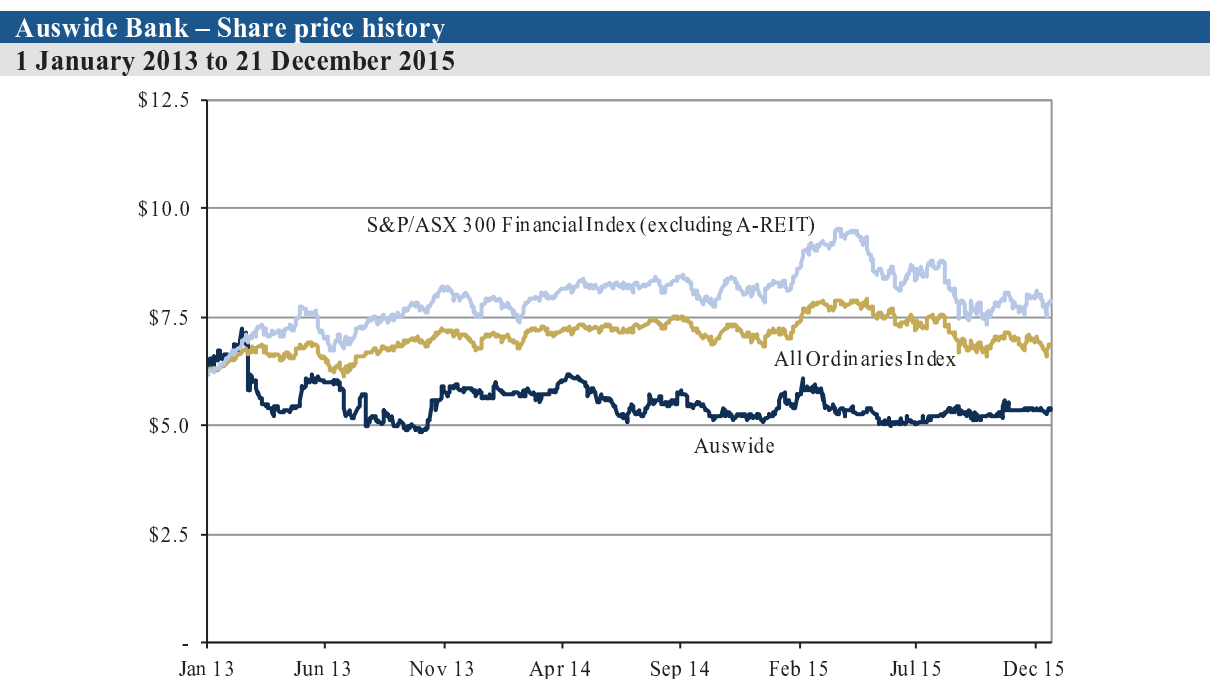
- 98 As at 21 December 2015 (the date of the MIA), Auswide Bank had 37.1 million fully paid ordinary shares on issue.

### Significant shareholders

- 99 As at 21 December 2015, Auswide Bank had one significant shareholder, being Hancock, RE (associated entities & associates) with a holding of 2.2 million shares (5.9% of Auswide Bank shares on issue).

### Share price performance

- 100 The following chart illustrates the movement in the share price of Auswide Bank from 1 January 2013 to 21 December 2015<sup>10</sup>:



Source: Bloomberg.

<sup>10</sup> Being the last trading day prior to the announcement of the Scheme. An analysis of trading in Auswide shares subsequent to the announcement of the Scheme is set out in Section VIII of our report.

- 101 The Auswide Bank share price has generally moved sideways since 1 January 2013 and has underperformed on the All Ordinaries Index and the S&P / ASX 300 Financial Index (excluding A-REITs) over this period.

### Liquidity in Auswide Bank shares

- 102 The liquidity in Auswide Bank shares based on trading on the ASX over the 12 month period to 21 December 2015 is set out below:

Auswide Bank – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS <sup>(1)</sup> Outstanding 000	Implied level of liquidity Period <sup>(2)</sup> %	Implied level of liquidity Annual <sup>(3)</sup> %
1 month	22 Nov 15	21 Dec 15	154	37,093	0.4	5.0
3 months	22 Sep 15	21 Dec 15	601	37,058	1.6	6.5
6 months	22 Jun 15	21 Dec 15	1,559	37,049	4.2	8.4
1 year	22 Dec 14	21 Dec 15	3,142	36,981	8.5	8.5

**Note:**

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 103 In each of the periods disclosed, total share turnover (on an annualised basis) has been extremely low (5.0% to 8.5% of the issued shares). This indicates a low level of market liquidity for a business of its size, in particular given the relatively open nature of the Auswide Bank share register.

## V Industry overview

### Overview

- 104 ADIs are entities authorised under the *Banking Act 1959* (Cth) to carry on banking business in Australia and include banks, credit unions and building societies. As at 30 September 2015, the total reported asset base of Australian ADIs was \$4.6 trillion, with the majority, or some 78%, attributable to the four major Australian banks (Australia and New Zealand Banking Group (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank (NAB) and Westpac Banking Corporation (WBC) (collectively the Majors))<sup>11</sup>.
- 105 Credit unions, mutual banks and building societies (Australian Mutuals) are entities owned by their members and, for the purpose of providing banking services to members, operate under the mutual principle of “one member, one vote”. As a result, Australian Mutuals place the provision of low cost banking services to their members above profit maximisation, resulting in higher customer satisfaction ratings relative to banks.
- 106 As at October 2015 there were 73 credit unions, 13 mutual banks and five mutual building societies in Australia<sup>12</sup>. These Australian Mutuals:
- (a) had combined on-balance sheet assets of \$94.4 billion as at June 2015
  - (b) held 10.3% of household deposits as at June 2015, making them collectively the fifth largest holder of such deposits in Australia
  - (c) served approximately 4.5 million members, representing approximately 20% of the Australian population.
- 107 Significant consolidation of the Australian Mutuals sector has taken place in recent years and is expected to continue given the competitive market conditions. By way of example, in March 2005 there were 169 credit unions and 14 building societies but these numbers have since fallen to less than 80 in total<sup>13</sup>. Recent corporate activity has included the merger of Teachers Mutual Bank and Unicredit into UniBank in August 2015, the merger of Maritime, Mining & Power Credit Union and Collie Miners Credit Union in March 2015 and the merger of Swan Hill Credit Union and bankmecu<sup>14</sup> in June 2014.
- 108 The rationale for consolidation is based on scale and improved financial strength, enhanced product ranges and geographical spread. Significant cost savings are usually also achieved. In addition, due to the Australian Government’s policy reform allowing large mutual organisations regulated by APRA to use the term “bank”, some of the largest credit unions and building societies have changed their names.

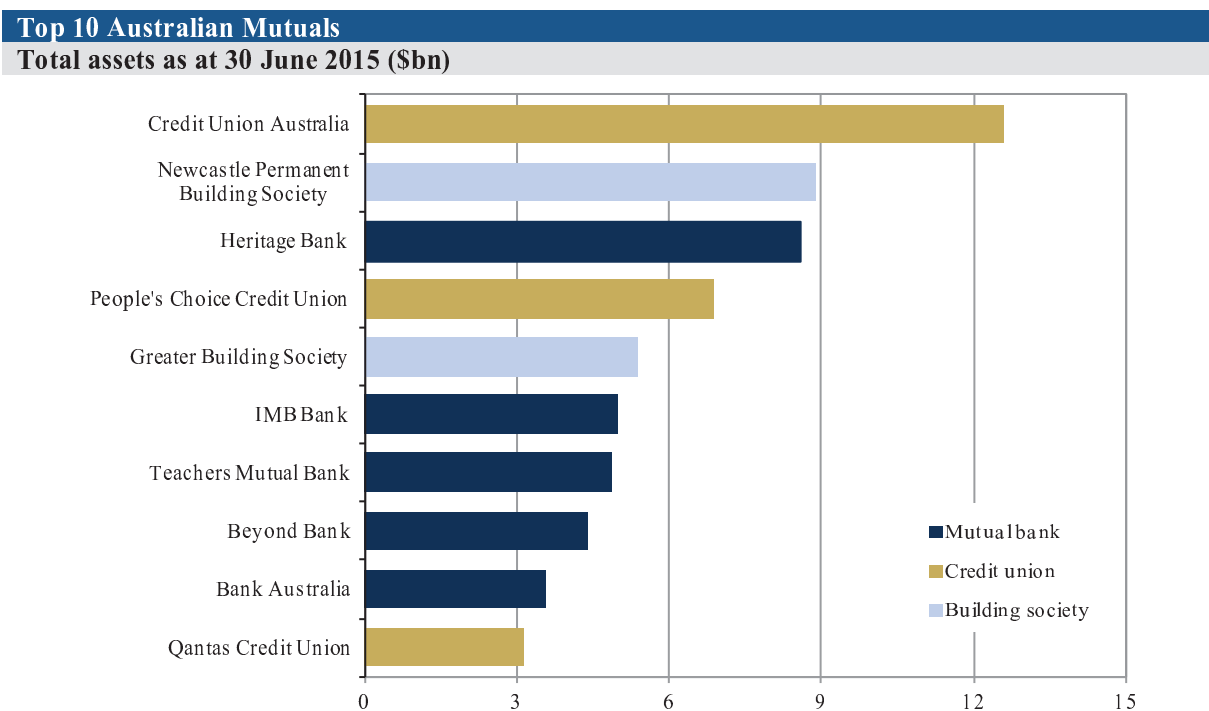
<sup>11</sup> Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

<sup>12</sup> Source: Customer Owned Banking Association (2015) *Key Fact Sheet*.

<sup>13</sup> Source: APRA website [www.apra.gov.au](http://www.apra.gov.au), accessed 6 January 2016.

<sup>14</sup> bankmecu changed its name to Bank Australia in August 2015.

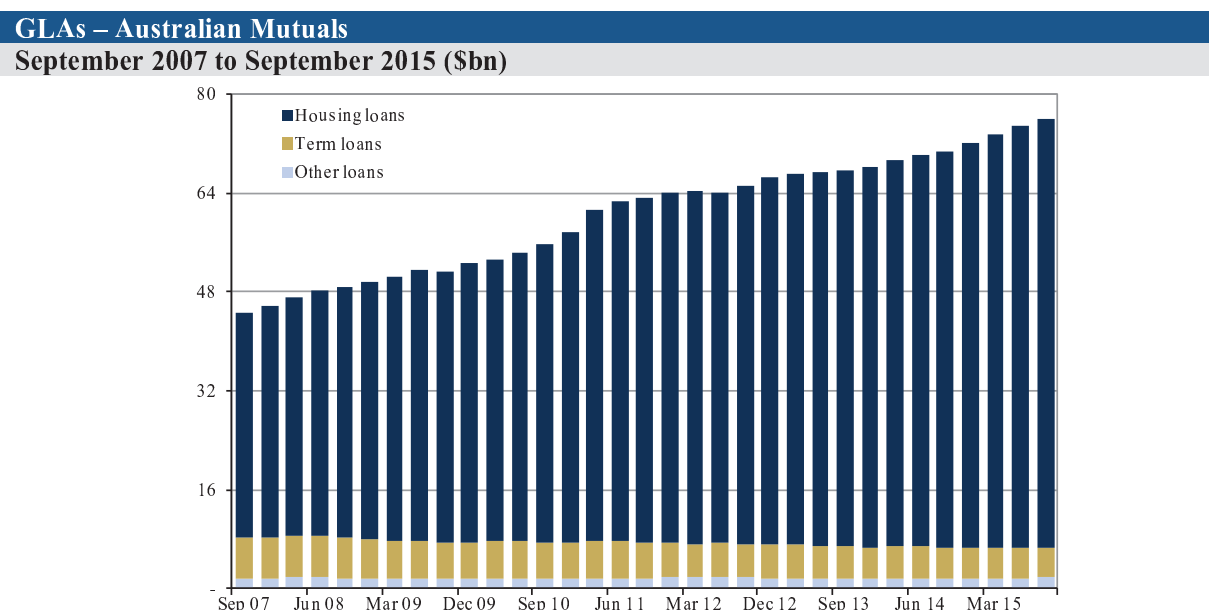
109 A graphical representation of the largest Australian Mutuals is shown below:



Source: KPMG (2015) *Mutuals Industry Review 2015*.

## Asset base

110 GLAs held by Australian Mutuals combined were some \$76 billion as at 30 September 2015, having grown by a compound annual growth rate (CAGR) of approximately 6.9% per annum in the eight years since 30 September 2007. GLAs held by banks increased to some \$2.9 trillion over the same period, growing at a CAGR of approximately 7.7% per annum<sup>15</sup>.



<sup>15</sup> Source: APRA statistics and LEA analysis.

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**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 (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

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- 111 Asset growth in recent periods has been driven primarily by lower interest rates and a faster pace of household credit growth<sup>16</sup>. Residential property prices in most Australian capital cities (particularly Sydney and Melbourne) have increased significantly due to lower interest rates. This has increased demand for housing loans (new housing loan approvals increased by 11.1% to \$366 billion for the year ended 30 September 2015<sup>17</sup>). Despite this, competition in the mortgage market remains strong, with banks securing the largest share of new residential loans<sup>18</sup>.
- 112 As at 30 September 2015, 91% of Australian Mutuals' GLAs related to housing loans compared with some 59% for banks. Despite a large proportion of Australian Mutuals' GLAs relating to housing loans, the majority (83.8%) of the \$1.7 trillion mortgage market is still controlled by the Majors<sup>19</sup>.

### **Competition in housing lending**

- 113 Demand for housing credit increased in the 1990s and early 2000s, which provided opportunities for new entrants in the residential lending industry. Increasing internet penetration levels, which provided the means for customers to compare lending rates, also lessened the competitive advantage of the traditional banks' extensive branch networks.
- 114 The new lenders initially raised wholesale funds (reassuring providers of wholesale funds that the use of mortgage insurance limited risks) and offered rates below those charged by the banks, while providing better service such as visiting customers' homes at convenient times. The early focus was on existing bank customers purchasing investment properties, loans for which were typically priced at an additional 1% above the standard housing rate (a rate not commensurate with the additional risk involved).
- 115 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 Home Loans, Wizard Home Loans and RAMS Home Loans. These lenders did not raise retail deposits and, therefore, were not regulated by APRA.
- 116 The proliferation of new housing lenders led to the emergence of mortgage brokers in the 1990s. Mortgage brokers essentially provide a comparison service for home loan products, which should ultimately determine the most suitable and best value loan product for a given customer. The practice of using brokers to originate loans has continued to increase in recent years, with mortgage brokers responsible for 52.6% of new residential home loan lending during the September 2015 quarter (up from 51.3% in the previous quarter<sup>20</sup>). The

<sup>16</sup> Source: Reserve Bank of Australia (RBA) (2015) *Financial Stability Review October 2015*.

<sup>17</sup> For ADIs with greater than \$1 billion of residential term loans. Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Property Exposures*.

<sup>18</sup> Source: APRA statistics and LEA analysis.

<sup>19</sup> As at 30 September 2015. Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

<sup>20</sup> Source: Mortgage & Finance Association of Australia (2015) *September 2015 quarter shows record breaking result after 16 consecutive quarters of growth*.

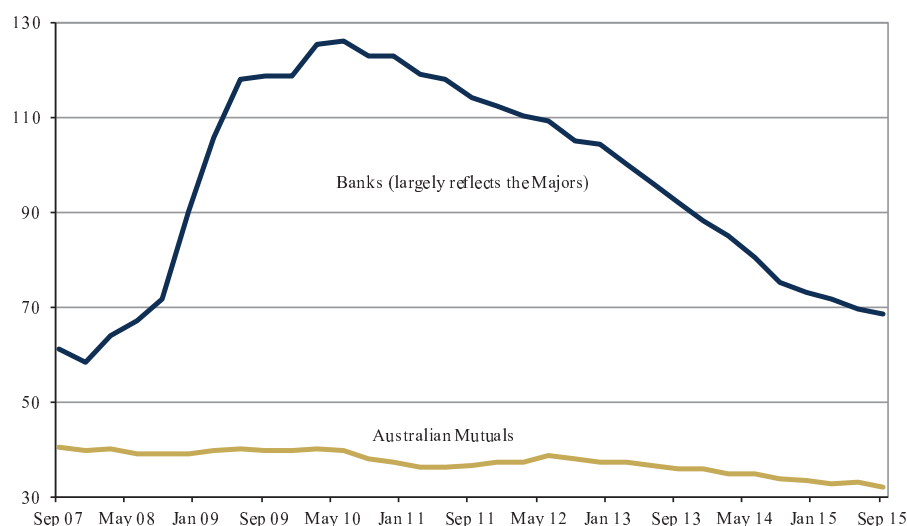
emergence of mortgage brokers also appears to have been particularly important for some of the smaller lenders (such as credit unions and building societies) that do not have extensive networks or the capacity to undertake widespread marketing.

### Asset quality

- 117 The asset quality of Australian Mutuals (predominantly residential loans) has been relatively stable over the last eight 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.
- 118 The ratio of lending provisions to gross loans for Australian Mutuals has remained relatively stable over the eight years to September 2015. By contrast, the banks' provisions relative to gross loans significantly increased at the onset of the global financial crisis (GFC) but have subsequently been steadily declining since about 2010.

#### Lending provisions to GLAs

September 2007 to September 2015 (basis points)



Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

### Sources of funding

- 119 Unlike banks, Australian Mutuals source most of their funds from customer deposits. This is due to a combination of the strong retail deposit bases that Australian Mutuals hold (reducing the need for wholesale funding), as well as the significantly higher price they would pay in wholesale markets for funding due to their lower credit ratings. Some Australian Mutuals also rely upon securitisation programs as a key source of funding.

### Deposits

- 120 Australian Mutuals collectively held 10.3% of household deposits as at June 2015, making them collectively the fifth largest holder of retail deposits after the Majors.
- 121 Following the GFC, households generally became much more risk averse, repaying personal debt where possible and significantly increasing cash deposits. Although Australia's

household savings ratio has slightly decreased to 9.0% of disposable income in recent years, it remains well above historical levels<sup>21</sup>.

- 122 The Australian Government's introduction of deposit guarantees 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 both the Financial Claims Scheme and the Guarantee Scheme for Large Deposits and Wholesale Funding (which ceased in 2010).
- 123 The Financial Claims Scheme protects account-holders' deposits made with domestic ADIs (and interest accrued on such deposits), to a maximum of \$250,000 per account holder per ADI, with no direct charge to account holders. From October 2008 up until 1 February 2012 the amount guaranteed was \$1 million per account holder per ADI<sup>22</sup>.
- 124 Australian Mutuals continue to face strong competition for new deposits, with the share of deposits held by Australian Mutuals decreasing from 3.7% in September 2007 to 3.2% in September 2015. In contrast the deposit share held by the Majors has increased from 64.5% to 80.0% over the same period<sup>23</sup> (due to the acquisition of smaller domestic banks and a shift in funding focus away from wholesale markets, which became relatively more expensive and difficult to access as a result of the GFC<sup>24</sup>).

## Securitisation

- 125 Historically (prior to the 1990s), lending for housing was provided largely by ADIs. In the intervening period, the development of securitisation of residential mortgages has 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 a peak of 31.7% in June 2007.
- 126 The disturbances in the financial markets caused by the GFC reduced the funds available for investment in Residential Mortgage Backed Securities (RMBS), even though Australian residential mortgages are generally of high quality and can provide a reasonably sound base for securitisation, as evidenced by the relatively low level of arrears data.
- 127 While banks have larger absolute volumes of securitisation funding, it makes up a greater proportion of the smaller lenders funding sources (including Australian Mutuals). Consequently, with a view to maintaining competition in the home lending market, the Australian Government intervened and in late 2008 directed the Australian Office of Financial Management<sup>25</sup> (AOFM) to invest in AAA-rated RMBS. A key eligibility criterion of the scheme was that lenders operated independently of the Majors. This program ended in April 2013.

<sup>21</sup> Source: ABS (2015) *Australian national accounts: national income, expenditure and product 5206.0*.

<sup>22</sup> Source: APRA (2012) *Financial Claims Scheme for Authorised Deposit-taking Institutions*.

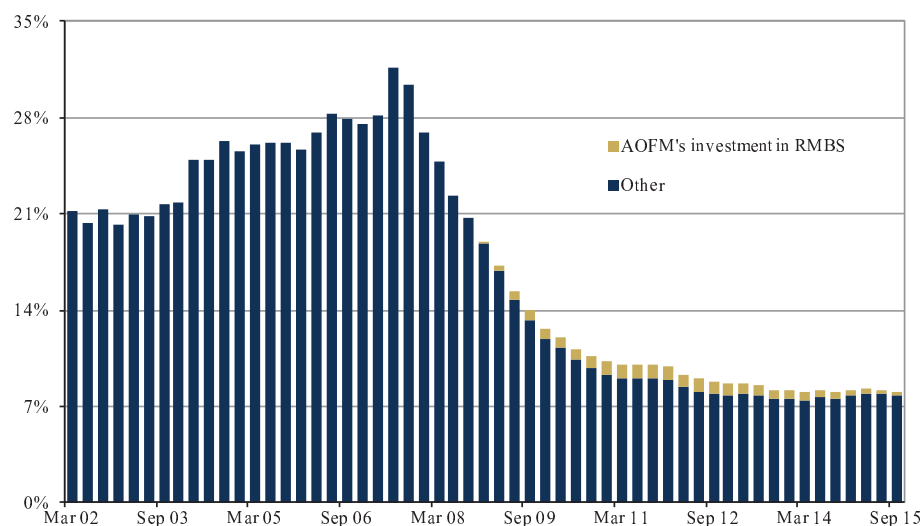
<sup>23</sup> Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

<sup>24</sup> As at 30 September 2015, retail deposits made up 64.5% of the Majors' total funding base (excluding equity), compared to 56.7% as at 30 September 2007. Source: APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

<sup>25</sup> A specialist Australian Government agency responsible for management of Australian Government debt, cash balances and investments in financial assets.

- 128 Over the investment phase that ran for some 4.5 years, approximately \$15.5 billion was invested across 111 tranches of 67 transactions from 20 programs. During this period, smaller lenders sponsoring these programs were able to source some \$45 billion in funding. As a broad indicator, the program directly facilitated some 245,000 home loans<sup>26</sup>.

#### Securitised vehicles – proportion of all housing lending March 2002 to September 2015



**Note:** AOFM's investment in RMBS is represented by total investments less sales and is adjusted for capital repayments.

**Source:** ABS (2015) *Housing Finance 5609.0* and AOFM (2015) *Investment holdings*.

## Income

### Net interest income

- 129 Australian Mutuals generated \$2.1 billion in net interest income for the year to 30 September 2015, which was steady compared to the previous year. Net interest income represented 76.3% of total operating income for Australian Mutuals, compared to 65.8% of total operating income for banks.
- 130 Increased lending competition (particularly in the deposit and mortgage sectors) has reduced NIMs<sup>27</sup> for Australian Mutuals over the medium term, with NIMs decreasing from 3.0% in September 2007 to 2.2% in September 2015. Bank margins have been more stable (trending around 1.7%) over the same period.

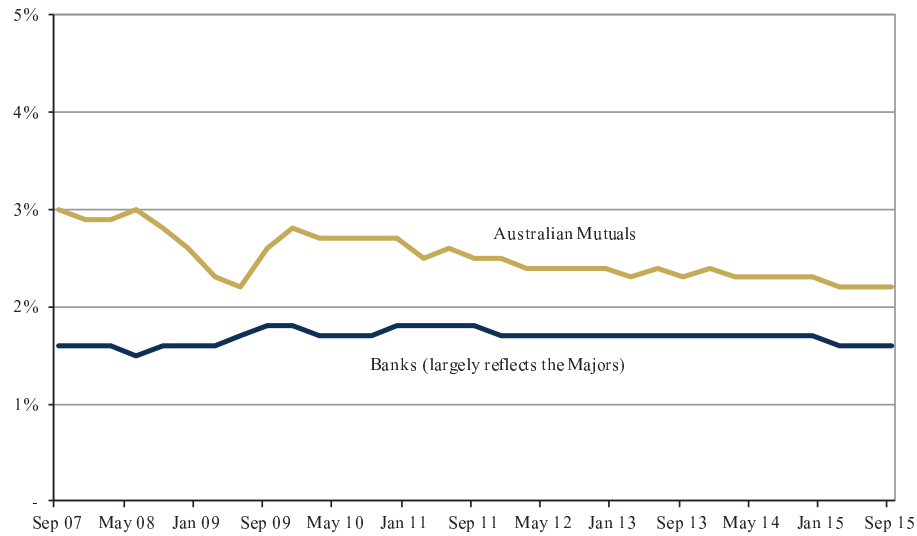
<sup>26</sup> Source: AOFM (4 June 2013) *Australian government debt future options for CGS market development*.

<sup>27</sup> Net interest income to average interest earning assets.



### NIMs (indicative)

September 2007 to September 2015



**Note:** Indicative NIMs based upon net interest income divided by the simple average of cash and liquid assets, securities, other deposits and GLAs.

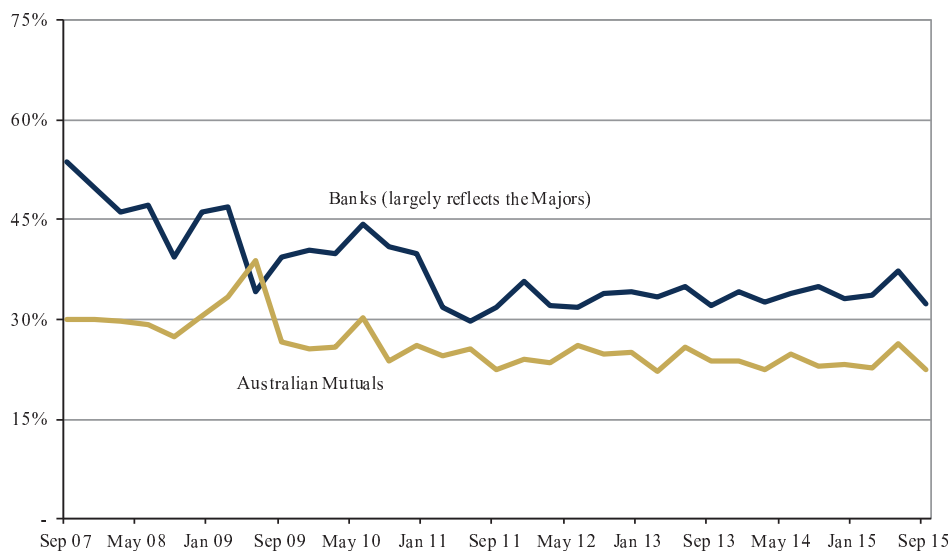
**Source:** APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

### Non-interest income

- 131 Non-interest operating income is generally derived from account and other product fees, and from operations in the insurance or wealth management sectors. For Australian Mutuals, non-interest income represented approximately 23.7% of total operating income compared with 34.2% for banks over the year to 30 September 2015.

### Non-interest income proportion of total operating income

September 2007 to September 2015



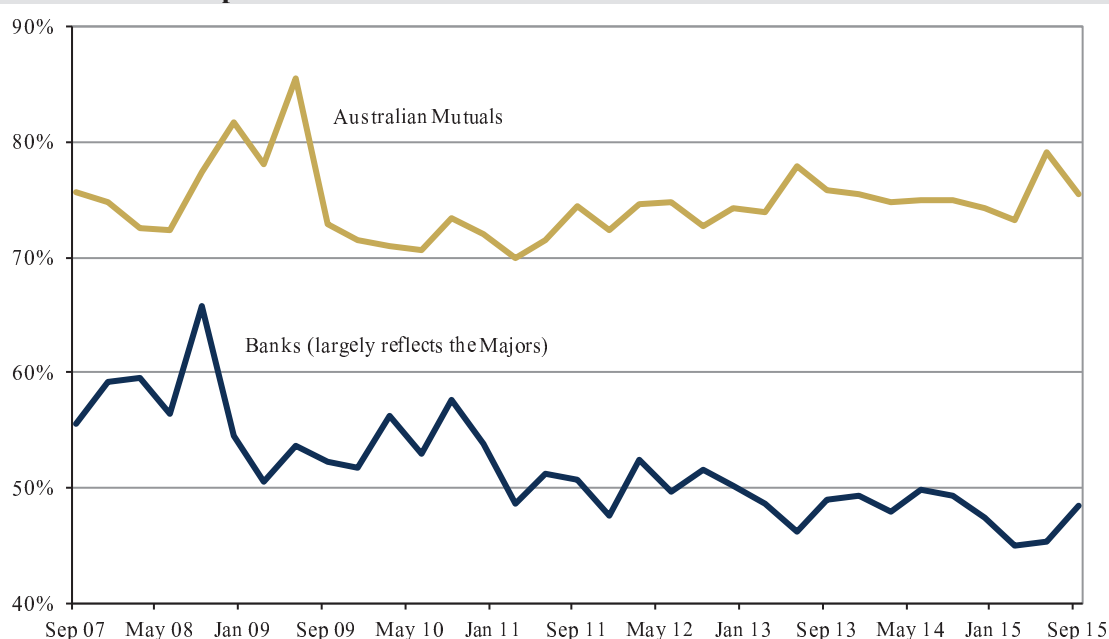
**Source:** APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

## Costs

- 132 Over the eight years to September 2015, the cost to income (CTI) ratio of Australian Mutuals peaked at 85.4% for the quarter ended June 2009, with a low of 70.0% for the quarter to March 2011. As at September 2015, the CTI ratio for Australian Mutuals was 75.4%. By contrast, over the same period, the CTI ratio for banks peaked at 65.7% during the September 2008 quarter, with a low of 45.1% for the quarter ended March 2015.
- 133 Banks are able to achieve lower CTI ratios primarily due to the larger scale of their operations and associated economies, as well as differences in business mix. The differential is also a reflection of the member focus of Australian Mutuals.

### CTI ratios<sup>(1)</sup>

September 2007 to September 2015



**Note:** The CTI ratio for Banks in September 2015 is the year end as opposed to quarter end figure due to an abnormally large spike in the quarterly CTI figure.

**Source:** APRA (2015) *Quarterly Authorised Deposit-taking Institution Performance*.

## Regulation

- 134 Australia's financial regulation framework is based on three separate agencies operating on functional lines:
- (a) APRA – responsible for prudential regulation and supervision of ADIs, general insurance, life insurance and reinsurance companies, and superannuation funds. 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
  - (b) ASIC – responsible for the monitoring, regulation and enforcement of the corporations law and financial services law, as well as the promotion of market integrity and investor protection

- (c) RBA – responsible for monetary policy, overseeing financial system stability and oversight of the payments system.

135 In addition, the ACCC has responsibility for competition policy across the entire economy, including the financial sector.

### **Basel III**

136 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.

137 Basel III and its predecessors, the 1988 Basel Accord (Basel I) and Basel II<sup>28</sup> (which took effect in Australia from January 2008) resulted from the need for increased global harmonisation of regulatory capital requirements.

138 Basel III was issued in December 2010 with the aim of dealing with the deficiencies in Basel II<sup>29</sup>. APRA has favoured the full implementation of Basel III, with reforms being implemented progressively from 1 January 2013.

### **Capital adequacy**

139 Under Basel III, all ADIs will be required to meet the following minimum requirements:

- (a) common equity must be at least 4.5% of RWA (increased from 2.0%<sup>30</sup> under Basel II)
- (b) Tier 1 capital<sup>31</sup> must be at least 6.0% of RWA (increased from 4.0% under Basel II)
- (c) total capital (Tier 1 plus Tier 2<sup>32</sup>) must be at least 8.0% of RWA (same under Basel II).

140 APRA also introduced a capital conservation buffer of an additional 2.5% of RWA, which is to be met with Tier 1 common equity. When capital levels fall within the buffer range, ADIs will be subject to constraints on capital distribution that increase in severity as the buffer reduces. APRA requires full implementation of the capital conservation buffer from 1 January 2016.

<sup>28</sup> Basel II consisted of three pillars. Pillar 1 set out the minimum capital requirement addressing credit, operational and market risk. Pillar 2 outlined the regulatory supervisory review to complement and enforce the capital requirements as calculated in Pillar 1. Pillar 3 was concerned with market discipline implemented through disclosure requirements.

<sup>29</sup> One of the factors that led to the GFC was insufficient regulatory capital and the absence of a sufficient capital base to absorb losses.

<sup>30</sup> Although APRA's Basel II requirement was 3% for Australian ADIs.

<sup>31</sup> Tier 1 capital comprises the highest quality capital elements, which meet fully all the essential characteristics of capital, such as ordinary shares and reserves.

<sup>32</sup> Tier 2 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.

- 141 A countercyclical buffer of up to a further 2.5% of RWA (again to be met by common equity) will apply when excessive credit growth and other indicators point to a system-wide build-up of risk. This buffer is designed to address excessive and rapid credit growth that can contribute to any future economic and financial crisis. On 17 December 2015, APRA announced it had set the countercyclical buffer at 0% from 1 January 2016 based on its assessment of the current levels of systematic risk which included credit growth, asset prices and lending standards<sup>33</sup>. APRA will publish any decision to increase the countercyclical buffer up to 12 months prior to the date from which it applies.
- 142 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**

- 143 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.
- 144 The Basel III liquidity standard, known as the Liquidity Coverage Ratio (LCR), aims to ensure that banking institutions hold a portfolio of high-quality liquid assets (HQLA) sufficient to survive an acute stress scenario lasting for one month. With the implementation of the LCR requirements for Australian ADIs from 1 January 2015, APRA determined that only certain assets can count towards the LCR. These assets include cash, balances held with the RBA, Australian Government and semi-government securities and sovereign debt in jurisdictions in which the ADI operates.
- 145 The approach is applicable only to the larger and more complex ADIs (around 40 in number)<sup>34</sup>. APRA does not currently intend to apply the LCR requirement to ADIs that are currently subject to a simple quantitative metric, the minimum liquid holdings regime.
- 146 In December 2010, APRA also announced its decision to provide ADIs with a Committed Liquidity Facility (CLF) with the RBA. The CLF should be able to cover any shortfall between the HQLAs held by the ADI and the requirement to hold HQLAs to meet the LCR. The CLF arrangements were implemented from 1 January 2015.

### **Supervision of large credit exposures<sup>35</sup>**

- 147 A large exposure is an exposure to a counterparty or a group of related counterparties which is greater than 10% of an ADI's regulatory capital. APRA sets limits on the amount of exposure ADIs can have to external parties, including:
- (a) the maximum exposure an ADI can have to an unrelated ADI is 50% of its capital base<sup>36</sup>
  - (b) the maximum exposure an ADI can have to its foreign parents and their subsidiaries is 50% of its capital base<sup>37</sup>

<sup>33</sup> Source: APRA (2015) *APRA announces countercyclical buffer rate for ADIs*.

<sup>34</sup> Source: APRA (2013) *Implementing Basel III liquidity reforms in Australia*.

<sup>35</sup> Source: APRA APS 221 – *Large exposures*.

<sup>36</sup> Exposure to a non-deposit taking subsidiary of the unrelated ADI is limited to 25%.

<sup>37</sup> Exposure to a non-deposit taking subsidiary of the foreign parent is limited to 25%.

- (c) the upper limit for exposure to a non-government, non-ADI counterparty is 25% and prior approval is required for exposure in excess of 10%.

- 148 Furthermore, APRA may set specific limits on an ADI's exposures to particular counterparties, groups of counterparties, industry sectors, countries or asset classes, including property holdings and any other investments, on a case by case basis, having regard to an ADI's individual circumstances.
- 149 An ADI must obtain APRA's prior approval for any proposed exposures in excess of the prescribed limits set out above and such approvals will only be granted under exceptional circumstances. The ADI must be able to satisfy APRA why the exposure(s) might reasonably be expected not to expose the ADI to excessive risk and a higher minimum capital ratio might be imposed for the additional risk.

## **Outlook**

- 150 In our view, the operating environment for small ADIs in particular is likely to remain challenging in FY16 reflecting the modest outlook for credit growth and continued strong competition for loans and deposits. The key issues to be faced are discussed in more detail below.

### **Competition for customer deposits**

- 151 Unlike banks, Australian Mutuals source the large majority of their funding from customer deposits (a mix of at call and term deposits). Although wholesale funding costs have lowered since the GFC, banks have become more reliant on deposits for a larger share of their funding and have offered higher interest rates to secure them. This in turn has increased the cost of funds for Australian Mutuals, which have also had to offer higher deposit rates to remain competitive.

### **Competition in the mortgage market**

- 152 Competition in the home mortgage market remains intense with high levels of discounting, higher LVR loans and weaker lending standards (regulators have revealed that in many instances, lenders have relied upon poor documentation and relaxed serviceability assessments in making lending decisions)<sup>38</sup>. In addition, price competition in business lending has also increased with loan covenants being relaxed in certain cases<sup>39</sup>.

### **Declining net interest margins**

- 153 Due to intense competition for market share in the mortgage market, the increase in funding costs has not been fully recovered by increases in lending rates. This is further compounded by the decline in the RBA cash rate and has resulted in NIM reductions for most ADIs.
- 154 While the Majors have sought to offset the decline in interest margins by productivity gains and cost reduction initiatives, Australian Mutuals have generally had to absorb the decline in order to be able to offer competitive rates on their products to members (with a corresponding detrimental impact on profitability).

<sup>38</sup> Source: RBA (2015) *Financial stability review October 2015*.

<sup>39</sup> Source: RBA (2015) *Financial stability review October 2015*.

- 155 As a result, many Australian Mutuals have merged with or acquired competitors to achieve cost savings through economies of scale. For example, since March 2005 the number of credit unions and building societies in Australia has reduced from 183 to less than 80 as at January 2016. In our view, further industry consolidation is likely to occur for the reasons discussed above.

### **Loan growth**

- 156 While loan growth has benefited from rising residential property prices in recent years, lending standards and certain lending practices (such as interest only loans) have come under scrutiny by regulators due to the risks that can arise associated with robust housing investment<sup>40</sup>. As a result, regulators have undertaken steps to ensure banks' lending standards are tightened, which has the potential to put downward pressure on loan growth and availability.
- 157 Together with continued uncertainty associated with the outlook for the Australian and world economies, subdued (but rising) business confidence and rising household leverage, loan growth in our view will likely subside in the short to medium-term.

### **Loan impairment losses**

- 158 Impaired loans relative to total assets have been steadily falling since the GFC. Impairment losses of Australian Mutuals in particular have remained at very low levels due to their focus on consumer lending and the adoption of conservative loan policies. With the current low interest rate environment supporting Australian residential property prices (at least in the short term), impairment losses by Australian Mutuals are expected to remain at low levels in the absence of a significant financial shock.
- 159 However, any significant deterioration in the outlook for the world economy and/or China could have a significant adverse impact on the Australian economy and residential property prices (given mounting housing affordability issues)<sup>41</sup>. In such circumstances we would expect the potential for impairment loan losses to increase significantly.

### **Basel III**

- 160 The progressive introduction of Basel III from 1 January 2013 (discussed in paragraphs 136 to 146 above) has increased the quality and quantity of capital and liquid assets required to be held by an ADI. Together with the challenging market conditions, this has the potential to place downward pressure on returns on equity (which are generally low for Australian Mutuals in any event).

### **Technology innovation and investment**

- 161 Continued innovation and investment in technology is likely to be required in order to reduce costs and maintain competitiveness. Further, due to the greater acceptance of internet banking and mobile payment applications, there is a need for Australian Mutuals to offer an increasing number of services online. However, Australian Mutuals typically have much smaller technology budgets than larger ADIs, making it more difficult for them to compete.

<sup>40</sup> Recent investigations by regulators have found that lending standards are weaker than previously thought. Source: RBA (2015) *Financial stability review October 2015*.

<sup>41</sup> As at January 2016, China's economy was impacted by stock market volatility emanating from the fear of slower domestic growth. This also impacted international confidence as reflected in associated international stock market volatility.

- 162 With the rise in prominence of the Fintech sector in Australia, traditional banking models are at risk of disruption from new technology platforms such as peer-to-peer lending<sup>42</sup>. It is estimated that the level of current banking revenue that is at risk of digital disruption is in excess of \$25 billion<sup>43</sup>.

<sup>42</sup> Fintech refers to financial technology, which is the practice of using technology to deliver financial services.

<sup>43</sup> Source: KPMG (2014) *Unlocking the potential: the Fintech opportunity for Sydney*.

## VI Valuation approach

### Valuation approaches

- 163 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 members 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.
- 164 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.
- 165 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.
- 166 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.
- 167 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 is adjusted for the time, cost and taxation consequences of realising the company's assets.

## Methodologies selected

- 168 The Scheme, if approved and implemented, will result in a change of control of YCU. Furthermore, the Scheme will also result in YCU members exchanging their interest in YCU for a combination of cash and a minority interest in the Merged Entity (collectively, YCU members will assume ownership of some 7.1% of Auswide Bank). In such circumstances, RG 111 requires the expert to compare the value of the target entity's securities (assuming 100% control) with the aggregate value of the securities being offered (assessed on a minority interest basis) and the value of any other consideration, in this case cash.
- 169 Accordingly, we have adopted the following primary valuation methodologies to assess the market value of 100% of the member shares in YCU and the value of that part of the consideration that comprises shares in Auswide Bank:

Primary valuation methodologies		
Entity	Primary valuation methods	Reason
YCU	Net tangible assets (NTA) multiple	<ul style="list-style-type: none"> <li>As loans and deposits are shown in YCU's financial statements at values which approximate their fair values, the market value of YCU should be no less than its reported NTA</li> <li>NTA multiples are a widely used and accepted relative valuation measure for ADIs</li> <li>Significant NTA multiple evidence is available from listed company values and recent transaction evidence</li> </ul>
YCU	Capitalisation of NPAT <sup>(1)</sup>	<ul style="list-style-type: none"> <li>Relatively stable earnings and no expected significant capital expenditure requirements in the short to medium term</li> <li>Nature of banking business dictates capitalisation of profits after interest and tax (rather than EBIT)</li> <li>Availability of PE multiples for listed financial services companies</li> <li>Significant transaction evidence</li> <li>Absence of long-term cash flow forecasts</li> </ul>
Auswide Bank (Merged Entity)	Reference to listed share market price post announcement of Scheme	<ul style="list-style-type: none"> <li>Represents the best estimate of value that may be realised by YCU members if they sold their shares either immediately or in the short-term</li> </ul>

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**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 financial institution and enable improved comparison with peer companies<sup>(2)</sup>. 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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- 170 Although it is customary in scrip-for-scrip transactions to rely upon the listed trading price of the bidder (in this case Auswide Bank) 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 members. Consequently, we have also cross-checked the reasonableness of our assessed value of the Auswide Bank shares being offered as consideration by reference to implied PE and NTA multiples.

## VII Valuation of YCU

### Overview

171 As stated in Section VI, we have assessed the value of YCU using the NTA multiple and capitalisation of earnings approaches.

### NTA multiple approach

- 172 YCU generates modest profits relative to its capital employed, which largely reflects its mutual status. However, as the carrying value of loans and deposits in YCU's financial statements approximates their fair values, the market value of YCU should be no less than its reported NTA, which as at 31 December 2015 was \$27.3 million.
- 173 In our opinion, a potential purchaser of YCU is likely to pay a premium above NTA due to, inter-alia, the costs avoided by acquiring YCU compared to originating an equivalent loan portfolio and YCU's level of surplus capital (which is likely to be attractive and of benefit to a purchaser).
- 174 Due to YCU's relatively high quality loan book (loan to value ratios are generally no more than 80%) we understand that the direct costs of originating an equivalent loan portfolio through a mortgage broker would be up to 4% of the amounts outstanding under the loans<sup>44</sup>. Given that loans and advances totalled approximately \$129 million as at 31 December 2015, the avoided costs in the case of YCU (in respect of which a potential purchaser is likely to pay a premium over NTA) would equate to up to \$5 million<sup>45</sup>.
- 175 Transaction evidence, and the values attributed to the listed banks relative to their NTA<sup>46</sup> (refer Appendices C and D), also indicate that a premium to NTA is appropriate. Whilst there have not been any recent acquisitions of listed banks, we note that:
- (a) as at 21 December 2015 (i.e. immediately prior to the announcement of the Scheme), Auswide Bank shares were trading on a price to NTA multiple of around 1.3 (prior to adding a premium for control)
  - (b) The Rock Building Society was acquired by MyState Limited in 2011 for \$64 million, which implied an adjusted price to NTA multiple of 1.3<sup>47</sup>
  - (c) the remaining 40% of Elder's Rural Bank not owned by Bendigo and Adelaide Bank was acquired in 2010 for \$164 million, which implied a price to NTA ratio of 1.2
  - (d) following substantial declines in the listed market prices of bank shares since 31 December 2015<sup>48</sup>, some of the major banks (ANZ and NAB) now only trade at 1.4 times NTA<sup>49</sup>

<sup>44</sup> This includes trailing commissions which should be adjusted for the time value of money.

<sup>45</sup> Whilst a significantly larger transaction, we note that in October 2015 Macquarie Group Limited announced the acquisition of the Esanda Dealer Finance loan portfolio totalling \$7.8 billion from Australian and New Zealand Banking Group Limited (ANZ) for \$8.23 billion (representing a premium of 5.5% above the face value of the loans).

<sup>46</sup> It should be noted that the price to NTA multiples of the listed companies shown in Appendix C reflect trading on a portfolio basis and have not been adjusted to incorporate a premium for control.

<sup>47</sup> In this calculation the level of surplus capital held by The Rock (as assessed by LEA when opining on the proposal) was deducted from the price and NTA so that the ratio relates to the core banking business only.

- (e) Goldfields Money (which is the closest listed bank to YCU in terms of size) is currently trading at around 1.0 times NTA (prior to adding a premium for control)<sup>50</sup>.

176 Based on the above we have valued YCU at 1.1 to 1.3 times its reported NTA excluding surplus capital. This values YCU at around \$29 million to \$32 million, which represents a premium to its reported NTA of between \$1.7 million and \$4.7 million as shown below:

<b>YCU – valuation based on NTA multiple approach</b>		
	<b>Low \$m</b>	<b>High \$m</b>
NTA as at 31 December 2015	27.3	27.3
Less surplus capital <sup>(1)</sup>	(12.6)	(12.6)
Adjusted NTA	14.7	14.7
Price to NTA multiple	1.1	1.3
Value of core banking business before surplus capital	16.2	19.1
Add surplus capital	12.6	12.6
Value of YCU	28.8	31.7
Rounded to	29.0	32.0
Premium to reported NTA	1.7	4.7

**Note:**

1 Refer paragraph 202.

## Capitalisation of earnings approach

177 The capitalisation of earnings after tax methodology requires consideration of the following factors:

- the selection of an appropriate level of NPAT having regard to historical and forecast operating results, adjusted 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 the asset and/or liability valued separately
- 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.

## Assessment of NPAT

178 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 more recent results than to historic results.

<sup>48</sup> Between 31 December 2015 and 3 February 2016 the S&P / ASX 200 Financials index has fallen approximately 10%.

<sup>49</sup> As at 3 February 2016.

<sup>50</sup> As at 3 February 2016.

### *Standalone earnings*

- 179 We set out below YCU's reported earnings for the three years ended 30 June 2015 and six months ended 31 December 2015, together with our adjustments for significant non-recurring items and earnings in respect of assets considered surplus to the core business operations:

	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>1H16</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Reported profit before tax	771	934	359	544
Adjustments:				
Member meeting costs <sup>(1)</sup>	-	27	-	-
Relocation costs <sup>(2)</sup>	-	-	110	-
CEO termination costs <sup>(3)</sup>	-	-	186	-
Reversal of doubtful debt provision <sup>(4)</sup>	-	-	-	(180)
Indue dividends <sup>(5)</sup>	(15)	(15)	(17)	-
<b>Adjusted profit before tax</b>	<b>756</b>	<b>946</b>	<b>638</b>	<b>364</b>

**Note:**

- 1 A special members meeting was held in FY14 at the request of a number of members.
- 2 Costs associated with the establishment of the current Brisbane branch.
- 3 YCU's CEO was replaced in December 2014.
- 4 During 1H16 a customer for which a specific provision had been raised repaid their loan in full, resulting in the doubtful debt provision being reversed. The provision was originally raised prior to FY13.
- 5 As the investment in Indue has been valued separately we have excluded the Indue dividends received from reported earnings.

- 180 Based on the results for the 6 months to 31 December 2015, YCU is on track to achieve an adjusted profit before tax in FY16 which is consistent with that achieved in FY15.
- 181 Having regard to the above, we have adopted standalone NPAT for valuation purposes of \$770,000, consistent with the average adjusted profit over the above period.

### *Interest on surplus capital*

- 182 As noted in paragraph 202, we have concluded that YCU has surplus capital of \$12.6 million as at 31 December 2015. As we have valued this surplus capital as a separate asset, we have reduced reported earnings to exclude the estimated annual income generated on this surplus capital of around \$0.35 million (being \$12.6 million at 2.8% per annum).

### *Synergies*

- 183 Auswide Bank anticipates the merger will ultimately provide annual pre-tax cost synergies of approximately \$2 million commencing in the financial year ending 30 June 2017. These synergies are expected to arise from consolidating YCU's head office functions and technology platforms.
- 184 In addition, revenue synergies are expected (but not guaranteed) to arise in the future from cross-selling and referral activities, where both companies will leverage off the other's existing client bases.

- 185 Auswide Bank also intends to merge the Auswide Bank and YCU product and service offerings over time. However, Auswide Bank has stated that it will not change the banking arrangements and products of existing YCU members unless requested to by a YCU member, or in response to changes in the official interest rate by the RBA or in line with the loan agreement the YCU member has in place with YCU.
- 186 Whilst Auswide Bank intends to retain the YCU branch in Brisbane (as it does not currently have any branches in Brisbane), there are a number of other financial institutions operating in Brisbane which could achieve additional savings from consolidating branches.
- 187 Given the small size of YCU we believe that most larger financial institutions with a branch presence in Brisbane could achieve costs savings of around \$3.4 million per annum, consistent with the level of normalised operating expenses<sup>51</sup> incurred by YCU in FY15.
- 188 We have considered what proportion of these synergy benefits / cost savings should be assumed in determining the fair market value of YCU. In making our assessment 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 (and vice-versa). 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 achieved almost immediately, and accordingly a large proportion of such synergies are generally paid away to target company members in takeover situations. The relative potential synergy benefits and associated risks are summarised below:

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 members

- (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, Home Building Society and The Rock Building Society)

<sup>51</sup> Actual reported operating expenses of around \$3.7 million less significant / non-recurring items of \$0.3 million.

- (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 YCU or Auswide Bank as standalone entities.

189 As stated above, in our opinion, any reasonably large Australian based ADI with a branch presence in Brisbane is likely to be able to generate substantial synergies as a result of acquiring YCU. Accordingly, in our view, the proportion of synergy value likely to be paid away to YCU members is high.

190 However:

- (a) the purchaser bears the risk of implementing the initiatives to achieve the synergies. This risk reduces the proportion of synergies which are paid to the target shareholders
- (b) there may be a risk of negative revenue impacts (as well as the potential for positive revenue impacts) as part of the combination of the businesses
- (c) the synergy benefits cannot be realised by YCU members should YCU remain a standalone entity.

191 Having regard to the above and, in particular, the large number of potential purchasers who could generate large synergies as a result of acquiring YCU, we have concluded that the proportion of synergy benefits likely to be paid away to YCU members in a takeover or other change of control transaction is 50%. This is consistent with the observed proportion of synergy benefits paid away in other transactions involving the acquisition of small ADIs with which we are familiar.

192 On this basis we have included in our estimate of pre-tax earnings adopted for valuation purposes some \$1.7 million representing an appropriate share of potential cost synergies.

***Earnings adopted for valuation purposes***

193 We have therefore adopted earnings (after tax) for valuation purposes (including a share of synergies) at \$1.5 million calculated as follows:

<b>YCU – earnings adopted for valuation purposes</b>	
	<b>\$000</b>
Adjusted profit before tax	770
Less interest on surplus capital	(350)
Add share of potential synergies	1,700
Earnings adopted for valuation purposes (pre-tax)	2,120
Tax at 30%	(636)
Earnings adopted for valuation purposes (post-tax)	1,484

## PE multiple

- 194 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:

<ul style="list-style-type: none"> <li>the stability and quality of earnings</li> <li>the quality of the management and the likely continuity of management</li> <li>the nature and size of the business</li> <li>the spread and financial standing of customers</li> <li>the financial structure of the company and gearing level</li> <li>the multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors</li> <li>the multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>the cyclical nature of the industry</li> <li>expected changes in interest rates</li> <li>the asset backing of the underlying business of the company and the quality of the assets</li> <li>the extent to which a premium for control is appropriate</li> <li>whether the assessment is consistent with historical and prospective earnings</li> </ul>
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- 195 We discuss below specific factors taken into consideration when assessing the appropriate earnings multiple range.

### *Listed company multiples*

- 196 The PE multiples for listed banks operating in Australia are detailed in Appendix C, a summary of which is set out below:

Listed company multiples <sup>(1)</sup>						
	Year end	Market cap <sup>(1)</sup> \$m	FY15 x	PE multiple FY16 <sup>(2)</sup> x	FY17 <sup>(2)</sup> x	Price to NTA <sup>(3)</sup> x
Auswide Bank	30 Jun	199	14.8	13.4	12.1	1.3
CBA	30 Jun	129,312	13.9	13.7	13.2	3.1
WBC	30 Sep	98,172	11.8	11.7	11.4	2.4
ANZ	30 Sep	69,059	9.1	9.3	9.0	1.4
NAB	30 Sep	69,535	10.1	10.7	10.4	1.4
Suncorp Group	30 Jun	14,539	12.1	12.6	11.5	1.9
Bendigo	30 Jun	4,714	10.8	11.3	10.9	1.4
Bank of Queensland	31 Aug	4,784	13.1	12.4	11.9	1.8
MyState	30 Jun	384	11.8	11.9	11.0	1.8
Money3 Corp	30 Jun	159	10.6	8.8	8.2	1.5
Goldfields Money	30 Jun	15	51.1	33.2	24.5	1.0



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**Note:**

- 1 Share prices and market capitalisation as at 3 February 2016, with the exception of Auswide Bank which is calculated as at 21 December 2015 (i.e. immediately prior to the announcement of the Scheme).
- 2 Calculated using Bloomberg consensus earnings forecasts.
- 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.

**Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

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197 In relation 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) all the listed banks (with the exception of Goldfields Money) have significantly larger asset bases and profits, more diverse operations (including substantial wealth management platforms) and have much greater geographical reach than YCU which operates predominately in Brisbane
- (c) Suncorp Group is a significant Australian insurer and generates the large majority of its profits from insurance, not banking (and is therefore not considered comparable)
- (d) Auswide Bank and MyState are also larger and more diverse than YCU. Their multiples also reflect, inter-alia, their greater perceived future earnings growth potential (in part due to opportunities to grow through bolt-on acquisitions)
- (e) the high PE multiples for Goldfields Money reflect, inter-alia, the significant potential synergies available to an acquirer. As we have reflected a share of potential synergies in our earnings for valuation purposes, it is inappropriate to reflect such synergies in our PE multiple.

### ***Treatment of synergies***

198 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.

199 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).

200 However, as synergies are one of the key reasons why control premiums are paid and we have separately reflected a share of potential synergies in our assessment of earnings<sup>52</sup>, in our view, it is inappropriate (in the circumstances of YCU) to incorporate a further premium for synergies in our multiple.

### ***Conclusion on PE multiple***

201 Based on the above, we are of the view that a PE multiple range of 10.0 to 11.0 is appropriate to apply when valuing the shares in YCU on a controlling interest basis. This multiple

<sup>52</sup> The share of potential synergies included in our assessment of earnings for valuation purposes significantly exceeds our assessed standalone earnings for YCU.

recognises that an allowance for synergies is reflected in the earnings adopted for valuation purposes rather than in the PE multiple.

### **Surplus assets**

202 As at 31 December 2015, YCU had a total capital adequacy ratio (TCR) of 28.02%, which is well above the minimum required TCR of 8% and the TCR of other listed ADI's. For example, Auswide Bank and MyState Limited's TCRs as at 30 June 2015 were 15.15%<sup>53</sup> and 13.94%<sup>54</sup> respectively.

203 In our view it is appropriate to hold a level of regulatory capital above the required minimum. Consequently, for the purposes of our valuation we have treated all regulatory capital above 15% of RWA as surplus. On this basis we have adopted surplus capital as follows:

<b>Surplus capital</b>	
	<b>\$m</b>
RWA as at 31 December 2015	96.7
Surplus as a % of RWA	13.02%
<b>Surplus capital</b>	<b>12.6</b>

204 YCU also has a small investment in Indue Ltd (Indue), which provides financial payment products and settlement services to ADIs. Consistent with the approach adopted by YCU in its FY15 financial statements we have valued YCU's interest in Indue at \$0.4 million, which is based on the price at which Indue recently raised additional capital.

205 We have therefore adopted total surplus assets for valuation purposes of \$13.0 million.

### **Valuation under capitalisation of earnings approach**

206 The valuation of YCU on a capitalisation of earnings basis is therefore as follows:

<b>YCU – valuation based on capitalisation of earnings approach</b>		
	<b>Low \$m</b>	<b>High \$m</b>
NPAT adopted for valuation purposes	1.5	1.5
PE multiple	10.0	11.0
Value of YCU (core business)	15.0	16.5
Surplus assets	13.0	13.0
<b>Value of YCU</b>	<b>28.0</b>	<b>29.5</b>

### **Implied earnings multiples based on standalone earnings**

207 The above earnings based valuation capitalises the standalone profit of YCU plus a 50% share of potential annual synergy benefits likely to be available to any Australian based ADI with a branch presence in Brisbane. Due to the high level of potential synergies (\$3.4 million before tax per annum) relative to the standalone earnings of YCU (\$420,000 before tax<sup>55</sup>) our

<sup>53</sup> Excluding Auswide's mortgage insurance business (MRM) which is being wound up.

<sup>54</sup> MyState's total capital ratio of 13.94% reflects the impact of the post balance date issue of \$25 million in Tier 2 notes (Source: page 3 of MyState's 2015 annual report).

<sup>55</sup> Being \$770,000 (adopted by LEA) less \$350,000 in interest income attributable to surplus capital.

capitalisation of earnings valuation of YCU implies a very high earnings multiple when calculated based on YCU's standalone earnings only, as shown below:

<b>YCU – Implied standalone earnings multiple</b>		
	<b>Low \$m</b>	<b>High \$m</b>
Earnings based valuation (as above)	28.0	29.5
Less surplus capital / assets	(13.0)	(13.0)
Earnings based valuation of core business	15.0	16.5
Standalone earnings after tax <sup>(1)</sup>	0.3	0.3
Implied PE multiple (x)	50.0	55.0

**Note:**

1 Calculated as:

	<b>\$m</b>
Adjusted earnings before tax	0.77
Less interest on surplus capital	(0.35)
Standalone earnings (excluding surplus capital)	0.42
Tax at 30%	(0.13)
Standalone earnings after tax	0.29

208 In comparison, the standalone PE multiples and relative synergy benefit estimates from other relevant transactions are set out below:

<b>Transaction evidence</b>					
<b>Announ- cement date</b>	<b>Target</b>	<b>Acquirer</b>	<b>Transaction price \$m</b>	<b>PE multiple<sup>(1)</sup></b>	<b>Annual synergies / standalone earnings<sup>(2)</sup></b>
Aug 11	The Rock Building Society	My State	64	12.1	1.1
Oct 07	Mackay Permanent Building Society	Auswide Bank	8	32.2	>2.0
Aug 07	Home Building Society	Bank of Queensland	553	22.0	0.7
Sep 06	Police & Nurses Credit Society (unsuccessful)	Home Building Society	243	23.0	1.1
Aug 06	Pioneer Building Society	Bank of Queensland	50	29.6	3.4
Aug 05	Statewest	Home Building Society	136	21.3	1.0

**Note:**

1 Transaction price (for equity) divided by standalone profit after tax.

2 Annual synergy benefit estimate at date of transaction announcement divided by standalone earnings.

209 Whilst nearly all of the above transactions took place prior to the GFC, the above table demonstrates that high earnings multiples (based on standalone earnings) are paid in the banking sector for small banking business where expected synergy benefits relative to standalone earnings are high.

210 Whilst the standalone PE multiples implied by our valuation of YCU are significantly higher than those implied by the above transactions, it should be noted that our estimate of annual synergies is some 8.1 times our estimate of YCU's standalone earnings excluding surplus capital. This ratio is significantly greater than the relative size of the synergies in the above transactions.

- 211 The high earnings multiple (based on standalone earnings) for YCU also reflects the fact that YCU is currently run for the benefit of its members (both depositors and borrowers) and does therefore not seek to maximize profitability.

## Conclusion

- 212 The YCU assessed values under each valuation approach are summarised below:

YCU – summary of valuation outcomes			
Valuation method		Low	High
NTA multiple approach	\$m	29.0	32.0
Capitalisation of earnings	\$m	28.0	29.5
Adopted range	\$m	29.0	32.0
Number of member shares <sup>(1)</sup>	#	4,094	4,094
Value per member share	\$	7,084	7,816

**Note:**

- 1 Number of member shares entitled to participate in the Scheme.

- 213 In our view more reliance should be placed on the results of our NTA multiple approach. This is because:

- (a) YCU is currently run for the benefit of its members and does not seek to maximise profit (making any assessment of value by reference to current earnings less appropriate)
- (b) as the carrying value of loans and deposits in YCU's financial statements approximates their fair values, the NTA of YCU is an appropriate starting point from which to assess value
- (c) due to the costs and effort avoided by acquiring YCU rather than originating an equivalent loan portfolio, together with the price to NTA multiples implied by recent transactions and listed banking stocks, it is reasonable to value YCU at a premium to the NTA of \$27.3 million as at 31 December 2015.

## **VIII Valuation of consideration offered**

### **Approach**

- 214 If the Scheme is approved and implemented, YCU members will exchange their interest in YCU for cash together with a minority interest in the Merged Entity (collectively, YCU members will assume ownership of some 7.1% of Auswide Bank). In such circumstances RG 111 requires the expert to value the securities being offered as (part) consideration on a minority interest basis.
- 215 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, Auswide Bank) 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 members. Consequently, we have also cross-checked the reasonableness of our assessed value of Auswide Bank shares being offered as consideration by reference to implied PE and NTA multiples.

### **Recent share prices**

- 216 When assessing the value of the Auswide Bank share consideration we believe it is reasonable to have regard to the recent prices at which Auswide Bank shares have traded. This is principally because:
- (a) the listed market prices of Auswide Bank shares are likely to represent a reasonable proxy for the amount that YCU members could expect to realise if they sold any Auswide Bank shares received as consideration either immediately or in the short term
  - (b) any decision to continue to hold Auswide Bank shares beyond the immediate to short term is 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
  - (c) whilst there may be a future opportunity for YCU members to share in a control premium in the event Auswide Bank was subsequently acquired, this is not a scenario that we consider likely in the short term.
- 217 Accordingly, in our opinion, the recent market prices of Auswide Bank shares are the appropriate reference point for estimating the realisable value of the consideration offered. In doing so, we have also considered the depth of the market for those securities and the volatility of the share price.
- 218 The share price performance of Auswide Bank is set out in Section IV. More recent trading in Auswide Bank shares prior to the announcement of the Scheme is shown below:

<b>Auswide Bank – share price history (pre announcement)<sup>(1)</sup></b>			
<b>Time periods up to and including 21 December 2015<sup>(2)</sup></b>	<b>Low \$</b>	<b>High \$</b>	<b>VWAP<sup>(3)</sup> \$</b>
1 month	5.25	5.40	5.35
3 months	5.14	5.59	5.30
6 months	5.00	5.59	5.26

**Note:**

- 1 Shares prices have not been adjusted for the impact of dividends.
- 2 Being the last trading day prior to the announcement of the Scheme.
- 3 VWAP – volume weighted average price.

- 219 As noted in section IV, despite shares in Auswide Bank being relatively widely held and there being only one significant shareholder (with an interest of around 5%), shares in Auswide Bank are thinly traded<sup>56</sup>. However, we note that the VWAP of Auswide Bank shares has been relatively stable over the above periods.
- 220 For the purpose of assessing the value of the Auswide Bank shares offered as consideration we believe more regard should be given to the price of Auswide Bank shares since the Scheme was announced on 22 December 2015. This is because we consider the Auswide Bank share price subsequent to and including 22 December 2015 to be more representative of the share price assuming the Scheme proceeds than the prices before 22 December 2015.
- 221 The following table sets out the prices at which Auswide Bank shares have traded in the period subsequent to the announcement of the Scheme up to 19 February 2016:

<b>Auswide Bank – share price history (post announcement)</b>			
<b>Time periods up to and including 19 February 2016</b>	<b>Low \$</b>	<b>High \$</b>	<b>VWAP \$</b>
22 December 2015 <sup>(2)</sup> to 19 February 2016	5.08	6.00	5.47
1 month trading to 19 February 2016	5.08	5.50	5.23

**Note:**

- 1 Auswide Bank share prices have been shown on a “cum FY16 interim dividend” basis. Pursuant to the anticipated timing of implementation of the Scheme, CYU members will effectively not get an entitlement to this interim dividend.
- 2 Being the first full day of trading subsequent to the announcement of the Scheme.

- 222 We note that subsequent to the announcement of the Scheme up to 19 February 2016, shares in Auswide Bank have traded in a range of between \$5.08 to \$6.00 per share. The lower VWAP in the last month to 19 February 2016 reflects, inter-alia, the significant decline in banking stock values generally since 1 January 2016.

**Number of Auswide Bank shares to be issued as (part) consideration**

- 223 As at 22 December 2015 Auswide Bank had 37.14 million ordinary shares on issue. The number of shares to be issued by Auswide Bank as part consideration will therefore represent 7.1% of the enlarged capital base of Auswide Bank, as follows:

<sup>56</sup> The prices of shares in thinly traded companies are generally a less reliable guide as to future realisable value in situations where shares are issued as consideration under a scheme or takeover.

Share consideration as a % of enlarged capital base			Million
Number of existing Auswide Bank ordinary shares on issue			37.14
Number of shares to be issued pursuant to the Scheme <sup>(1)</sup>	(A)		2.85
Enlarged capital base	(B)		39.99
YCU's interest <sup>(2)</sup> in the enlarged Auswide Bank	(A) / (B)		7.1%

**Note:**

- 1 Being 4,094 member shares in YCU converted to Auswide Bank shares at the exchange ratio of 696 Auswide Bank shares for every member share in YCU.
- 2 Representing the collective interest of YCU members.

- 224 Whilst the number of new Auswide Bank shares to be issued under the Scheme is not large (in a relative sense), if a significant number of YCU members elect not to retain the shares in Auswide Bank received as (part) consideration there may be an oversupply of Auswide Bank shares which may have an adverse effect on the Auswide Bank share price in the short term (particularly given the historically low volumes of share trading in Auswide Bank).

**Dilution and synergies**

- 225 To the extent that Auswide Bank is paying a control premium for YCU there will be a potential dilution effect on the value of Auswide Bank shares subsequent to a successful conclusion of the Scheme. This is because the listed market price of Auswide Bank shares will reflect a portfolio rather than a controlling interest in the enlarged group. In the absence of synergies this dilution often results in a fall in the share price of the bidder (acquirer).
- 226 However, as set out in Section VII, we consider that large synergies (particularly relative to the size of YCU's standalone earnings) are likely to be realised from combining the two businesses. Auswide Bank anticipates the merger will ultimately provide annual pre-tax cost synergies of approximately \$2 million commencing in the financial year ending 30 June 2017. In addition, revenue synergies are expected (but not guaranteed) to arise in the future from cross-selling and referral activities, where both companies will leverage off the other's existing client bases. Further information on the synergies expected to be generated by Auswide Bank is set out in the Scheme Booklet.
- 227 Given the size of expected synergies relative to the standalone earnings of YCU, in our opinion, it is reasonable to conclude that the value of expected synergies would exceed the dilutionary effect discussed above.

**Conclusion**

- 228 In summary, in assessing the value of the Auswide Bank shares offered as part consideration under the Scheme we have had regard to:
- (a) the recent trading range of Auswide Bank shares
  - (b) the number of shares to be issued by Auswide Bank under the Scheme compared to the enlarged number of Auswide Bank shares on issue post implementation of the Scheme

- (c) the likely level of on-market trading in Auswide Bank shares subsequent to completion of the Scheme, having regard to factors including:
  - (i) any potential oversupply of Auswide Bank shares from those members in YCU not wishing to retain the Auswide Bank shares received as consideration
  - (ii) the dilution effect implicit in any control premium being paid by Auswide Bank
  - (iii) the level of synergies relative to the size of Auswide Bank post merger
- (d) recent stock market conditions (in particular, the large falls experienced in global share markets in 2016 to date, due to concerns about the state of the Chinese economy); and
- (e) the earnings and NTA multiples implied by our adopted range.

229 Based on the above we have assessed the realisable value of the Auswide Bank shares offered as (part) consideration under the Scheme at between \$5.00 and \$5.50 per share.

### Implied PE and NTA multiple cross-check

- 230 As stated above we have cross-checked our assessment of the realisable value of Auswide Bank shares by reference to the FY15 PE multiple and NTA multiple implied for the core banking business of the Merged Entity (taking into account expected synergies), compared to the comparative multiples of the other Australian listed financial institutions.
- 231 To determine the value of the core business implied by our assessed realisable value of Auswide Bank shares we have determined the Merged Entity's implied market capitalisation and deducted the value of surplus assets.

### Surplus assets

- 232 We have identified in Section VII that YCU has surplus assets of approximately \$13.0 million. However, under the Scheme cash consideration of approximately \$16.6 million will be paid by Auswide Bank. Consequently, for the purposes of our implied PE cross-check we have assumed that the Merged Entity does not have any material surplus assets or liabilities.

### Conclusion

- 233 Given the above, we have assessed the implied value of the Merged Entity's core business as follows:

Implied value of Merged Entity's core business		
	Low \$m	High \$m
Estimated realisable value of Auswide Bank shares (\$)	5.00	5.50
Enlarged number of shares on issue (million)	39.99	39.99
Implied market capitalisation	200.0	219.9
Less surplus assets / liabilities of Merged Entity	-	-
Implied value of Merged Entity's core business	200.0	219.9
<b>Value adopted</b>	<b>200.0</b>	<b>220.0</b>



## Implied PE and NTA multiples

### Implied PE multiple

- 234 As set out in Section IV Auswide Bank reported NPAT in FY15 of \$13.3 million. We have adjusted the reported NPAT for the following material non-recurring items, which result in normalised adjusted NPAT of \$13.8 million in FY15 as set out below:

Auswide Bank – normalised NPAT for FY15	
	\$m
Reported NPAT for FY15	13.3
Rebranding costs and writedown of ATM fleet	0.5
<b>Normalised NPAT for FY15</b>	<b>13.8</b>

**Source:** Auswide Bank and LEA analysis.

- 235 As set out in Section VII we have adopted normalised NPAT for valuation purposes for YCU as a standalone entity in FY15 at \$0.3 million.
- 236 On the basis of the above, the pro-forma normalised NPAT of the core business of the Merged Entity (including expected synergy benefits) and the implied PE multiple for FY15 is as follows:

Merged Entity – pro forma normalised NPAT and implied PE multiple		
	Low \$m	High \$m
<b>Normalised NPAT for FY15 (as adjusted):</b>		
Auswide Bank	13.8	13.8
YCU	0.3	0.3
Estimated annual synergies <sup>(1)</sup>	1.4	1.4
<b>Pro forma NPAT for Merged Entity (assuming full realisation of expected synergies)</b>	<b>15.5</b>	<b>15.5</b>
Implied value of Merged Entity core business	200.0	220.0
<b>Implied PE multiple (times)</b>	<b>12.9</b>	<b>14.2</b>

**Note:**

- 1 Auswide Bank anticipates the merger will ultimately provide annual pre-tax cost synergies of approximately \$2 million commencing in the financial year ending 30 June 2017. In addition, revenue synergies are expected (but not guaranteed) to arise in the future from cross-selling and referral activities, where both companies will leverage off the other's existing client bases.

- 237 The PE multiples for listed banks operating in Australia are detailed in Appendix C. We note that the above FY15 PE multiple range is marginally below the FY15 PE multiple at which Auswide Bank shares were trading prior to the announcement of the Scheme.

### Implied NTA multiple

- 238 We set out below the NTA multiples implied by our assessment.

Merged Entity – implied NTA multiple		
	Low \$m	High \$m
<b>NTA of Merged Entity<sup>(1)</sup>:</b>		
Auswide Bank	158.6	158.6
YCU	27.3	27.3
Less cash consideration under the Scheme	(16.6)	(16.6)
Less YCU compensation and redundancy pool	(0.9)	(0.9)
Less merger integration costs <sup>(2)</sup>	(1.1)	(1.1)
Less transaction costs	(2.8)	(2.8)
<b>Pro forma NTA of Merged Entity<sup>(1)</sup></b>	<b>164.5</b>	<b>164.5</b>
Implied value of Merged Entity	200.0	220.0
<b>Implied NTA multiple (times)</b>	<b>1.22</b>	<b>1.34</b>

**Note:**

1 As at 31 December 2015.

2 \$1.5 million less 30% tax benefit.

239 In our opinion, the above NTA multiples are reasonable and appropriate having regard to the NTA multiples implied by recent transactions and the values attributed to listed banking stocks (refer Appendices C and D).

240 Having regard to the above, we therefore consider our assessed realisable range of values for Auswide Bank shares to be reasonable and appropriate.

### Auswide Bank interim dividend for FY16

241 At the date of this report shares in Auswide Bank were trading with an entitlement to an interim dividend of 14 cents per share for FY16 (in respect of the period ended 31 December 2015). The payment of an interim dividend to Auswide Bank shareholders in respect of this period is permitted under the MIA, provided the payment is in accordance with Auswide Bank's current dividend policy and consistent with previous dividend payout ratios.

242 Due to the anticipated date of implementation of the Scheme of May 2016, YCU members will not participate in this dividend, as the dividend will have been paid prior to the receipt of Auswide Bank shares issued as part consideration. Accordingly we have made an allowance for this interim dividend in our assessment of the total consideration to YCU members under the Scheme.

### Assessed value of Total Consideration

243 Based upon the above, we have assessed the value of the Total Consideration payable under the Scheme at between \$4.86 to \$5.36 per YCU member share (after adjusting for the Auswide Bank interim dividend for the six months to 31 December 2015), as follows:

Value of Total Consideration per member share		
	Low	High
	\$ per share	\$ per share
Assessed realisable value of Auswide Bank shares	5.00	5.50
Less estimate of Auswide Bank interim dividend per share for FY16 <sup>(1)</sup>	(0.14)	(0.14)
Assessed realisable value of Auswide Bank shares (net of dividend)	4.86	5.36
Exchange ratio	696	696
Assessed value of share consideration	3,382	3,731
Add cash consideration	4,055	4,055
<b>Assessed value of Total Consideration per member share</b>	<b>7,437</b>	<b>7,786</b>

**Note:**

1 Refer above.

**Other considerations**

- 244 YCU members should note that the listed market price of Auswide Bank shares is subject to daily fluctuation. The price at which Auswide Bank shares may be sold may therefore be greater or less than our assessed realisable value of Auswide Bank shares (net of the estimated interim dividend for FY16) of \$4.86 to \$5.36 per share.
- 245 YCU members should also note that any decision to hold Auswide Bank 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 Auswide Bank shares should be made by YCU members having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

## IX Evaluation of the Scheme

246 In our opinion, the Scheme is fair and reasonable and in the best interests of YCU members as a whole in the absence of a superior proposal. We have formed this opinion for the following reasons.

### Assessment of the Scheme

#### Fair and reasonable opinion

247 Pursuant to RG 111 a scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for YCU member shares is shown below:

Comparison of Scheme Consideration to value of YCU			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Scheme Consideration per member share	7,437	7,786	7,612
Value of 100% of YCU per member share	7,084	7,816	7,450
Extent to which the Scheme Consideration exceeds (or is less than) the value of YCU	353	(30)	162

248 Having regard to the overall range of values, we consider that the Scheme is fair as our assessed value range for the Scheme Consideration is consistent with our valuation range for YCU member shares on a 100% controlling interest basis<sup>57</sup>.

249 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and/or reasonable” it must also be “in the best interests” of members in the absence of a superior proposal.

250 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of YCU members in the absence of a superior proposal.

#### Other qualitative factors

251 In assessing whether the Scheme is reasonable and in the best interests of YCU members LEA has also considered, in particular:

- (a) the extent to which YCU members are being paid a share of the synergies likely to be generated pursuant to the potential transaction
- (b) the value of YCU to an alternative offeror and the likelihood of a superior proposal being made for YCU prior to the date of the Scheme meeting
- (c) the implications for YCU members if the Scheme is not implemented (in the absence of a superior proposal)
- (d) the advantages and disadvantages of the Scheme from the perspective of YCU members

<sup>57</sup> We note that the Scheme would not technically be fair based on a comparison of our high end values (as the high end of our assessed value of YCU exceeds the high end of our assessed value of the Scheme consideration by around 0.4%). However, the difference in high end values is not material. Further, in our opinion, it is more appropriate to have regard to the overall range of values.

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

252 These issues are discussed in detail below.

### **Extent to which YCU members are being paid a share of synergies**

- 253 As set out in Section VIII, Auswide Bank is likely to generate significant synergies as a result of acquiring YCU (in particular relative to the stand-alone earnings of YCU).
- 254 In our opinion, both our valuation of YCU and the value of the consideration under the Scheme reflect a significant and appropriate share of the value of the synergy benefits which Auswide Bank expects to generate as a result of the acquisition of YCU pursuant to the Scheme.

### **Likelihood of an alternative proposal**

- 255 Although YCU 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. Accordingly, there has effectively been (and remains) an opportunity for third-parties contemplating an acquisition of YCU to table a proposal before the YCU Board. However, we have been advised that no alternative proposal has emerged subsequent to the announcement of the Scheme.

### **Implications for YCU members if the Scheme is not approved**

- 256 The Scheme has the following benefits for YCU members:
- (a) YCU members will receive consideration which we have valued at \$7,437 to \$7,786 per member share. This represents a significant benefit compared to:
    - (i) the price paid by each member for their member shares (i.e. \$10 per share)
    - (ii) their redemption value (i.e. \$10 per share) if a member's membership of YCU is terminated or the member's deposit accounts with YCU become dormant
  - (b) the Scheme provides YCU members with the ability to realise the full underlying value of their member shares in YCU. Such a liquidity event is not possible under YCU's existing constitution in the absence of demutualisation.
- 257 We consider these benefits to YCU members to be significant. If the Scheme is not approved by YCU members and the Court and no higher offer or alternative proposal emerges, these benefits will be forgone by YCU members.

### **Summary of opinion on the Scheme**

- 258 We summarise below the likely advantages and disadvantages for YCU members if the Scheme proceeds.

## **Advantages**

259 The Scheme has the following benefits for YCU members:

- (a) YCU members will receive consideration which we have valued at \$7,437 to \$7,786 per member share. This represents a significant benefit compared to:
  - (i) the price paid by each member for their member shares (i.e. \$10 per share)
  - (ii) their redemption value (i.e. \$10 per share) if a member's membership of YCU is terminated or the member's deposit accounts with YCU become dormant
- (b) the Scheme provides YCU members with the ability to realise the full underlying value of their member shares in YCU. Such a liquidity event is not possible under YCU's existing constitution in the absence of demutualisation
- (c) our assessed value of the Scheme Consideration falls within our valuation range of YCU shares on a 100% controlling interest basis and is therefore considered fair pursuant to RG 111
- (d) in our opinion, YCU members are being paid a significant share of the synergy benefits which Auswide Bank expects to generate as a result of the acquisition of YCU pursuant to the Scheme. In addition, YCU members will (in aggregate) own around 7.1% of the Merged Entity and will therefore participate to a limited extent in the expected realisation of the synergy benefits
- (e) as YCU members receive Auswide Bank shares as part consideration under the Scheme, if the Scheme proceeds they will therefore hold an interest in a much larger entity with greater diversification and liquidity.

## **Disadvantages**

260 YCU members should note that if the Scheme is approved they will no longer hold a direct interest in YCU. However, as noted above, YCU members (in aggregate) will own approximately 7.1% of the merged entity and will therefore participate (albeit only on a pro rata basis) in any future value created by YCU (as part of the merged entity) as a result of ongoing operations over and above that reflected in the Scheme Consideration.

## **Conclusion**

261 Given the above analysis, we consider the acquisition of YCU shares by Auswide Bank under the Scheme is fair and reasonable and in the best interests of YCU members as a whole in the absence of a superior proposal.

## **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 2001 (Cth)* (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 YCU members 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 \$75,000 plus GST.
- 9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

- 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 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)



## **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 hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 20 years and 25 years experience respectively in the provision of valuation advice (and related advisory services).

### **Declarations**

- 3 This report has been prepared at the request of the Directors of YCU to accompany the Scheme Booklet to be sent to YCU members. 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 YCU members.

### **Interests**

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt 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 YCU or Auswide Bank prior to the preparation of this report.

### **Indemnification**

- 6 As a condition of LEA's agreement to prepare this report, YCU 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 YCU 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.

## Comparable company trading multiples

- 1 A summary of the implied PE multiples and price to NTA multiples and a brief description for Australian listed banking companies is set out below:

Listed company multiples <sup>(1)</sup>						
	Year end	Market cap <sup>(1)</sup> \$m	FY15 x	PE multiple FY16 <sup>(2)</sup> x	FY17 <sup>(2)</sup> x	Price to NTA <sup>(3)</sup> x
Auswide Bank	30 Jun	199	14.8	13.4	12.1	1.3
CBA	30 Jun	129,312	13.9	13.7	13.2	3.1
WBC	30 Sep	98,172	11.8	11.7	11.4	2.4
ANZ	30 Sep	69,059	9.1	9.3	9.0	1.4
NAB	30 Sep	69,535	10.1	10.7	10.4	1.4
Suncorp Group	30 Jun	14,539	12.1	12.6	11.5	1.9
Bendigo	30 Jun	4,714	10.8	11.3	10.9	1.4
Bank of Queensland	31 Aug	4,784	13.1	12.4	11.9	1.8
MyState	30 Jun	384	11.8	11.9	11.0	1.8
Money3 Corp	30 Jun	159	10.6	8.8	8.2	1.5
Goldfields Money	30 Jun	15	51.1	33.2	24.5	1.0

**Note:**

- Share prices and market capitalisation as at 3 February 2016 with the exception of Auswide Bank, which is 21 December 2015, i.e. the day prior to the announcement of the Scheme.
- Calculated using Bloomberg consensus earnings forecasts.
- NTA attributed to ordinary equity, calculated as net assets excluding goodwill, intangibles, minority interests and hybrid equity. Information based upon latest available balance sheet.

**Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

### Commonwealth Bank of Australia

- 2 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 bank 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, WBC was the first bank established in Australia. It is Australia's second largest bank by market capitalisation. WBC has branches and controlled entities throughout Australia, New Zealand and the Pacific region, and has offices in London, New York, Hong Kong and Singapore. WBC 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 WBC's business is banking, the BT Financial Group division provides wealth management services.

### **Australia & New Zealand Banking Group Limited**

- 4 ANZ is a leading Australian bank, and is New Zealand's largest bank. The bank 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, New Zealand and the Asia Pacific region. It also operates in a number of other countries including Europe and the United States of America. ANZ also offers wealth management services via its OnePath business.

### **National Australia Bank Limited**

- 5 NAB is an Australian bank with more than 1,700 branches and service centres globally. It operates major financial services franchises in Australia, as well as businesses in New Zealand, Asia and the United Kingdom<sup>58</sup>. 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 NAB in Australia include MLC and UBank, with Bank of New Zealand operating in New Zealand.

### **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 to the retail, corporate and commercial sectors in Australia and New Zealand. Its insurance division, operating under the AAMI, GIO, Vero, Apia, Shannons and Asteron brands, derives the majority of company profits. Suncorp Group's banking division operates under the Suncorp Bank brand.

### **Bendigo & Adelaide Bank Limited**

- 7 Bendigo and Adelaide Bank Group was formed in November 2007 as a result of the merger between Bendigo Bank and Adelaide Bank. It is a leading Australian regional bank with a market capitalisation of over \$5 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.

### **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 and business banking. The bank'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.

### **MyState Limited**

- 9 MyState is a diversified financial services group listed on the ASX that is headquartered in Tasmania. Formed in 2009 following the merger of MyState Financial and Tasmanian Perpetual Trustees (TPT), the company provides banking, trustee and wealth management

<sup>58</sup> NAB is in the process of divesting its UK banking operations.

services to customers across Australia. The company operates via three retail brands including My State Bank, The Rock and TPT. MyState Bank (incorporating The Rock as a division of MyState Bank) and TPT operate as separate subsidiaries.

### **Money3 Corp Limited**

- 10 Money3 Corporation is a licensed credit provider of short term loans and financial services, specialising in the delivery of small cash loans, personal loans, equipment and motor vehicle rental, cheque cashing and international money transfer. Money3's head office is in Bundoora (Victoria) and the company currently has approximately 60 branches throughout Victoria, New South Wales, South Australia, Queensland and Tasmania.

### **Goldfields Money Limited**

- 11 Goldfields Money is a Western Australian based ADI providing a range of retail banking products and services including loans, transaction and savings accounts and term deposits. The company was established in 1982 as a credit union, and later demutualised and listed on the ASX in 2012. The company currently operates from two bank branches located in the Goldfields region of Western Australia.

## Transaction multiples

- 1 A summary of the transactions that have occurred in the Australian banking sector is set out below<sup>59</sup>:

Multiples implied by recent Australian transaction evidence						
Announced	Target	Acquirer	Value \$m	PE multiple Historic x	Forecast x	Price to NTA x
<b>Post GFC</b>						
31 Aug 11	The Rock Building Society	MyState	64.3	12.1	na	1.3
26 Oct 10	Elder's Rural Bank	Bendigo	165.0 <sup>(1)</sup>	7.4	na	1.2
<b>Pre GFC</b>						
8 Oct 08	BankWest and St Andrew's	CBA	2,126.0	11.2	na	0.8
13 May 08	St George Bank <sup>(2)</sup> :	WBC				
	• Post announcement		18,155.8	13.7	13.4	4.0
	• Date of completion		12,270.6	9.3	9.0	2.7
29 Oct 07	Mackay Permanent Building Society	Wide Bay	67.6 <sup>(3)</sup>	38.8	32.2 <sup>(4)</sup>	3.3
31 Aug 07	Home Building Society	Bank of Queensland	552.8 <sup>(5)</sup>	27.0	22.0	3.9
25 Sep 06	Police & Nurses Credit Society (unsuccessful offer)	Home Building Society	243.0	23.0 <sup>(6)</sup>	na	1.9
15 Aug 06	Pioneer Building Society	Bank of Queensland	49.6	29.6 <sup>(4)</sup>	na	2.3
23 Aug 05	StateWest <sup>(7)</sup> :	Home Building Society				
	• Post announcement		174.8	27.2 <sup>(4)</sup>	na	2.5
	• Pre announcement		136.1	21.3 <sup>(4)</sup>	na	2.0

### Note:

- 1 Acquisition of the remaining 40% that Bendigo did not already own.
- 2 Consideration largely comprised WBC 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 WBC 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 Limited's acquisition of Adelaide Bank Limited 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.

<sup>59</sup> Other transactions have also occurred, however publicly available information on these transactions is not available.

## 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
ANZ	Australia and New Zealand Banking Group Limited
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
Auswide Bank	Auswide Bank Limited
Basel Committee	Global Basel Committee on Banking Supervision
BBSW	Bank bill swap reference rate
CAGR	Compound annual growth rate
CBA	Commonwealth Bank of Australia
CLF	Committed Liquidity Facility
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CTI	Cost to income ratio
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
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
Indue	Indue Ltd
IT	Information Technology
LCR	Liquidity Coverage Ratio
LEA	Loneragan Edwards & Associates Limited
LVR	Loan to valuation ratio
Majors	Commonwealth Bank, Westpac Banking Corporation, ANZ Banking Group and the National Australia Bank
MIA	Merger Implementation Agreement
NAB	National Australia Bank Limited
NCD	Negotiable Certificate of Deposit
NIM	Net interest margin
NLA	Net loans and advances
NPAT	Net profits after tax
NPV	Net present value
NTA	Net tangible assets
PBT	Profit before tax
PE	Price earnings

Term	Meaning
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
RMBS	Residential Mortgage Backed Securities
ROTE	Return on tangible equity
RWA	Risk weighted assets
Scheme	The proposed Scheme of arrangement between YCU and Auswide Bank
Scheme Consideration	\$4,055 plus 696 Auswide Bank shares for every YCU member share
TCR	Total capital adequacy ratio
VWAP	Volume weighted average price
WANOS	Weighted average number of shares
WBC	Westpac Banking Corporation
YBR	Yellow Brick Road Holdings Limited
YCU	Your Credit Union

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## **II: Merger Implementation Agreement**



# Merger Implementation Agreement

Dated  December 2015

Auswide Bank Ltd ACN 087 652 060 ("**Auswide Bank**")  
Queensland Professional Credit Union Ltd ACN 087 651 045  
trading as Your Credit Union ("**YCU**")

**King & Wood Mallesons**  
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# Merger Implementation Agreement

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# Merger Implementation Agreement

## Details

<b>Parties</b>		
<b>Auswide Bank and YCU</b>		
<b>Auswide Bank</b>	<b>Name</b>	<b>Auswide Bank Ltd</b>
	<b>ACN</b>	087 652 060
	<b>Address</b>	Level 5, 16-20 Barolin Street Bundaberg QLD 4670
	<b>Telephone</b>	+61 7 4150 4000
	<b>Email</b>	mbarrett@auswidebank.com.au
	<b>Fax</b>	+61 7 4152 3566
	<b>Attention</b>	Managing Director
<b>YCU</b>	<b>Name</b>	<b>Queensland Professional Credit Union Ltd</b>
	<b>ACN</b>	087 651 045
	<b>Address</b>	Level 5, 100 Eagle Street BRISBANE QLD 4000
	<b>Telephone</b>	+61 7 3020 5423
	<b>Email</b>	SBarnard@ycu.com.au
	<b>Fax</b>	+61 7 3020 5475
	<b>Attention</b>	Managing Director
<b>Recitals</b>	<b>A</b>	YCU and Auswide Bank have agreed to merge by means of a members' scheme of arrangement under Part 5.1 of the Corporations Act.
	<b>B</b>	At the request of Auswide Bank, YCU intends to propose the Demutualisation and the Scheme and issue the Scheme Booklet to YCU Members.
	<b>C</b>	The Scheme is conditional on YCU Members voting in favour of the Demutualisation.
	<b>D</b>	The implementation of the Demutualisation is conditional on YCU Members voting in favour of the Scheme.
	<b>E</b>	YCU and Auswide Bank have agreed to implement the Demutualisation and the Scheme on the terms and conditions of this document.
<b>Governing law</b> Queensland		

# Merger Implementation Agreement

## General terms

---

### 1 Definitions and interpretation

#### 1.1 Definitions

These meanings apply unless the contrary intention appears.

**ACCC** means the Australian Competition and Consumer Commission.

**APRA** means the Australian Prudential Regulation Authority.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited or Australian Securities Exchange, as appropriate.

**Auswide Bank Board** means the board of directors of Auswide Bank.

**Auswide Bank Group** means Auswide Bank and its Subsidiaries.

**Auswide Bank Indemnified Parties** means Auswide Bank, its officers, employees and advisers, its Related Bodies Corporate and the officers, employees and advisers of each of its Related Bodies Corporate.

**Auswide Bank Information** means the information regarding Auswide Bank as is required to be included in the Scheme Booklet under the Corporations Act, Corporations Regulations or ASIC Regulatory Guide 60. For the avoidance of doubt, Auswide Bank Information does not include information about the YCU Group (except to the extent it relates to any statement of intention relating to the YCU Group following the Effective Date).

**Auswide Bank Material Adverse Change** means Specified Events which are not disclosed or properly taken into account in the preparation of Auswide Bank's financial statements and, which had they been so disclosed or properly taken into account, individually or when aggregated with all such events, would have resulted in:

- (a) the value of consolidated net assets of the Auswide Bank Group reported in the Auswide Bank Group's financial statements for the year ended 30 June 2015 or the half year ending 31 December 2015 being reduced by at least 10%; or
- (b) the NPAT of the Auswide Bank Group reported in Auswide Bank Group's financial statements for the year ended 30 June 2015 or the half year ending 31 December 2015 being reduced by at least 10%,

but does not include:

- (c) any matter fairly disclosed to YCU or its Representatives on or before the date of this document (including as a result of disclosures made to ASX);
- (d) any matter, event or circumstance arising from changes in economic or business conditions in Australia;



- (e) any change in taxation, interest rates or general economic conditions which impact on Auswide Bank and YCU in a similar manner;
- (f) any change in accounting policy required by law; or
- (g) any change occurring directly or indirectly as a result of any matter, event or circumstance required by this document, the Scheme or the transactions contemplated by them.

**Auswide Bank Prescribed Event** means, except to the extent publicly disclosed prior to the date of this document or contemplated by this document or the Scheme, any of the events listed in Schedule 1 provided that an Auswide Bank Prescribed Event listed in items 1 to 13 of Schedule 1 will not occur where Auswide Bank has first consulted with YCU in relation to the event and YCU has approved the proposed event or has not objected to the proposed event within 5 Business Days of having being so consulted.

**Auswide Bank Shares** mean fully paid ordinary shares in the capital of Auswide Bank.

**Authorised Officer** means, in respect of a party, a director or secretary of the party or any other person appointed by a party to act as an Authorised Officer under this document.

**Banking Act** means the *Banking Act 1959* (Cth).

**Business Day** means a business day as defined in the Listing Rules.

**Competing Transaction** means any proposal, agreement, arrangement or transaction, which, if completed, would have the same effect as, or be similar in economic terms to, the Merger or any other transaction described in paragraphs (a) to (g) below arising after the date of this document:

- (a) a third party (either alone or with its associates) acquiring (directly or indirectly) (including by way of joint venture, alliance, dual listed company structure or otherwise) any interest in all or a substantial part of the business or assets of YCU;
- (b) a third party (either alone or with its associates) becoming (directly or indirectly) the holder or controller of, or otherwise acquiring, all or substantially all of the shares in YCU;
- (c) a third party (either alone or with its associates) acquiring "control" (as defined in section 50AA of the Corporations Act) of, or merging or amalgamating with YCU or any of its material Subsidiaries, including by way of takeover bid, scheme of arrangement or capital reduction or contractual arrangement;
- (d) YCU implementing any reorganisation of capital or dissolution (except as previously announced prior to the date of this document);
- (e) a third party acquiring (whether directly or indirectly) a Relevant Interest in, or becoming the holder of, or having the right to acquire a legal, beneficial, or economic interest in, or control of, 10% or more of the YCU Shares;
- (f) a third party entering into or completing a transaction or arrangement, or YCU otherwise seeking to implement a transaction or arrangement, which would result in the demutualisation of YCU; or



- (g) any other transaction which affects, prejudices or jeopardises, or might reasonably be expected to affect, prejudice or jeopardise, the consummation of the Merger.

**Conditions Precedent** means the conditions precedent set out in Schedule 3.

**Confidentiality Agreement** means the Confidentiality Agreement between the parties dated 9 December 2015.

**Controller** has the meaning it has in the Corporations Act.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Corporations Regulations** means the *Corporations Regulations 2001* (Cth).

**Court** means a court of competent jurisdiction under the Corporations Act.

**Deed Poll** means a deed poll substantially in the form of Annexure C to this document.

**Demutualisation** means the demutualisation of YCU (including, without limitation, by way of amendments to the YCU Constitution and any required variation to the rights of YCU Members, the reserves of YCU and the capital structure of YCU) from a mutual credit union structure to a non-mutual public company owned by shareholders in accordance with the Corporations Act and this document to give effect to the Merger.

**Demutualisation Meeting** means the special general meeting of YCU at which YCU Members will vote on the Demutualisation.

**Details** means the section of this document headed "Details".

**Effective**, when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** means the date on which the Scheme becomes Effective.

**Eligible Member** means each Scheme Participant other than a Foreign YCU Member.

**Encumbrance** means any mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement or any other security arrangement or any other arrangement having the same effect.

**End Date** means 30 June 2016 or such other date as is agreed in writing by Auswide Bank and YCU.

**Exclusivity Period** means the period from and including the date of this document to the earlier of:

- (a) the termination of this document in accordance with its terms;
- (b) the Effective Date; and
- (c) the End Date.

**First Court Date** means the first day on which an application made to the Court, in accordance with item 10 of Schedule 5, for orders under section 411(1) of the

Corporations Act convening the Scheme Meeting to consider the Scheme is heard.

**Foreign YCU Member** means a YCU Member:

- (a) who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than residents of Australia and its external territories; or
- (b) whose address shown in the Register is a place outside Australia and its external territories or who is acting on behalf of such a person,

unless Auswide Bank determines (in consultation with YCU) that:

- (c) it is lawful and not unduly onerous or unduly impracticable to issue that YCU Member with Auswide Bank Shares on implementation of the Merger; and
- (d) it is lawful for that YCU Member to participate in the Merger by the law of the relevant place outside Australia and its external territories.

**FSSA** means the *Financial Sector (Shareholdings) Act 1998* (Cth).

**GST Act** means the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**Implementation Date** means the fifth Business Day following the Record Date or such other date agreed in writing by Auswide Bank and YCU.

**Incoming Directors** means such persons who are nominated in writing by Auswide Bank to YCU prior to the Second Court Date.

**Independent Expert** means Lonergan Edwards & Associates to be appointed by YCU under item 3 of Schedule 5.

**Input Tax Credit** has the meaning it has in the GST Act.

A person is **Insolvent** if:

- (a) it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act); or
- (b) it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to any part of its property; or
- (c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to this document); or
- (d) an application or order has been made (and in the case of an application, it is not stayed, withdrawn or dismissed within 30 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of (a), (b) or (c) above; or
- (e) it is taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand; or
- (f) it is the subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or it makes a statement from which another party to this document reasonably deduces it is so subject); or



- (g) it is otherwise unable to pay its debts when they fall due; or
- (h) something having a substantially similar effect to (a) to (g) happens in connection with that person under the law of any jurisdiction.

**Listing Rules** means the listing rules of ASX.

**Losses** means all claims, demands, damages, losses, costs, expenses and liabilities.

**Material Contract** means a contract or commitment:

- (a) requiring total payments in excess of an amount equal to 10% of the relevant party's NPAT for the previous financial year; or
- (b) which is not entered into in the ordinary course of the business of the Auswide Bank Group or the YCU Group (as applicable).

**Merged Group** means the group comprising of the combination of the Auswide Bank Group and the YCU Group following implementation of the Merger.

**Merger** means the combination of YCU and Auswide Bank as a result of the Demutualisation and the implementation of the Scheme.

**New Auswide Bank Shares** means fully paid ordinary shares in the capital of Auswide Bank to be issued under the Scheme.

**NPAT** means net profit after tax of the YCU Group or the Auswide Bank Group (as applicable).

**Outgoing Directors** means each of the directors of YCU as at the date of the Second Court Date.

**Permitted Dividend** means any final dividend made, declared or announced in accordance with Auswide Bank's current dividend policy (as at the date of this document) in respect of the period ended 31 December 2015 and consistent with previous payout ratios.

**RBA** means the Reserve Bank of Australia.

**Record Date** means 5.00pm on the fifth Business Day following the Effective Date or such other date as YCU and Auswide Bank agree in writing.

**Register** means the share register of YCU and **Registry** has a corresponding meaning.

**Register Date** means 5.00pm on 21 December 2015.

**Regulator's Draft** means the draft of the Scheme Booklet in a form acceptable to both parties which is provided to ASIC for approval in respect of the Scheme pursuant to section 411(2) of the Corporations Act and in respect of the Demutualisation pursuant to clause 29(1)(h) of Schedule 4 of the Corporations Act.

**Regulatory Approval** means any approval of a Regulatory Authority to the Merger or any aspect of it which is necessary or desirable to implement the Merger.

**Regulatory Authority** includes:

- (a) APRA, RBA, ASX, ACCC, ASIC;

- (b) the Takeovers Panel;
- (c) a government or governmental, semi-governmental or judicial entity or authority;
- (d) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (e) any regulatory organisation established under statute.

**Regulatory Review Period** means the period from the date on which the Regulator's Draft is submitted to ASIC to the later of:

- (a) the date on which ASIC confirms that it does not intend to make any submissions at the Court hearing on the First Court Date or otherwise object to the Scheme; or
- (b) the date that ASIC registers the disclosure by YCU in relation to the Demutualisation pursuant to clause 32 of Schedule 4 of the Corporations Act.

**Related Body Corporate** has the meaning it has in the Corporations Act.

**Relevant Interest** has the same meaning as given by sections 608 and 609 of the Corporations Act.

**Representative** means any person acting for or on behalf of a party including any director, officer, employee, agent, contractor or professional advisor of a party.

**Sale Facility** has the meaning given in clause 4.10(a).

**Scheme** mean the Share Scheme.

**Scheme Booklet** means, in respect of the Scheme and the Demutualisation, the information booklet to be approved by the Court and despatched to YCU Members which must:

- (a) include the Scheme, an explanatory statement complying with the requirements of the Corporations Act and notice(s) of meeting (including in respect of the Demutualisation) and proxy form(s); and
- (b) comply with the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 and the Listing Rules.

**Scheme Meeting** means the meeting to be convened by the Court at which YCU Members will vote on the Scheme.

**Scheme Participants** means each person who is a YCU Member at the Record Date.

**Second Court Date** means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

**Share Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act under which all the YCU Shares will be transferred to Auswide Bank substantially in the form of Annexure B together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.



**Share Scheme Consideration** means the consideration payable by Auswide Bank for the YCU Shares under the Share Scheme and in accordance with clause 4 of this document.

**Specified Events** means an event, occurrence or matter that:

- (a) occurs after the date of this document;
- (b) occurs before the date of this document but is only announced or publicly disclosed after the date of this document; or
- (c) will or is likely to occur after the date of this document and which has not been publicly announced prior to the date of this document.

**Subsidiaries** has the meaning it has in the Corporations Act.

**Superior Proposal** means a bona fide Competing Transaction which the YCU Board, acting in good faith determines is:

- (a) reasonably capable of being completed taking into account all aspects of the Competing Transaction; and
- (b) more favourable to YCU Members than the Scheme, taking into account all terms and conditions of the Competing Transaction.

**Takeovers Panel** means the body called the Takeovers Panel continuing in existence under section 261 of the *Australian Securities and Investments Commission Act 2001* (Cth) and given various powers under Part 6.10 of the Corporations Act.

**Tax Invoice** has the meaning it has in the GST Act.

**Timetable** means the timetable set out in Schedule 4.

**Transaction Implementation Committee** means a committee to be made up of:

- (a) the managing director of each of YCU and Auswide Bank; and
- (b) such other persons as the parties may agree from time to time.

**Treasurer** means the Treasurer of the Commonwealth of Australia.

**YCU Board** means the board of directors of YCU.

**YCU Branch** means the YCU Branch at 100 Eagle Street, Brisbane, 4000, QLD.

**YCU Constitution** means the constitution of YCU.

**YCU Group** means YCU and its Subsidiaries.

**YCU Indemnified Parties** means YCU, its officers, employees, and advisers and its Related Bodies Corporate and the officers, employees and advisers of each of its Related Bodies Corporate.

**YCU Information** means all information contained in the Scheme Booklet other than the Auswide Bank Information and the Independent Expert's report.

**YCU Material Adverse Change** means Specified Events which are not disclosed or properly taken into account in the preparation of the YCU Group's financial statements and which had they been so disclosed or properly taken into

account, individually or when aggregated with all such events, would have resulted in:

- (a) the value of consolidated net assets of the YCU Group reported in the YCU Group's financial statements for the year ended 30 June 2015 or the half year ending 31 December 2015 being reduced by at least 10%; or
- (b) the value of NPAT of the YCU Group reported in the YCU Group's financial statements for the year ended 30 June 2015 or the half year ending 31 December 2015 being reduced by at least \$75,000,

but does not include:

- (c) any matter fairly disclosed to Auswide Bank or its Representatives on or before the date of this document (including as a result of disclosures made to ASIC);
- (d) any matter, event or circumstance arising from changes in economic or business conditions in Australia;
- (e) any change in taxation, interest rates or general economic conditions which impact on YCU and Auswide Bank in a similar manner;
- (f) any change in accounting policy required by law; or
- (g) any change occurring directly or indirectly as a result of any matter, event or circumstance required by this document, the Scheme or the transactions contemplated by them.

**YCU Member** means each person registered in the Register as a holder of YCU Shares.

**YCU Prescribed Event** means, except to the extent publicly disclosed prior to the date of this document or contemplated by this document or the Scheme, any of the events listed in Schedule 2 provided that a YCU Prescribed Event listed in items 1 to 13 of Schedule 2 will not occur where YCU has first consulted with Auswide Bank in relation to the event and Auswide Bank has approved the proposed event or has not objected to the proposed event within 5 Business Days of having being so consulted.

**YCU Share** means a fully paid share in the capital of YCU.

## 1.2 References to certain general terms

Unless the contrary intention appears, a reference in this document to:

- (a) **(variations or replacement)** a document (including this document) includes any variation or replacement of it;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this document;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them,



and consolidations, amendments, re-enactments or replacements of any of them);

- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(person)** the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (g) **(executors, administrators, successors)** a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) **(reference to a group of persons)** a group of persons or things is a reference to any two or more of them jointly and to each of them individually;
- (i) **(dollars)** Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia;
- (j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (l) **(accounting terms)** an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia;
- (m) **(meaning not limited)** the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and
- (n) **(time of day)** time is a reference to Brisbane time.

### 1.3 Next day

If an act under this document to be done by a party on or by a given day is done after 5.30pm on that day, it is taken to be done on the next day.

### 1.4 Next Business Day

If an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day.

### 1.5 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this document.

---

## **2 Agreement to propose and implement the Merger**

### **2.1 YCU to propose the Demutualisation and the Scheme**

YCU agrees to propose the Demutualisation and (subject to the Demutualisation being approved by YCU Members) the Scheme on and subject to the terms and conditions of this document.

### **2.2 Agreement to implement Merger**

The parties agree to implement the Merger on the terms and conditions of this document.

---

## **3 Conditions precedent**

### **3.1 Conditions precedent**

Subject to this clause 3, the Scheme will not become Effective and the obligations of Auswide Bank under clause 4.2 are conditional on the satisfaction (or waiver, if applicable) of each of the Conditions Precedent contained in Schedule 3 to the extent and in the manner set out in clauses 3.2 and 3.4.

### **3.2 Benefit of certain Conditions Precedent**

A Condition Precedent may only be waived in writing by a party entitled to the benefit of that Condition Precedent as noted in the table set out in Schedule 3 and will be effective only to the extent specifically set out in that waiver.

A party entitled to waive the breach or non-fulfilment of a Condition Precedent under this clause 3.2 may do so in its absolute discretion.

### **3.3 Waiver of Conditions Precedent**

If either YCU or Auswide Bank waives the breach or non-fulfilment of a Condition Precedent in accordance with this clause, then:

- (a) subject to subclause 3.3(b), that waiver precludes that party from suing the other for any breach of this document arising as a result of the breach or non-fulfilment of that Condition Precedent or arising from the same event which gave rise to the breach or non-fulfilment of that Condition Precedent; but
- (b) if the waiver of the Condition Precedent is itself conditional and the other party:
  - (i) accepts the condition, the terms of that condition apply notwithstanding any inconsistency with subclause 3.3(a); or
  - (ii) does not accept the condition, the Condition Precedent has not been waived.

### **3.4 Reasonable endeavours**

Each of YCU and Auswide Bank agree to use reasonable endeavours to procure that:

- (a) each of the Conditions Precedent:



- (i) is satisfied as soon as is reasonably practicable after the date of this document; and
  - (ii) continues to be satisfied at all times until the last time it is to be satisfied (as the case may require); and
- (b) there is no occurrence that would prevent the Conditions Precedent being satisfied.

### 3.5 Regulatory matters

Without limiting clause 3.4 each party:

- (a) **(Regulatory Approvals)** must promptly apply for all relevant Regulatory Approvals and take all steps it is responsible for as part of the approval process, including responding to requests for information from the relevant Regulatory Authority at the earliest practicable time;
- (b) **(representation)** subject to the requirements of the relevant Regulatory Authority, has the right to be represented and make submissions at any proposed meeting with any Regulatory Authority relating to any Regulatory Approval; and
- (c) **(consultation)** must consult with the other party in advance in relation to all material communications (whether written or oral, and whether direct or via a Representative) with any Regulatory Authority relating to any Regulatory Approval ("**Communications**") and, without limitation:
  - (i) provide the other party with drafts of any material written Communications to be sent to a Regulatory Authority, and consider in good faith, and make such amendments as the other party reasonably requires; and
  - (ii) provide copies of any material written Communications sent to or received from a Regulatory Authority to the other party promptly upon despatch or receipt (as the case may be),

in each case to the extent it is reasonable to do so.

### 3.6 Notices in relation to Conditions Precedent

Each party must:

- (a) **(notice of satisfaction)** promptly notify the other of satisfaction of a Condition Precedent and must keep the other informed of any material development of which it becomes aware that may lead to the breach or non-fulfilment of a Condition Precedent;
- (b) **(notice of failure)** immediately give written notice to the other of a breach or non-fulfilment of a Condition Precedent, or of any event which will prevent a Condition Precedent being satisfied;
- (c) **(notice of waiver)** upon receipt of a notice given under paragraph (b), give written notice to the other party as soon as reasonably possible (and in any event before 5.00pm on the day before the Second Court Date) as to whether or not it waives the breach or non-fulfilment of any Condition Precedent resulting from the occurrence of that event, specifying the Condition Precedent in question; and
- (d) **(certificates)** give to:

- (i) the other (in draft), by 5.00pm on the Business Day immediately prior to the Second Court Date; and
- (ii) the Court (in final form), on the Second Court Date,

a certificate signed by one of its directors and made in accordance with a resolution of its board confirming (in respect of the Conditions Precedent relating to it, other than the Condition Precedent in item 4 of Schedule 3) whether or not those Conditions Precedent have been satisfied or waived.

### **3.7 Effect of waiver or non-fulfilment**

A waiver of such breach or non-fulfilment in respect of one Condition Precedent does not constitute:

- (a) a waiver of the breach or non-fulfilment of any other Condition Precedent resulting from the same event; or
- (b) a waiver of the breach or non-fulfilment of that Condition Precedent resulting from any other event.

### **3.8 Consultation on failure of Condition Precedents**

If:

- (a) there is a breach or non-fulfilment of a Condition Precedent which is not waived in accordance with this document by the time or date specified in this document for the satisfaction of the Condition Precedent;
- (b) there is an act, failure to act or occurrence which will prevent a Condition Precedent being satisfied by the time or date specified in this document for the satisfaction of the Condition Precedent (and the breach or non-fulfilment which would otherwise occur has not already been waived in accordance with this document); or
- (c) if the Scheme has not become Effective by the End Date,

then the parties must consult in good faith with a view to determining whether:

- (d) the Merger may proceed by way of alternative means or methods;
- (e) to extend the relevant time for satisfaction of the Condition Precedent or to adjourn or change the date of an application to the Court; or
- (f) to extend the End Date.

### **3.9 Failure to agree**

If the parties are unable to reach agreement under clause 3.8 within five Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date):

- (a) subject to subclause 3.9(b), either party may terminate this document (and such termination will be in accordance with clause 14.1(e)(i); or
- (b) if a Condition Precedent may be waived and exists for the benefit of one party only, that party only may waive that Condition Precedent or terminate this document (and such termination will be in accordance with clause 14.1(e)(ii),



in each case before 8.00am on the Second Court Date. A party will not be entitled to terminate this document pursuant to this clause 3.9 if the relevant Condition Precedent has not been satisfied or agreement cannot be reached as a result of:

- (c) a breach of this document by that party; or
- (d) a deliberate act or omission of that party (that is not permitted by this document).

### **3.10 Regulatory Approval**

A Regulatory Approval will be regarded as having been obtained notwithstanding that a condition or conditions may have been attached to that Regulatory Approval if that condition is, or, as the case may be, those conditions are, reasonably satisfactory to YCU and Auswide Bank.

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## **4 Outline of Scheme**

### **4.1 Share Scheme**

Subject to clause 3.1 on the Implementation Date:

- (a) all of the YCU Shares will be transferred to Auswide Bank; and
- (b) each Scheme Participant will be entitled to receive the Share Scheme Consideration for each YCU Share held by it at the Record Date.

### **4.2 Share Scheme Consideration**

Auswide Bank, subject to clause 4.7, covenants in favour of YCU (in its own right and on behalf of each Scheme Participant) that in consideration of the transfer to Auswide Bank of each YCU Share held by a Scheme Participant, Auswide Bank will issue to each Scheme Participant:

- (a) A\$4,055 cash; and
- (b) 696 New Auswide Bank Shares,

for each YCU Share held by the Scheme Participant at the Record Date in accordance with the terms of the Share Scheme.

### **4.3 Payment to Scheme Participants**

YCU must:

- (a) receive in a trust account in accordance with the Scheme and as agent for each Scheme Participant, the payment referred to in clause 4.2(a);
- (b) pay to each Scheme Participant such moneys as each Scheme Participant is entitled to receive in accordance with clause 4.2(a); and
- (c) otherwise comply with its obligations under the Scheme.

### **4.4 New Auswide Bank Shares**

Auswide Bank must in respect of each YCU Member who will receive New Auswide Bank Shares under clause 4.2(b):

- (a) on the Implementation Date, issue the New Auswide Bank Shares to which that YCU Member is entitled; and
- (b) within 10 Business Days after the Implementation Date, dispatch holding statements in respect of those New Auswide Bank Shares.

#### **4.5 Undertakings held as agent**

YCU acknowledges that the undertaking by Auswide Bank in clause 4.2 is given to YCU in its capacity as agent for each Scheme Participant.

#### **4.6 No new YCU Members after Register Date**

- (a) YCU agrees not to (and must procure that the YCU Board does not) register any new YCU Members or issue any new YCU Shares after the Register Date.
- (b) If required, the YCU Board must make a determination under article 2.2(1)(d) of the YCU Constitution to give effect to clause 4.6(a).

#### **4.7 Fractional elements**

If the number of YCU Shares held by a Scheme Participant means that their aggregate entitlement to New Auswide Bank Shares is not a whole number, then any fractional entitlement will be rounded up to the nearest whole number of New Auswide Bank Shares.

#### **4.8 Foreign YCU Members**

Auswide Bank will, unless satisfied that the laws of a Foreign YCU Member's country of residence (as shown in the Register) permit the issue of New Auswide Bank Shares to the Foreign YCU Member (either unconditionally or after compliance with conditions which Auswide Bank regards as acceptable and not unduly onerous and not unduly impracticable), issue the New Auswide Bank Shares to which a Foreign YCU Member would otherwise become entitled to a nominee appointed by Auswide Bank who will sell those New Auswide Bank Shares and pay to that Foreign YCU Member the proceeds received in accordance with a pre-determined formula within five Business Days after the Implementation Date, after deducting any applicable brokerage, taxes and charges in accordance with the Scheme.

Auswide Bank is not under any obligation to spend any money or undertake any action, in order to satisfy itself of the eligibility of a Foreign YCU Member to receive New Auswide Bank Shares.

#### **4.9 Shares to rank equally**

Auswide Bank covenants in favour of YCU (in its own right and on behalf of each Scheme Participant) that:

- (a) all New Auswide Bank Shares issued pursuant to clause 4.2 will, upon their issue, rank equally with all other Auswide Bank Shares then on issue;
- (b) it will do everything reasonably necessary to ensure that trading in the New Auswide Bank Shares commences no later than the first Business Day after the Implementation Date; and
- (c) on issue, each New Auswide Bank Share will be fully paid and free from any Encumbrance.



#### **4.10 Sale Facility**

- (a) Subject to the Corporations Act and any applicable regulatory requirements, Auswide Bank may implement a sale facility for Eligible Members to elect to sell all of the New Auswide Bank Shares to which the Eligible Member would otherwise be entitled pursuant to clause 4.2, in accordance with this clause 4.10 ("Sale Facility").
- (b) If an Eligible Member makes a valid election pursuant to clause 4.10(a), Auswide Bank will issue the New Auswide Bank Shares to which the Eligible Member would otherwise be entitled pursuant to clause 4.2, to a nominee appointed by Auswide Bank who will sell those New Auswide Bank Shares and pay to that Eligible Member the proceeds received in accordance with a pre-determined formula as soon as practicable and in any event not more than fifteen Business Days after the Implementation Date, after deducting any applicable brokerage, taxes and charges in accordance with the Scheme.
- (c) If Auswide Bank elects to implement a Sale Facility, YCU must ensure that the Scheme Booklet includes the terms and conditions for the Sale Facility as determined by Auswide Bank and is accompanied by a form in respect of the Sale Facility which provides for the matters set out in this clause 4.10.

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### **5 Co-operation and timing**

#### **5.1 General obligations**

YCU and Auswide Bank must each:

- (a) use all reasonable endeavours and commit all reasonably necessary resources (including reasonably necessary management and corporate relations resources and the resources of external advisers); and
- (b) procure that its officers and advisers work in good faith and in a timely and co-operative fashion with the other party (including by attending such meetings and by providing such information as in each case may reasonably be required),

to produce the Scheme Booklet and implement the Demutualisation and Scheme as soon as reasonably practicable and in accordance with the Timetable.

#### **5.2 Transaction Implementation Committee**

- (a) The parties must establish a Transaction Implementation Committee as soon as possible after the date of this document.
- (b) The role of the Transaction Implementation Committee will be to act as a forum for consultation and planning by parties to:
  - (i) facilitate satisfaction of the Conditions Precedent;
  - (ii) produce the Scheme Booklet; and
  - (iii) implement the Demutualisation and the Scheme.
- (c) Subject to this document, nothing in this clause requires either party to act at the direction of the other. The business of each party will continue to operate independently from the other until the Implementation Date.

The parties agree that nothing in this document constitutes the relationship of a partnership or a joint venture between the parties.

### **5.3 Access to people and information**

Between the date of this document and the earlier of 5.00pm on the Business Day immediately before the Second Court Date and the date this document is terminated, the parties and their Subsidiaries must promptly provide one another and their respective officers and advisers with reasonable access to their respective officers and advisers and documents, records, and other information (subject to any existing confidentiality obligations owed to third parties, or applicable privacy laws) which the other party reasonably requests (including monthly management accounts) for the purposes of:

- (a) implementation of the Demutualisation and the Scheme;
- (b) applying for all relevant Regulatory Approvals; and
- (c) any other purpose agreed in writing between the parties,

provided in every case that such access is reasonably necessary to the party requesting the information and does not place an unreasonable burden on the ability of the other party to run its business.

### **5.4 Right to separate representation**

Each party is entitled to separate representation at all Court proceedings relating to the Scheme. Nothing in this document is to be taken to give Auswide Bank or YCU (as applicable) any right or power to make or give undertakings to the Court for or on behalf of the other party.

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## **6 Implementation obligations of the parties**

### **6.1 YCU's obligations**

YCU must comply with the obligations of YCU set out in Schedule 5 and take all reasonable steps to implement the Demutualisation and the Scheme as soon as is reasonably practicable having regard to the Timetable and in any event prior to the End Date.

### **6.2 Auswide Bank's obligations**

Auswide Bank must comply with the obligations of Auswide Bank set out in Schedule 6 and take all reasonable steps to assist YCU to implement the Demutualisation and the Scheme as soon as reasonably practicable having regard to the Timetable and in any event prior to the End Date.

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## **7 Scheme Booklet**

### **7.1 Preparation**

Without limiting clauses 6.1 or 6.2:

- (a) **(preparation)** subject to clauses 7.1(b), 7.3(c) and 7.5, YCU is generally responsible for the preparation of the Scheme Booklet but will provide drafts to and consult with Auswide Bank in accordance with clause 7.2; and



- (b) **(compliance)** Auswide Bank and YCU must take all necessary steps to endeavour to ensure that the Scheme Booklet:
  - (i) complies with the requirements of:
    - (A) the Corporations Act and Corporations Regulations;
    - (B) ASIC Regulatory Guide 60;
    - (C) the Listing Rules; and
  - (ii) is not, having regard to applicable disclosure requirements, misleading or deceptive in any material respect (including because of any material omission).

## 7.2 Content of the Scheme Booklet

YCU must:

- (a) **(consult Auswide Bank):**
  - (i) provide to Auswide Bank a draft of the Scheme Booklet (including the draft of any related proposed amendments to the YCU Constitution) for the purpose of enabling Auswide Bank to review and comment on that draft document;
  - (ii) take the comments made by Auswide Bank into account in good faith when producing a revised draft of the Scheme Booklet (and related proposed amendments to the YCU Constitution); and
  - (iii) provide to Auswide Bank the proposed Regulator's Draft at least five days before it is submitted to ASIC to enable Auswide Bank to review and comment on the proposed Regulator's Draft;
- (b) **(amend the Scheme Booklet)** implement such changes to those parts of the Scheme Booklet relating to Auswide Bank which are provided in accordance with clause 7.2(a) as reasonably requested by Auswide Bank and prior to finalising the Regulator's Draft;
- (c) **(Regulatory Review Period)** during the Regulatory Review Period:
  - (i) promptly provide to Auswide Bank, and include in a revised draft of the Scheme Booklet, any new information not included in the Regulator's Draft which is required by the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 or the Listing Rules to be included in the Scheme Booklet; and
  - (ii) keep Auswide Bank informed of any matters raised by ASIC in relation to the Scheme Booklet and use all reasonable endeavours, in co-operation with Auswide Bank, to resolve any such matters; and
- (d) **(Auswide Bank Information)** obtain approval from Auswide Bank for the form and context in which the Auswide Bank Information appears in the Scheme Booklet which approval must not be unreasonably delayed or withheld.

## 7.3 Auswide Bank Information

Auswide Bank:

- (a) must consult with YCU as to the content of the Auswide Bank Information;
- (b) consents to the inclusion of the Auswide Bank Information in the Scheme Booklet; and
- (c) acknowledges that:
  - (i) it is responsible for ensuring that the Auswide Bank Information is not misleading or deceptive in any material respect (whether by omission or otherwise) and that YCU will not verify or edit that information in the Scheme Booklet; and
  - (ii) the Scheme Booklet will state that Auswide Bank is responsible for the Auswide Bank Information.

#### **7.4 Disagreement on content**

If Auswide Bank and YCU 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. If complete agreement is not reached after reasonable consultation, then:

- (a) if the disagreement relates to the form or content of the Auswide Bank Information contained in the Scheme Booklet, YCU will make such amendments as Auswide Bank reasonably requires; and
- (b) if the disagreement relates to the form or content of any other part of the Scheme Booklet, the YCU Board will, acting in good faith, decide the final form or content of the disputed part of the Scheme Booklet.

#### **7.5 Verification**

Each party must undertake appropriate verification processes for the information supplied by that party for the Scheme Booklet.

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## **8 Profile of the Merged Group**

### **8.1 Appointment/retirement of YCU directors**

As soon as practicable after the Second Court Date, YCU must use its best endeavours to:

- (a) cause the appointment of each Incoming Director to the YCU Board and to any company in respect of which YCU has nominee directors;
- (b) procure that each of the Outgoing Directors retire from the YCU Board and provide written notice to the effect that they have no claim outstanding for loss of office, remuneration or otherwise against YCU; and
- (c) procure that each of the Outgoing Directors retire from the board of directors of any company in respect of which YCU has nominee directors.

### **8.2 Branding and operation**

The parties acknowledge that subject to the implementation of the Merger, it is Auswide Bank's current intention to:



- (a) re-brand the YCU Branch and products to reflect Auswide Bank's ownership of YCU;
- (b) retain the YCU Branch, however, where duplication occurs, Auswide Bank intends to consolidate YCU's head office functions into Auswide Bank's head office; and
- (c) merge the product suites of Auswide Bank and YCU over time, however, Auswide Bank will not change the banking arrangements and products of existing YCU members unless requested by a YCU Member, in response to changes in the official interest rate by the RBA or in line with the loan agreement the YCU Member has in place with YCU.

### **8.3 Special compensation and redundancy pool**

The parties agree that the YCU Board be permitted to establish a special compensation and redundancy pool ("Pool") of a maximum value of A\$900,000 to augment the compensation of YCU directors or employees who may be made redundant as a result of the Merger.

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## **9 Conduct of business**

### **9.1 Overview**

- (a) From the date of this document up to and including the Implementation Date, each of Auswide Bank and YCU must conduct their respective businesses:
  - (i) in the ordinary and proper course and materially in accordance with applicable laws;
  - (ii) consistent with the most recent business plans and budgets:
    - (A) for YCU, made public or disclosed to Auswide Bank prior to the date of this document; and
    - (B) for Auswide Bank, made public or disclosed to YCU prior to the date of this document,

except:

  - (iii) as approved otherwise in advance by YCU or Auswide Bank (as applicable) in writing;
  - (iv) to reasonably and prudently respond to an emergency or disaster (including a situation giving rise to a risk of personal injury or damage to property); or
  - (v) which is necessary for YCU or Auswide Bank (or their Subsidiaries) to meet their respective legal or contractual obligations.
- (b) YCU or Auswide Bank (as applicable) must not unreasonably withhold or delay any approval sought under clause 9.1(a).

### **9.2 Specific obligations**

Without limiting clause 9.1 and other than with the prior approval of Auswide Bank (which approval must not be unreasonably withheld or delayed) or as

required by this document, YCU must, during the period contemplated by clause 9.1 use all reasonable endeavours to:

- (a) **(business and assets)** maintain the condition of its business and assets;
- (b) **(officers and employees)** keep available the services of its officers and employees;
- (c) **(relationships)** preserve its relationships with customers, suppliers, licensors, licensees, joint venturers and others with whom it has business dealings; and
- (d) **(change of control provisions)** identify any change of control or similar provisions in any significant contracts (including all Material Contracts) or any joint venture documentation and obtain the consents of relevant persons who have rights in respect of those persons to the transactions contemplated by the Merger.

### 9.3 Prohibited actions

Other than with the prior approval of Auswide Bank (which approval must not be unreasonably withheld or delayed) or as required by this document, YCU must not, during the period referred to in clause 9.1:

- (a) **(no new YCU Members)** register any new YCU Members or issue any new YCU Shares;
- (b) **(Material Contracts)** enter into or terminate a Material Contract other than a Material Contract which has been disclosed to, and agreed to by, the other party;
- (c) **(employment agreements)** increase the remuneration of or pay any bonus (other than in accordance with clause 8.3 of this document, existing arrangements or in the ordinary course) or issue any securities or options to, or otherwise vary the employment agreements with, any of its directors or employees;
- (d) **(accelerate rights)** accelerate the rights of any of its directors or employees to benefits of any kind;
- (e) **(termination payments)** pay a director, executive or employee a termination payment, other than as provided for in an existing employment contract in place as at the date of this agreement and a copy of which has previously been provided to the other party;
- (f) **(financial arrangements)** amend in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this document;
- (g) **(dividends)** announce, declare or pay any dividends;
- (h) **(YCU Prescribed Event)** take any action which would be reasonably expected to give rise to a YCU Prescribed Event; or
- (i) **(agreement)** agree to do any of the matters set out above.



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## **10 Exclusivity**

### **10.1 No existing discussions**

YCU represents and warrants that, other than the discussions with Auswide Bank and its Representatives in respect of the Merger, it is not, nor are any of its Related Bodies Corporate or Representatives currently in negotiations or discussions in respect of or with a view to any Competing Transaction with any person.

### **10.2 No-shop**

During the Exclusivity Period, YCU must ensure that neither it nor any of its Related Bodies Corporate nor any of its Representatives directly or indirectly:

- (a) solicits, invites, encourages or initiates any enquiries, negotiations or discussions; or
- (b) communicates any intention to do any of these things,

with a view to obtaining any offer, proposal or expression of interest from any person in relation to a Competing Transaction.

Nothing in this clause 10.2 prevents YCU from continuing to make normal presentations to, and to respond to enquiries from any person in the ordinary course in relation to the Merger or its business generally.

### **10.3 No-talk**

Subject to clause 10.6 during the Exclusivity Period, YCU must ensure that neither it nor any of its Related Bodies Corporate nor any of its Representatives:

- (a) negotiates or enters into;
- (b) provides any non-public information (including due diligence information) to a third party in connection with (or with a view to obtaining); or
- (c) participates in negotiations or discussions with any other person regarding,

a Competing Transaction, even if that person's Competing Transaction was not directly or indirectly solicited, invited, encouraged or initiated by YCU or any of its Related Bodies Corporate or Representatives or the person has publicly announced the Competing Transaction.

### **10.4 No due diligence**

Subject to clause 10.5, during the Exclusivity Period, YCU must ensure that neither it nor any of its Related Bodies Corporate or Representatives:

- (a) solicits, invites, initiates, encourages, or permits any other person other than Auswide Bank and their Representatives to undertake due diligence investigations on YCU or any of its Related Bodies Corporate; or
- (b) makes available to any other person or permits any other person to receive other than Auswide Bank and its Representatives (in the course of due diligence investigations or otherwise) any non-public information relating to YCU or any of its Related Bodies Corporate.

## 10.5 Notice of unsolicited approach

Subject to any obligation of confidentiality during the Exclusivity Period, YCU must promptly inform Auswide Bank if it, or any of its Related Bodies Corporate or Representatives, receives any unsolicited approach with respect to any Competing Transaction and must disclose to Auswide Bank the fact that such an approach has been made and the general nature of the approach.

## 10.6 Exceptions

Clause 10.3 and, where relevant, clause 10.4 does not apply to the extent that it restricts YCU or the YCU Board from taking or refusing to take any action with respect to a bona fide Competing Transaction (which was not solicited, invited, encouraged or initiated in contravention of clause 10.2 provided that the YCU Board has determined, in good faith and acting reasonably that:

- (a) after consultation with its financial advisors, such a bona fide Competing Transaction could reasonably be considered to become a Superior Proposal; and
- (b) after receiving written legal advice from Queen's Counsel or Senior Counsel, that failing to respond to such a bona fide Competing Transaction would be reasonably likely to constitute a breach of the YCU Board's fiduciary or statutory obligations.

## 10.7 Matching Right

- (a) During the Exclusivity Period, YCU:
  - (i) must not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) pursuant to which a third party or YCU proposes to undertake or give effect to a Competing Transaction; and
  - (ii) must use its best endeavours to procure that none of its directors change their recommendation in favour of the Demutualisation and the Scheme to publicly recommend a Competing Transaction,unless
  - (iii) the YCU Board acting in good faith determines that the Competing Transaction would or would likely to be a Superior Proposal;
  - (iv) YCU has provided Auswide Bank with the material terms and conditions of the Competing Transaction, including price and the identity of the party making the proposal; and
  - (v) YCU has given Auswide Bank at least 5 Business Days after the provision of the information referred to in clause 10.7(a)(iv) to provide a matching or superior proposal ("**Matching Offer**") to the terms of the Competing Transaction.
- (b) This clause 10.7 has repeating applications so that if any further proposal which constitutes a Competing Transaction is made after Auswide Bank has made a Matching Offer, YCU must comply with paragraph (i) and (ii) of this clause in respect of any new Competing Transaction, unless paragraphs (iii) to (vi) (inclusive) apply.



- (c) The YCU Board must consider the Matching Offer and if it determines, acting in good faith, that the Matching Offer would provide an outcome that is more favourable to YCU Members than the relevant Competing Transaction, YCU and Auswide Bank must use their best endeavours to agree any amendments to this agreement and the contents of the Scheme Booklet, which are reasonably necessary to reflect the Matching Offer, and to enter into an appropriate amending agreement to give effect to those amendments and to implement the Matching Offer, in each case, as soon as reasonably practicable.

## **10.8 Legal advice**

YCU acknowledges that it has received legal advice on this document and the operation of this clause 10.

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# **11 Reimbursement of costs**

## **11.1 Background**

This clause 11 has been agreed in circumstances where:

- (a) Auswide Bank and YCU believe that the Merger will provide significant benefits to Auswide Bank, YCU and their respective shareholders, and Auswide Bank and YCU acknowledge that, if they enter into this document and the Merger is subsequently not implemented, Auswide Bank and YCU will incur significant costs;
- (b) the parties have agreed that provision be made for the payments outlined in clause 11.2 and clause 11.3 without which the parties would not have entered into this document;
- (c) both the Auswide Bank Board and YCU Board believe that it is appropriate for Auswide Bank and YCU (respectively) to agree to the payments referred to in this clause 11 to secure each party's participation in the Merger; and
- (d) both parties have received legal advice on this document and the operation of this clause 11.

## **11.2 Payment by YCU to Auswide Bank**

YCU agrees to pay to Auswide Bank \$750,000 if the Merger does not proceed because:

- (a) **(Competing Transaction)** on or before the End Date:
  - (i) YCU enters into a legally binding agreement to undertake a Competing Transaction;
  - (ii) any member of the YCU Board recommends a Competing Transaction; or
  - (iii) the YCU Board determines or announces that a Competing Transaction is a Superior Proposal;
- (b) **(change of recommendation)** any member of the YCU Board fails to recommend the Demutualisation or the Scheme or withdraws or adversely changes their recommendation except if:

- (i) the director changes his recommendation following the receipt of a report of the Independent Expert where that report states that in the opinion of the Independent Expert, the Demutualisation or the Scheme (as applicable) is not in the best interests of YCU Members or is not fair or not reasonable (other than where a Competing Transaction has been proposed or announced before the report is issued which the Independent Expert may reasonably regard to be on more favourable terms than the transaction contemplated by this document);
  - (ii) there is a failure of a Condition Precedent in Schedule 3, Item 1 (Regulatory Approvals), Schedule 3, Item 2 (Demutualisation), Schedule 3, Item 3 (Share Scheme approval), Schedule 3, Item 4 (Court approval) or clause 14.1(d) (restraint) other than as a result of a breach by YCU of clause 3.4; or
  - (iii) YCU validly terminates this agreement in accordance with clause 14.1(b)(ii);
- (c) **(material breach)** Auswide Bank validly terminates this document in accordance with clause 14.1(b)(ii);
- (d) **(YCU Prescribed Event or YCU Material Adverse Change)** all of the following are satisfied:
- (i) a YCU Prescribed Event or a YCU Material Adverse Change occurs prior to 8.00am on the Second Court Date; and
  - (ii) this agreement is terminated in accordance with clause 14; and
  - (iii) all of the following apply in relation to the YCU Prescribed Event or the YCU Material Adverse Change:
    - (A) the prevention of the YCU Prescribed Event or YCU Material Adverse Change was within the control of YCU; and
    - (B) had the YCU Prescribed Event or YCU Material Adverse Change occurred prior to the date of this agreement, the YCU Prescribed Event or YCU Material Adverse Change might reasonably be expected to have resulted in Auswide Bank not entering into this agreement; and
    - (C) YCU has failed to rectify the YCU Prescribed Event or YCU Material Adverse Change within 10 Business Days after receipt of notice from Auswide Bank requiring YCU to do so; or
- (e) **(breach of clause 10)** YCU is in breach of clause 10 and does not cease the conduct which caused the breach within one Business Day following written notice from Auswide Bank outlining the nature of the breach.

### 11.3 Payment by Auswide Bank to YCU

Auswide Bank agrees to pay to YCU \$750,000 if the Merger does not proceed because YCU validly terminates this document in accordance with clause 14.1(b)(ii).



#### **11.4 No amount payable if Scheme becomes Effective**

Notwithstanding the occurrence of any event under clause 11.2 or clause 11.3 no amount is payable under clause 11.2 or clause 11.3 if the Share Scheme becomes Effective.

#### **11.5 Timing of payment**

YCU and Auswide Bank must pay the amount referred to in clause 11.2 or clause 11.3 (as applicable) within 10 Business Days of receipt of a demand for payment from the other party.

#### **11.6 Nature of payment to Auswide Bank**

The amount payable by YCU to Auswide Bank under clause 11.2 is an amount to compensate Auswide Bank for:

- (a) advisory costs (including costs of advisers other than success fees);
- (b) costs of management and directors' time;
- (c) out-of-pocket expenses; and
- (d) reasonable opportunity costs incurred by Auswide Bank in pursuing the Merger or in not pursuing other alternative acquisitions or strategic initiatives which Auswide Bank could have developed to further its business and objectives,

but is without prejudice to and does not limit any rights which Auswide Bank, any Auswide Bank Indemnified Party or any Auswide Bank shareholder may have against YCU.

#### **11.7 Nature of payment to YCU**

The amount payable by Auswide Bank to YCU under clause 11.3 is an amount to compensate YCU for:

- (a) advisory costs (including costs of advisers other than success fees);
- (b) costs of management and directors' time;
- (c) out-of-pocket expenses; and
- (d) reasonable opportunity costs incurred by YCU in pursuing the Merger or in not pursuing other alternative acquisitions or strategic initiatives which YCU could have developed to further its business and objectives,

but is without prejudice to and does not limit any rights which YCU, any YCU Indemnified Party or any YCU Member may have against Auswide Bank.

#### **11.8 Reduction in amount payable**

- (a) The amount payable by YCU to Auswide Bank under clause 11.2 is reduced by an amount equal to the amount which is recovered by Auswide Bank as a result of a claim against YCU pursuant to any other remedies available to Auswide Bank under this document including pursuant to clause 12.
- (b) Where the amount payable by YCU to Auswide Bank under clause 11.2 has already been paid, Auswide Bank must, within two Business Days of the event contemplated by clause 11.8(a) which would have reduced the

amount payable, refund an amount to YCU which is equivalent to that calculated under clause 11.8(a).

- (c) The amount payable by Auswide Bank to YCU under clause 11.3 is reduced by an amount equal to the amount which is recovered by YCU as a result of a claim against Auswide Bank pursuant to any other remedies available to YCU under this document including pursuant to clause 12.
- (d) Where the amount payable by Auswide Bank to YCU under clause 11.3 has already been paid, YCU must, within two Business Days of the event contemplated by clause 11.8(c) which would have reduced the amount payable, refund an amount to Auswide Bank which is equivalent to that calculated under clause 11.8(c).

## **11.9 Compliance with law**

- (a) Subject to clause 11.9(f), if a Court, arbitral tribunal or the Takeovers Panel determines that any part of the agreement by a party under this clause 11:
  - (i) constitutes, or would if performed constitute a breach of the fiduciary or statutory duties of that party's board to that party; or
  - (ii) constitutes, or would, if performed constitute, unacceptable circumstances within the meaning of the Corporations Act; or
  - (iii) is, or would if performed be, unlawful for any other reason,then, provided that that party has complied with its other obligations under this clause 11, that party will not be obliged to comply with that part of the agreement (but will be obliged to comply with all other parts of the agreement).
- (b) Subject to clause 11.9(f), if the Takeovers Panel or a Court makes a determination contemplated by clause 11.9(a), in respect of all or any part of a payment made under this clause 11, the party who received the payment must immediately refund all or such applicable part of it.
- (c) Subject to clause 11.9(f), if in such Takeovers Panel proceedings, the Takeovers Panel indicates to Auswide Bank or YCU that in the absence of a written undertaking pursuant to section 201A of the *Australian Securities and Investments Commission Act 2001* it will make a declaration of unacceptable circumstances, each of Auswide Bank and YCU (as the case may be) may give that undertaking on their own behalf and must give reasonable consideration to giving that undertaking if requested by the other party. Where such undertakings are given, this clause 11 will operate in a manner consistent with the terms of such undertakings.
- (d) Subject to clause 11.9(f), neither party must make, nor may it cause or permit to be made, any application to a Court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in clause 11.9(a).
- (e) If any third party makes any application to a Court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in clause 11.9(a), then each party must make submissions in the course of those proceedings supporting to the fullest extent reasonably practicable the position that no such determination should be made.



- (f) Nothing in this clause 11.9 precludes either party from bringing or requires either party to bring appeal or review proceedings in relation to any determination referred to in clause 11.9(a). If either party brings such proceedings:
  - (i) the other must make submissions in the course of those proceedings supporting to the fullest extent reasonably practicable the review application made by the first party; and
  - (ii) for the purposes of this clause 11 the determination the subject of the appeal or review proceeding will be deemed not to have been made and clause 11.9(a), (b) and (c) will have effect only in relation to any determination made in the appeal or review proceedings.

#### **11.10 Survival**

Any accrued obligations under this clause survive termination of this document.

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## **12 Representations and warranties**

### **12.1 YCU's representations and warranties**

YCU represents and warrants to Auswide Bank (on its own behalf and separately as trustee or nominee for each of the Auswide Bank directors) that each of the statements set out in Schedule 7 is true and correct in all material respects as at the date of this document and as at 5.00pm on the Business Day immediately prior to the Second Court Date.

### **12.2 YCU's indemnity**

YCU indemnifies the Auswide Bank Indemnified Parties against all Losses incurred directly or indirectly as a result of any of the representations and warranties in clause 12.1 not being true and correct.

### **12.3 YCU warranty certificate**

YCU must provide to Auswide Bank by 5.00pm on the Business Day immediately prior to the Second Court Date a certificate signed by a director of YCU and made in accordance with a resolution of the YCU Board stating, as at that date, that the representations or warranties given by YCU in clause 12.1 remain true and accurate or, if any such representation or warranty is not true and accurate as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or inaccurate.

### **12.4 Auswide Bank's representations and warranties**

Auswide Bank represents and warrants to YCU (on its own behalf and separately as trustee or nominee for each of the YCU directors) that each of the statements set out in Schedule 8 is true and correct in all material respects as at the date of this document and as at 5.00pm on the Business Day immediately prior to the Second Court Date.

### **12.5 Auswide Bank's indemnity**

Auswide Bank indemnifies the YCU Indemnified Parties against all Losses incurred directly or indirectly as a result of any of the representations and warranties in clause 12.4 not being true and correct.

## **12.6 Auswide Bank warranty certificate**

Auswide Bank must provide to YCU by 5.00pm on the Business Day immediately prior to the Second Court Date a certificate signed by a director of Auswide Bank and made in accordance with a resolution of the Auswide Bank Board stating, as at that date, that the representations and warranties given by Auswide Bank in clause 12.4 remain true and accurate or, if any such representation or warranty is not true and accurate as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or inaccurate.

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## **13 Court proceedings**

### **13.1 Appeal process**

If the Court refuses to make orders convening the Scheme Meeting or approving the Share Scheme, Auswide Bank and YCU must appeal the Court's decision to the fullest extent possible except to the extent that:

- (a) the parties agree in writing otherwise; or
- (b) Queen's Counsel or Senior Counsel representing that party in relation to the Share Scheme indicates, in writing that, in their opinion, an appeal would likely have less than a 50% prospect of success; or
- (c) there is, in the bona-fide view of the YCU Board a Superior Proposal in relation to a Competing Transaction received by YCU which should be recommended in preference to the Scheme,

in which case either party may terminate this document in accordance with clause 14.1(e)(iii).

### **13.2 Defence of proceedings**

Each of Auswide Bank and YCU must vigorously defend, or must cause to be vigorously defended, any lawsuits or other legal proceeding brought against it (or any of its Subsidiaries) challenging this document or the completion of the Merger. Neither Auswide Bank nor YCU will settle or compromise (or permit any of its Subsidiaries to settle or compromise) any claim brought in connection with this document without the prior written consent of the other, such consent not to be unreasonably withheld.

### **13.3 Costs**

Any costs incurred as a result of the operation of this clause 13 will be borne equally by each party.

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## **14 Termination**

### **14.1 Termination events**

Without limiting any other provision of this document (including clauses 3.9 and 13.1), this document may be terminated:

- (a) **(End Date)** by either party, if the Scheme has not become Effective on or before the End Date; or
- (b) **(lack of support or breach)** at any time prior to 8.00am on the Second Court Date:



- (i) by Auswide Bank if the YCU Board changes its recommendation to the Scheme Participants or YCU Members (as applicable) that they vote in favour of the resolution to approve the Demutualisation or the Scheme, including any adverse modification to its recommendation, or otherwise makes a public statement indicating that it no longer supports the Merger; or
- (ii) by either Auswide Bank or YCU if the other is in material breach of any clause of this document (including a warranty), taken in the context of the Merger as a whole, provided that either Auswide Bank or YCU, as the case may be, has, if practicable, given notice to the other setting out the relevant circumstances and stating an intention to terminate and, the relevant circumstances continue to exist five Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date) after the time such notice is given; or
- (c) **(not approved)** by either party if the Demutualisation resolution submitted to the Demutualisation Meeting or the Scheme resolution submitted to the Scheme Meeting is not approved by the requisite majority;
- (d) **(restraint)** by either party if a Court or other Regulatory Authority has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Merger;
- (e) **(consultation or appeal failure)** in accordance with and pursuant to:
  - (i) clause 3.9(a);
  - (ii) clause 3.9(b); or
  - (iii) clause 13.1;
- (f) **(Independent Expert)** by either party if the Independent Expert opines that the Demutualisation or the Scheme is not in the best interests of YCU Members or that the Demutualisation or the Scheme is not fair or not reasonable;
- (g) **(Insolvency)** by either party if the other party or any of their Related Bodies Corporate becomes Insolvent; or
- (h) **(agreement)** if agreed to in writing by Auswide Bank and YCU.

## 14.2 Termination

Where a party has a right to terminate this document, that right for all purposes will be validly exercised if the party delivers a notice in writing to the other party stating that it terminates this document.

## 14.3 Effect of termination

In the event that a party terminates this document, or if this document otherwise terminates in accordance with its terms, then in either case all further obligations of the parties under this document, other than the obligations set out in clauses 13.1, 17 and 19 will immediately cease to be of further force and effect without further liability of any party to the other, provided that nothing in this clause releases any party from liability for any pre-termination breach of this document.

#### **14.4 Damages**

In addition to the right of termination under clause 14.1 where there is no appropriate remedy for the breach in the agreement (other than termination), the non-defaulting party is entitled to damages for Losses suffered by it and expenses incurred by it as a result of the breach of the terms of this document.

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### **15 Releases**

#### **15.1 Auswide Bank and Auswide Bank directors and officers**

- (a) YCU releases its rights, and agrees with Auswide Bank that it will not make a claim, against any Auswide Bank Indemnified Party as at the date of this document and from time to time in connection with:
  - (i) any breach of any representations and warranties of Auswide Bank or any other member of the Auswide Bank Group in this document; or
  - (ii) any disclosures containing any statement which is false or misleading whether in content or by omission,whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Auswide Bank Indemnified Party has engaged in wilful misconduct or fraud. For the avoidance of doubt, nothing in this clause 15.1(a) limits YCU's rights to terminate this document under clause 14.1(b)(ii).
- (b) This clause is subject to any Corporations Act restriction and will be read down accordingly.
- (c) Auswide Bank receives and holds the benefit of this clause to the extent it relates to each Auswide Bank Indemnified Party as trustee for each of them.

#### **15.2 YCU and YCU directors and officers**

- (a) Auswide Bank releases its rights, and agrees with YCU that it will not make a claim, against any YCU Indemnified Party as at the date of this document and from time to time in connection with:
  - (i) any breach of any representations and warranties of YCU or any other member of the YCU Group in this document; or
  - (ii) any disclosures containing any statement which is false or misleading whether in content or by omission,whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the YCU Indemnified Party has engaged in wilful misconduct or fraud. For the avoidance of doubt, nothing in this clause 15.2(b) limits Auswide Bank's rights to terminate this document under clause 14.1(b)(ii).
- (b) This clause is subject to any Corporations Act restriction and will be read down accordingly.
- (c) YCU receives and holds the benefit of this clause to the extent it relates to each YCU Indemnified Party as trustee for each of them.



### 15.3 Deeds of indemnity and insurance

- (a) Subject to the Share Scheme becoming Effective and the Merger completing, Auswide Bank undertakes in favour of YCU and each other person who is a YCU Indemnified Party that it will:
  - (i) subject to clause 15.3(e), for a period of 7 years from the Implementation Date, ensure that the constitutions of YCU and each other YCU Group member continue to contain such rules as are contained in those constitutions at the date of this document that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a YCU Group member;
  - (ii) procure that YCU and each YCU Group member complies with any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time ("**Relevant Deed**") and without limiting the foregoing, ensure that directors' and officers' run-off insurance cover for such directors and officers is maintained, subject to clause 15.3(a), for a period of 7 years from the retirement date of each director and officer and without limiting the foregoing, not take any action or make any omission which would prejudice or adversely affect any such directors and officers run-off insurance cover taken out pursuant to and in accordance with YCU's existing policies immediately prior to the date of this agreement (including, without limitation, ensuring that if YCU ceases to exist after the Implementation Date, each YCU Indemnified Party continues to have the benefit of an indemnity from Auswide Bank on terms no less favourable than those contained in the Relevant Deed as at the Effective Date);
  - (iii) not vary or cancel the run-off insurance policy referred to in clause 15.3(c); and
  - (iv) not commit any act or omission that may prejudice any claim by a beneficiary under that run-off insurance policy.
- (b) The undertakings contained in clause 15.3(a) are subject to any Corporations Act restriction and will be read down accordingly.
- (c) Auswide Bank acknowledges that, notwithstanding any other provision of this agreement, YCU will, prior to the Implementation Date, enter into a run-off insurance policy in respect of any YCU Indemnified Party for a 7 year period, such run-off policy to be pursuant to and in accordance with YCU's existing policies immediately prior to the date of this agreement and funded from the Pool referred to in clause 8.3, and that any actions to facilitate that insurance or in connection with it will not be a YCU Prescribed Event or breach of any provision of this agreement.
- (d) YCU receives and holds the benefit of clause 15.3(a), to the extent it relates to the other YCU Indemnified Parties, as trustee for them.
- (e) The undertakings contained in clause 15.3(a) are given until the earlier of the end of the relevant period specified in clause 15.3(a) or the relevant YCU Group member ceasing to be part of the YCU Group.

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## **16 Public announcements**

### **16.1 Public announcement of Scheme**

Immediately after signing this document, YCU and Auswide Bank will issue a joint public announcement of the proposed Merger in the form contained in Annexure A.

### **16.2 Required disclosure**

Where a party is required by law, the Listing Rules or a memorandum of understanding with a Regulatory Authority to make any announcement or make any disclosure relating to a matter the subject of the Merger, it may do so only after it has given the other party as much notice as possible and has consulted to the fullest extent possible in the circumstances with the other party and its legal advisers.

### **16.3 Other announcements**

Subject to clauses 16.1 and 16.2 no party may make any public announcement or disclosure in connection with the Merger (including disclosure to a Regulatory Authority) other than in a form approved by each party (acting reasonably). Each party will use all reasonable endeavours to provide such approval as soon as practicable.

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## **17 Confidential information**

Each party acknowledges and agrees that it continues to be bound by the Confidentiality Agreement in respect of all information received by it from the other party on, before or after the date of this document.

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## **18 Notices and other communications**

### **18.1 Form – all communications**

Unless expressly stated otherwise in this document, all notices, certificates, consents, approvals, waivers and other communications in connection with this document must be:

- (a) in writing, including by email;
- (b) in English or accompanied by a certified translation into English;
- (c) signed by the sender (if an individual) or an Authorised Officer of the sender; and
- (d) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

### **18.2 Form – communications sent by email**

Communications sent by email need not be marked for attention in the way stated in clause 18.1. However, the email must state the first and last name of the sender.

Communications sent by email are taken to be signed by the named sender.



### **18.3 Delivery**

Communications must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details;
- (d) sent by email to the address set out or referred to in the Details; or
- (e) given in any other way permitted by law.

However, if the intended recipient has notified a changed address, fax number or email address, then communications must be to that address, fax number or email address.

### **18.4 When effective**

Communications take effect from the time they are received or taken to be received under clause 18.5 (whichever happens first) unless a later time is specified.

### **18.5 When taken to be received**

Communications are taken to be received:

- (a) if sent by post, three days after posting (or seven days after posting if sent from one country to another); or
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent; or
- (c) if sent by email;
  - (i) when the sender receives an automated message confirming delivery; or
  - (ii) four hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered,

whichever happens first.

### **18.6 Receipt outside business hours**

Despite clauses 18.4 and 18.5 if communications are received or taken to be received under clause 18.5 after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

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## **19 Goods and services tax ("GST")**

### **19.1 Consideration GST exclusive**

Unless expressly stated otherwise in this document, all amounts payable or consideration to be provided under this document are exclusive of GST.

## 19.2 Payment of GST

If GST is payable on any supply made under this document, for which the consideration is not expressly stated to include GST, the recipient agrees to pay to the supplier an additional amount equal to the GST payable at the same time that the consideration for the supply, or the first part of the consideration for the supply (as the case may be), is to be provided. However:

- (a) the recipient need not pay the additional amount until the supplier gives the recipient a Tax Invoice or an adjustment note;
- (b) if an adjustment event arises in respect of the supply, the additional amount must be adjusted to reflect the adjustment event and the recipient or the supplier (as the case may be) must make any payments necessary to reflect the adjustment; and
- (c) this clause 19.2 does not apply to the extent that the GST on the supply is payable by the recipient under Division 84 of the GST Act.

## 19.3 Reimbursements

If a party is required under this document to indemnify another party, or pay or reimburse costs of another party, that party agrees to pay the relevant amount less any Input Tax Credits to which the other party (or to which the representative member for a GST group of which the other party is a member) is entitled.

## 19.4 Calculation of payments

If an amount payable under this document is to be calculated by reference to:

- (a) the price to be received for a taxable supply then, for the purposes of that calculation, the price is reduced to the extent that it includes any amount on account of GST; and
- (b) the price to be paid or provided for an acquisition then, for the purposes of that calculation, the price is reduced to the extent that an Input Tax Credit is available for the acquisition.

## 19.5 Interpretation

For the purposes of this clause 19:

- (a) a term which has a defined meaning in the GST Act has the same meaning when used in this clause 19;
- (b) “**GST Act**” means the *A New Tax System (Goods and Services Tax) Act 1999* (Cth); and
- (c) each periodic or progressive component of a supply to which section 156-5(1) of the GST Act applies will be treated as though it is a separate supply.

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## 20 Miscellaneous

### 20.1 Discretion in exercising rights

A party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this document expressly states otherwise.



## **20.2 Partial exercising of rights**

If a party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

## **20.3 No liability for loss**

A party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this document.

## **20.4 Approvals and consents**

By giving its approval or consent a party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

## **20.5 Conflict of interest**

The parties' rights and remedies under this document may be exercised even if it involves a conflict of duty or a party has a personal interest in their exercise.

## **20.6 Remedies cumulative**

The rights and remedies in this document are in addition to other rights and remedies given by law independently of this document.

## **20.7 Variation and waiver**

A provision of this document or a right created under it, may not be waived or varied except in writing, signed by the party or parties to be bound.

## **20.8 No merger**

The warranties, undertakings and indemnities in this document do not merge on the Implementation Date.

## **20.9 Indemnities**

The indemnities in this document are continuing obligations, independent from the other obligations of the parties under this document and continue after this document ends. It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity under this document.

## **20.10 Enforceability**

For the purpose of this document:

- (a) YCU is taken to be acting as agent and trustee on behalf of and for the benefit of all YCU Indemnified Parties; and
- (b) Auswide Bank is taken to be acting as agent and trustee on behalf of and for the benefit of all Auswide Bank Indemnified Parties,

and all of those persons are to this extent taken to be parties to this document.

## **20.11 Further steps**

Each party agrees, at its own expense, to do anything the other party asks (such as obtaining consents, signing and producing documents and getting documents completed and signed):

- (a) to bind the party and any other person intended to be bound under this document; or
- (b) to show whether the party is complying with this document.

#### **20.12 Construction**

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this document or any part of it.

#### **20.13 Costs**

Subject to clause 11 the parties agree to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this document and other related documentation except for stamp duty.

#### **20.14 Stamp duty**

Auswide Bank agrees to pay all stamp duty (including fines and penalties) payable and assessed by legislation or by any revenue office on this document or the Scheme and in respect of a transaction evidenced by this document or the Scheme.

#### **20.15 Entire agreement**

Except for the Confidentiality Agreement, this document constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.

#### **20.16 Assignment**

A party may not assign or otherwise deal with its rights under this document or allow any interest in them to arise or be varied in each case, without the consent of the other party.

#### **20.17 No representation or reliance**

Each party acknowledges that:

- (a) no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this document, except for representations or inducements expressly set out in this document;
- (b) it does not enter into this document 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 document; and
- (c) paragraphs (a) and (b) above do not prejudice any rights a party may have in relation to information which had been filed by the other party with ASIC or ASX.

#### **20.18 Governing law**

This document is governed by the law in force in the place specified in the Details. Each party submits to the non-exclusive jurisdiction of the courts of that place.

#### **20.19 Counterparts**

This document may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

**EXECUTED** as an agreement



# Merger Implementation Agreement

## Schedule 1 Auswide Bank Prescribed Events

1. **(Conversion)** Auswide Bank converts all or any of its shares into a larger or smaller number of shares.
2. **(Reduction of share capital)** Auswide Bank or any of its Subsidiaries resolves to reduce its share capital in any way or reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its shares.
3. **(Buy-back)** Auswide Bank or any of its Subsidiaries:
  - (a) enters into a buy-back agreement; or
  - (b) resolves to approve the terms of a buy-back agreement under the Corporations Act.
4. **(Distribution)** Auswide Bank makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie) except for any Permitted Dividend.
5. **(Issuing or granting shares or options)** Auswide Bank or any of its Subsidiaries:
  - (a) issues shares;
  - (b) grants an option over its shares; or
  - (c) agrees to make such an issue or grant such an option,in each case to a person outside the Auswide Bank Group other than:
  - (d) in the ordinary course for capital management or prudential requirements provided Auswide Bank shareholder approval is not required;
  - (e) if approved by Auswide Bank shareholders;
  - (f) in connection with Auswide Bank's dividend reinvestment plan; or
  - (g) as disclosed by Auswide Bank to YCU before the date of this agreement.
6. **(Securities or other instruments)** Auswide Bank or any of its Subsidiaries:
  - (a) issues securities or other instruments convertible into shares or debt securities; or
  - (b) agrees to issue securities or other instruments convertible into shares or debt securities,in each case to a person outside the Auswide Bank Group other than:
  - (c) in the ordinary course for capital management or prudential requirements provided Auswide Bank shareholder approval is not required;
  - (d) if approved by Auswide Bank shareholders;
  - (e) in connection with Auswide Bank's dividend reinvestment plan; or

- (f) as disclosed by Auswide Bank to YCU before the date of this agreement.
7. **(Constitution)** Auswide Bank adopts a new constitution or modifies or repeals its existing constitution or a provision of it.
  8. **(Disposals)** Auswide Bank or any of its Subsidiaries disposes, or agrees to dispose of the whole or a substantial part of the Auswide Bank Group's business or property.
  9. **(Acquisitions, disposals or tenders)** Auswide Bank or any of its Subsidiaries:
    - (a) acquires or disposes of;
    - (b) agrees to acquire or dispose of;
    - (c) offers, proposes, announces a bid or tenders for,  
any business, assets, entity or undertaking the value of which exceeds \$20,000,000.
  10. **(Encumbrances)** other than in the ordinary course of business and consistent with past practice, Auswide Bank or any of its Subsidiaries creates, or agrees to create, any Encumbrance over the whole or a substantial part of its business or property.
  11. **(Employment arrangements)** other than in the ordinary course of business and consistent with past practice Auswide Bank or any of its Subsidiaries:
    - (a) increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or employees;
    - (b) accelerates the rights of any of its directors or employees to compensation or benefits or any kind (including under any Auswide Bank executive or employee share plans); or
    - (c) pays any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract in place at the date of this document).
  12. **(Commitments and settlements)** other than in the ordinary course of business and consistent with past practice, Auswide Bank or any of its Subsidiaries:
    - (a) enters into or agrees to enter into any Material Contract; or
    - (b) terminates or amends in a material manner any Material Contract;
    - (c) waives any material third party default; or
    - (d) accepts as a settlement or compromise of a material matter (relating to an amount in excess of) less than the full compensation due to Auswide Bank or a Subsidiary of Auswide Bank.
  13. **(Insolvency)** Auswide Bank or any of its Related Bodies Corporate becomes Insolvent.



# Merger Implementation Agreement

## Schedule 2 YCU Prescribed Events

1. **(Conversion)** YCU converts all or any of its shares into a larger or smaller number of shares.
2. **(Reduction of share capital)** YCU or any of its Subsidiaries resolves to reduce its share capital in any way or reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its shares.
3. **(Buy-back)** YCU or any of its Subsidiaries:
  - (a) enters into a buy-back agreement; or
  - (b) resolves to approve the terms of a buy-back agreement under the Corporations Act.
4. **(Distribution)** YCU makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).
5. **(Issuing or granting shares or options)** YCU or any of its Subsidiaries:
  - (a) issues shares;
  - (b) grants an option over its shares; or
  - (c) agrees to make such an issue or grant such an option,in each case to a person outside YCU Group other than as disclosed by YCU to Auswide Bank before the date of this agreement.
6. **(Securities or other instruments)** YCU or any of its Subsidiaries:
  - (a) issues securities or other instruments convertible into shares or debt securities; or
  - (b) agrees to issue securities or other instruments convertible into shares or debt securities,in each case to a person outside the YCU Group other than as disclosed by YCU to Auswide Bank before the date of this agreement.
7. **(Constitution)** YCU adopts a new constitution or modifies or repeals its constitution or a provision of it, other than in respect of any amendments required because of the Demutualisation, or the Scheme or as otherwise approved by Auswide Bank.
8. **(Disposals)** YCU or any of its Subsidiaries disposes, or agrees to dispose of the whole or a substantial part of the YCU Group's business or property.
9. **(Acquisitions, disposals or tenders)** YCU or any of its Subsidiaries:
  - (a) acquires or disposes of;
  - (b) agrees to acquire or dispose of;

- (c) offers, proposes, announces a bid or tenders for,  
  
any business, assets, entity or undertaking the value of which exceeds \$2,000,000.
- 10. **(Encumbrances)** other than in the ordinary course of business and consistent with past practice, YCU or any of its Subsidiaries creates, or agrees to create, any Encumbrance over the whole or a substantial part of its business or property.
- 11. **(Employment arrangements)** other than in the ordinary course of business and consistent with past practice or otherwise as permitted in accordance with clause 8.3 of this document, YCU or any of its Subsidiaries:
  - (a) increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or employees;
  - (b) accelerates the rights of any of its directors or employees to compensation or benefits or any kind (including under any YCU executive or employee share plans); or
  - (c) pays any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract in place at the date of this document).
- 12. **(Commitments and settlements)** YCU or any of its Subsidiaries:
  - (a) enters into or agrees to enter into any Material Contract;
  - (b) terminates or amends in a material manner any Material Contract;
  - (c) waives any material third party default; or
  - (d) accepts as a settlement or compromise of a material matter (relating to an amount in excess of) less than the full compensation due to YCU or a Subsidiary of YCU.
- 13. **(Insolvency)** YCU or any of its Related Bodies Corporate becomes Insolvent.

# Merger Implementation Agreement

## Schedule 3 Conditions Precedent (clause 3.1)

Condition	Party entitled to benefit
<p><b>1. Regulatory Approvals</b></p> <p>Before 8.00am on the Second Court Date:</p> <p>(a) <b>(ASIC and ASX)</b> ASIC and ASX have issued or provided such consents or approvals or have done such other acts which the parties agree are reasonably necessary or desirable to implement the Merger;</p>	YCU
<p>(b) <b>(Competition and Consumer Act 2010)</b> either:</p> <p>(i) the ACCC has not commenced or threatened to commence proceedings to restrain the proposed Merger; or</p> <p>(ii) the ACCC has advised Auswide Bank in writing that:</p> <p>(A) it does not intend to oppose the proposed Merger; or</p> <p>(B) it does not intend to oppose the proposed Merger, subject to undertakings and those undertakings being acceptable to Auswide Bank and YCU;</p>	Both
<p>(c) <b>(Treasurer approval under FSSA and Banking Act):</b></p> <p>(i) under the FSSA, the Treasurer has approved Auswide Bank holding a "stake" (as that term is defined in the FSSA) in YCU of 100%, and if such approval is subject to conditions, those conditions are acceptable to Auswide Bank and YCU; and</p>	Cannot be waived



Condition	Party entitled to benefit
(ii) under the Banking Act, the Treasurer has given prior written consent to YCU in relation to the Scheme, and if such consent is subject to conditions those conditions are acceptable to YCU and Auswide Bank;	
(d) <b>(Regulatory Authority)</b> all other approvals of a Regulatory Authority which Auswide Bank and YCU agree are necessary or desirable to implement the Merger are obtained; and	Both
(e) <b>(Court orders)</b> no Court or Regulatory Authority has issued or taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or taken any action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Merger and no such order, decree, ruling, other action or refusal is in effect.	Both
<b>2. Demutualisation</b>  YCU Members approve the Demutualisation by the requisite majority in accordance with the YCU Constitution and the Corporations Act.	Cannot be waived
<b>3. Share Scheme approval</b>  YCU Members approve the Share Scheme by the requisite majorities in accordance with the Corporations Act.	Cannot be waived
<b>4. Court approval</b>  The Court approves the Share Scheme in accordance with section 411(4)(b) of the Corporations Act.	Cannot be waived
<b>5. Third party consents</b>  All other approvals of a third party which the Auswide Bank and YCU agree are necessary or desirable to implement the Merger are obtained.	Both
<b>6. Independent Expert</b>  The Independent Expert issues a report which concludes that the Share Scheme and the Demutualisation are each in the best interests of Scheme Participants and YCU Members (as applicable) before the date on which the Scheme	YCU

Condition	Party entitled to benefit
Booklet is lodged with ASIC.	
<b>7. No YCU Prescribed Event</b>  No YCU Prescribed Event occurs between the date of this document and 8.00am on the Second Court Date.	Auswide Bank
<b>8. No YCU Material Adverse Change</b>  No YCU Material Adverse Change occurs or becomes apparent between the date of this document and 8.00am on the Second Court Date.	Auswide Bank
<b>9. No Auswide Bank Prescribed Event</b>  No Auswide Bank Prescribed Event occurs between the date of this document and 8.00am on the Second Court Date.	YCU
<b>10. No Auswide Bank Material Adverse Change</b>  No Auswide Bank Material Adverse Change occurs or becomes apparent between the date of this document and 8.00am on the Second Court Date.	YCU
<b>11. Quotation</b>  The New Auswide Bank Shares to be issued pursuant to the Scheme have, before 8.00am on the Second Court Date, been approved for official quotation on the ASX.	YCU
<b>12. No termination</b>  This document has not been terminated in accordance with clause 14.	Both
<b>13. Deed Poll</b>  Between the date of this document and the date of sending the Scheme Booklet, Auswide Bank signs and delivers the Deed Poll.	Both
<b>14. YCU representations and warranties</b>  The representations and warranties given by YCU under clause 12.1 of this document are true and correct in all material respects and not misleading or deceptive in any material respect as at the date of this document and as at 8.00am on the Second Court Date (except to the extent a relevant matter has been fairly disclosed to the Auswide Bank Group or its Representatives as contemplated by this document).	Auswide Bank



Condition	Party entitled to benefit
<p><b>15. Auswide Bank representations and warranties</b></p> <p>The representations and warranties given by Auswide Bank under clause 12.4 of this document are true and correct in all material respects and not misleading or deceptive in any material respect as at the date of this document and as at 8.00am on the Second Court Date (except to the extent a relevant matter has been fairly disclosed to the YCU Group or its Representatives as contemplated by this document).</p>	YCU
<p><b>16. Change of control</b></p> <p>No person exercises or purports to exercise, or states an intention to exercise, any rights under any provision of any agreement or other instrument to which YCU or any Subsidiary of YCU is a party, or by or to which YCU or any Subsidiary of YCU or any of its assets may be bound or be subject, which results, or could result, to an extent which is material in the context of YCU or YCU and its Subsidiaries taken as a whole, in:</p> <ul style="list-style-type: none"> <li>(a) any monies borrowed by YCU or any Subsidiary of YCU being or becoming repayable or being capable of being declared repayable immediately or earlier than the repayment date stated in such agreement or other instrument;</li> <li>(b) any such agreement or other instrument being terminated or modified or any action being taken or arising thereunder;</li> <li>(c) the interest of YCU or any subsidiary of YCU in any firm, joint venture, trust, corporation or other entity (or any arrangements relating to such interest) being terminated or modified; or</li> <li>(d) the business of YCU or any Subsidiary of YCU with any other person being adversely affected,</li> </ul> <p>as a result of the acquisition of YCU Shares by Auswide Bank.</p>	Auswide Bank
<p><b>17. Due diligence – YCU</b></p> <p>Between the date of this document and 8.00am on the Second Court Date, no material YCU Information becomes or is discovered to be misleading or deceptive, including by omission, in any material respect.</p>	Auswide Bank

Condition	Party entitled to benefit
<p><b>18. Due diligence – Auswide Bank</b></p> <p>Between the date of this document and 8.00am on the Second Court Date, no material Auswide Bank Information becomes or is discovered to be misleading or deceptive, including by omission, in any material respect.</p>	YCU

# Merger Implementation Agreement

## Schedule 4 Timetable (clause 5.1)

Event	Target date
Lodge Scheme Booklet with ASIC and ASX	22 February 2016
Application in respect of the Court hearing to be held on the First Court Date, filed with the Court, served on ASIC	22 February 2016
First Court Date	10 March 2016
Printing and despatch of Scheme Booklet	11 March 2016
Scheme Meeting and Demutualisation Meeting held	15 April 2016
Second Court Date	27 April 2016
Lodge Court order with ASIC (Effective Date)	28 April 2016
Record Date (5.00pm on the date which is the Second Court Date plus 5 Business Days or such other date as YCU and Auswide Bank agree)	6 May 2016
Implementation Date	13 May 2016



# Merger Implementation Agreement

## Schedule 5 YCU's Obligations (clause 6.1)

1. **(YCU Information)** ensure that the YCU Information included in the Scheme Booklet complies with applicable law, the Listing Rules and applicable ASIC Regulatory Guides.
2. **(Further YCU Information)** provide to Auswide Bank, Scheme Participants and YCU Members (as applicable) such further or new YCU Information as may arise after the Scheme Booklet has been sent until the date of the Scheme Meeting as may be necessary to ensure that the YCU Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission).
3. **(Independent Expert)** promptly appoint the Independent Expert and provide any assistance and information reasonably requested by the Independent Expert to enable it to prepare its report for the Scheme Booklet.
4. **(Provide a copy of the report)** on receipt, provide Auswide Bank with a copy of any draft or final report received from the Independent Expert.
5. **(YCU Constitution)** prepare the required amendments to the YCU Constitution (or proposed replacement YCU Constitution) in a form approved by Auswide Bank.
6. **(Directors' recommendation)** state in the Scheme Booklet and the public announcement contemplated by clause 16.1 (on the basis of statements made to YCU by each member of the YCU Board, but provided that in the case of the Scheme Booklet, no director has changed their recommendation or intentions) that each of the directors of the YCU Board recommends to Scheme Participants and YCU Members (as applicable) that the Demutualisation and Scheme be approved in the absence of a Superior Proposal relating to a Competing Transaction received by YCU, unless:
  - (a) the Independent Expert opines that the Demutualisation or the Scheme is not in the best interest of YCU Members; or
  - (b) in relation to matters occurring after the date of this document, the YCU Board obtains written advice from Queen's Counsel or Senior Counsel that compliance or continued compliance with this clause would involve a breach of their fiduciary duties or would be unlawful on any other basis.
7. **(Directors' voting)** use its reasonable endeavours to procure that:
  - (a) each member of the YCU Board votes any YCU Shares in which they have a Relevant Interest in favour of the Demutualisation and Scheme and any other resolution submitted to YCU Members for their approval in connection with the Demutualisation and Scheme; and
  - (b) each member of the YCU Board does not change that voting intention,unless a Superior Proposal arises or the Independent Expert opines that the Demutualisation or Scheme is not in the best interests of YCU Members.
8. **(Registry details)** subject to the terms of the Scheme:

- (a) provide all necessary information about the Scheme Participants and YCU Members (as applicable) to Auswide Bank which Auswide Bank requires in order to assist it to solicit votes at the Scheme Meeting and facilitate the issue by Auswide Bank of New Auswide Bank Shares as consideration for the Share Scheme; and
  - (b) provide all necessary directions to the Registry to promptly provide any information that Auswide Bank reasonably requests in relation to the Register, for the purpose referred to in clause 8(a) of this Schedule 5, and, where requested by Auswide Bank, YCU must procure such information to be provided to Auswide Bank in such electronic form as is reasonably requested by Auswide Bank.
- 9. **(Section 411(17)(b) statement)** apply to ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme.
- 10. **(Court application)** apply to the Court for an order under section 411(1) of the Corporations Act directing YCU to convene the Scheme Meeting.
- 11. **(Registration with ASIC)** request ASIC to register the explanatory statement included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act and to register the disclosure statement included in the Scheme Booklet in relation to the Demutualisation in accordance with clause 32 of Schedule 4 of the Corporations Act.
- 12. **(Demutualisation)** do all things necessary and required by the Corporations Act or Auswide Bank (including to consult with Auswide Bank in respect of the Demutualisation) to give effect to the Demutualisation, and to disclose this information to YCU Members by way of incorporating it into the Scheme Booklet.
- 13. **(Send Scheme Booklet)** send the Scheme Booklet to YCU Members as soon as practicable after the Court orders YCU to convene the Scheme Meeting.
- 14. **(Scheme Meeting)** convene the Scheme Meeting in accordance with any such orders made by the Court and seek the approval of YCU Members for the Demutualisation and if this is approved, the Scheme and, for this purpose, the directors of YCU must participate in reasonable efforts to promote the merits of the Demutualisation and the Scheme, including meeting with key Scheme Participants and YCU Members (as applicable) at the reasonable request of Auswide Bank.
- 15. **(Court order)** apply to the Court for an order approving the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act.
- 16. **(Lodge)** lodge with ASIC an office copy of any such Court order approving the Scheme as approved by the YCU Members at the Scheme Meeting in accordance with section 411(10) of the Corporations Act.
- 17. **(Registration)** if the Scheme becomes Effective and subject to Auswide Bank having issued the Share Scheme Consideration to Scheme Participants, register all transfers of YCU Shares to Auswide Bank on the Implementation Date.
- 18. **(Other steps)** do all other things necessary to give effect to the Demutualisation, the Scheme, this document and the orders of the Court approving the Scheme.



# Merger Implementation Agreement

## Schedule 6 Auswide Bank's Obligations (clause 6.2)

1. **(Auswide Bank Information)** provide to YCU for inclusion in the Scheme Booklet such Auswide Bank Information as YCU reasonably requires to prepare and issue the Scheme Booklet (including any information required under the Corporations Act, Corporations Regulations, or ASIC Regulatory Guide 60).
2. **(Further Auswide Bank Information)** provide to YCU such further or new Auswide Bank Information as may arise after the Scheme Booklet has been sent until the date of the Scheme Meeting as may be necessary to ensure that the Auswide Bank Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission).
3. **(Demutualisation)** do all things necessary and provide all necessary support to assist YCU in preparing for and giving effect to the Demutualisation.
4. **(Independent Expert information)** provide any assistance or information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's report to be included in the Scheme Booklet.
5. **(Representation)** procure that it is represented by counsel at the court hearings convened for the purposes of section 411(4)(b) of the Corporations Act, at which, through its counsel, Auswide Bank must undertake (if requested by the court) to do all such things and take all such steps within its power as may be necessary in order to ensure the fulfilment of its obligations under this document and the Scheme.
6. **(Deed Poll)** prior to the Scheme Booklet being sent, sign and deliver the Deed Poll.
7. **(Accuracy of Auswide Bank Information)** confirm in writing to YCU the accuracy of the Auswide Bank Information in the Scheme Booklet (other than any information regarding the YCU Group contained in, or used in the preparation of, the information regarding the merged entity following implementation of the Scheme).
8. **(Share Scheme Consideration)** if the Scheme becomes Effective, provide the Share Scheme Consideration in accordance with the terms of the Scheme and the Deed Poll.
9. **(Compliance with laws)** do everything reasonably within its power to ensure that the Scheme is effected in accordance with all applicable laws and regulations.



# Merger Implementation Agreement

## Schedule 7 YCU's representations and warranties (clause 12.1)

1. **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
2. **(Execution)** the execution and delivery of this document has been properly authorised by all necessary corporate action of YCU.
3. **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this document and to consummate and perform or cause to be performed its obligations under this document in accordance with its terms.
4. **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this document constitutes legal, valid and binding obligations on it.
5. **(YCU Information)** the YCU Information provided in accordance with this document and included in the Scheme Booklet, as at the date of the Scheme Booklet, will comply in all material respects with the requirements of the Corporations Act, and all relevant regulatory guides, practice notes and other guidelines and requirements of ASIC.
6. **(Reliance)** the YCU Information contained in the Scheme Booklet will be included in good faith and on the understanding that Auswide Bank and its directors will rely on that information for the purposes of considering and approving the Auswide Bank Information in the Scheme Booklet before it is despatched, approving the entry into the Deed Poll and implementing the Scheme.
7. **(Further information )** YCU will, as a continuing obligation, provide to Auswide Bank all such further or new information which may arise after the date of the Scheme Booklet until the date of the Scheme Meeting which may be necessary to ensure that there would be no breach of clause 7.1(b) if it applied as at the date upon which that information arose.
8. **(Disclosure)** YCU has provided to Auswide Bank all information actually known to it (having made reasonable enquiries) as at the date of this document regarding matters affecting or relating to it:
  - (a) which is not already in the public domain; and
  - (b) the disclosure of which might reasonably be expected to have a YCU Material Adverse Change and result in Auswide Bank not entering into this document at all or only entering into this document on materially different terms.
9. **(Complete and accurate)** all the information provided to Auswide Bank by YCU in connection with this document, whether under due diligence or not, has been prepared and provided in good faith and has been collated with all reasonable care and skill.
10. **(Reasonable assumptions)** to the extent information provided to Auswide Bank, whether under due diligence or not, in connection with this document, includes forward looking statements, those forward looking statements are based on

assumptions which YCU believes, as at the date the information was provided and continues to believe, to be reasonable.

11. **(Opinions)** any statement of opinion or belief contained in the YCU Information is honestly held and there are reasonable grounds for holding the opinion or belief.
12. **(Provision of information to Independent Expert)** all information provided by or on behalf of YCU to the Independent Expert to enable the Independent Expert's report to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's report.
13. **(Compliance)** it and its Subsidiaries have complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over them and have all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted.
14. **(Securities)** YCU's issued member shares as at the date of this document are 4,094 YCU Shares and it has not:
  - (a) entered into any agreement or other arrangement (whether conditional or unconditional) which remains current to issue any YCU Shares; or
  - (b) issued or agreed to issue any other securities or instruments which are still outstanding and which may convert into YCU Shares.
15. **(Solvency)** it is not Insolvent.
16. **(Employment contracts)** YCU has not made any material amendments to any contracts of employment with any director or executive other as disclosed by YCU to Auswide Bank as at the date of this agreement.



# Merger Implementation Agreement

## Schedule 8 Auswide Bank's representations and warranties (clause 12.4)

1. **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
2. **(Execution)** the execution and delivery of this document has been properly authorised by all necessary corporate action of Auswide Bank.
3. **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this document and to consummate and perform or cause to be performed its obligations under this document in accordance with its terms.
4. **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this document constitutes legal, valid and binding obligations on it.
5. **(Reliance)** the Auswide Bank Information provided to YCU for inclusion in the Scheme Booklet will be provided in good faith and on the understanding that YCU and its directors will rely on that information for the purposes of preparing the Scheme Booklet and proposing and implementing the Share Scheme in accordance with the Corporations Act.
6. **(Auswide Bank Information)** the Auswide Bank Information provided in accordance with this document and included in the Scheme Booklet, as at the date of the Scheme Booklet, will comply in all material respects with the requirements of the Corporations Act, the Listing Rules and all relevant regulatory guides, practice notes and other guidelines and requirements of ASIC.
7. **(Further information)** Auswide Bank will, as a continuing obligation, provide to YCU all such further or new information which may arise after the date of the Scheme Booklet until the date of the Scheme Meeting which may be necessary to ensure that there would be no breach of clause 7.1(b) if it applied as at the date on which that information arose.
8. **(Disclosure)** Auswide Bank has provided to YCU all information actually known to it (having made reasonable enquiries) as at the date of this document regarding matters affecting or relating to it:
  - (a) which is not already in the public domain; and
  - (b) the disclosure of which might reasonably be expected to have an Auswide Bank Material Adverse Change and resulted in YCU not entering into this document at all or only entering into this document on materially different terms.
9. **(Complete and accurate)** all the information provided to YCU by Auswide Bank in connection with this document, whether under due diligence or not, has been prepared and provided in good faith and has been collated with all reasonable care and skill.
10. **(Reasonable assumptions)** to the extent information provided to YCU, whether under due diligence or not, in connection with this document, includes forward looking statements, those forward looking statements are based on assumptions

which Auswide Bank believes, as at the date the information was provided and continues to believe, to be reasonable.

11. **(Compliance)** it and its Subsidiaries have complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over them and have all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted.
12. **(Opinions)** any statement of opinion or belief contained in the Auswide Bank Information is honestly held and there are reasonable grounds for holding the opinion or belief.
13. **(Provision of information to Independent Expert)** all information provided by or on behalf of Auswide Bank to the Independent Expert to enable the Independent Expert's report to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's report.
14. **(Securities)** Auswide Bank's issued securities as at the date of this document are 37,140,133 Auswide Bank Shares and, other than has been publicly disclosed prior to the date of this document, it has not:
  - (a) entered into any agreement or other arrangement (whether conditional or unconditional) which remains current to issue any Auswide Bank Shares; or
  - (b) issued or agreed to issue any other securities or instruments which are still outstanding and which may convert into Auswide Bank Shares.
15. **(Auswide Bank shares)** the New Auswide Bank Shares will be duly authorised and validly issued, fully paid and non-assessable, free of all security interests and third party rights and will rank equally with all other Auswide Bank Shares then on issue.
16. **(Solvency)** it is not Insolvent.





# Merger Implementation Agreement

## Signing page

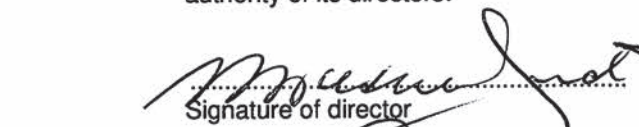
DATED: 22 December 2015

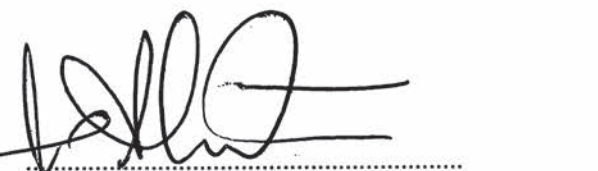
EXECUTED by AUSWIDE BANK LTD  
in accordance with section 127(1) of  
the Corporations Act 2001 (Cth) by  
authority of its directors:

  
Signature of director  
JOHN HUMPHREY  
Name of director (block letters)

  
Signature of director/company  
secretary\*  
\*delete whichever is not applicable  
MARTIN BARRETT  
Name of director/company secretary\*  
(block letters)  
\*delete whichever is not applicable

EXECUTED by QUEENSLAND  
PROFESSIONAL CREDIT UNION LTD  
in accordance with section 127(1) of  
the Corporations Act 2001 (Cth) by  
authority of its directors:

  
Signature of director  
GORDON KENT RUTHERFORD  
Name of director (block letters)

  
Signature of director/company  
secretary\*  
\*delete whichever is not applicable  
JOHN CHARLES STRACHAN  
Name of director/company secretary\*  
(block letters)  
\*delete whichever is not applicable

# **Merger Implementation Agreement**

## **Annexure A    Announcement (clause 16.1)**

(separately attached)



22 December 2015

## **Joint Media Announcement**

### **YCU – YOUR CREDIT UNION AND AUSWIDE BANK ANNOUNCE MERGER**

#### **Agreed Merger**

Queensland Professional Credit Union Ltd (trading as YCU - Your Credit Union (YCU)) and Auswide Bank Ltd (Auswide Bank (ASX: ABA)) today announced that they have entered into a Merger Implementation Agreement<sup>1</sup> pursuant to which the two companies propose to merge.

The Boards of both companies have unanimously endorsed the proposed merger as it will bring together two highly compatible financial institutions. Both YCU and Auswide Bank:

- were founded at the same time in the mid-1960s;
- have strong roots in community banking;
- view customer service and satisfaction as paramount;
- ascribe considerable value to their employees; and
- are headquartered in Queensland.

Should the merger be successful, the members and customers of YCU and Auswide Bank will enjoy:

- ✓ high levels of engagement and service;
- ✓ an extended branch network throughout Queensland;
- ✓ a wide range of financial products and services;
- ✓ an expanded technological and digital capability; and
- ✓ the financial strength and enhanced capability of a larger banking organisation.

YCU's Chairman, Gordon Rutherford said "the proposed merger is a tremendous combination of two companies with much in common. Auswide Bank is an outstanding, culturally-compatible, merger partner and the YCU directors are very pleased to recommend the merger proposal to YCU members".

Auswide Bank's Managing Director, Martin Barrett said "this is not a big bank takeover but a merger of two similar organisations to create an even more compelling banking proposition for our collective stakeholders. Auswide Bank customers will now have access to a conveniently located branch in the Brisbane CBD which will also assist our growth in South East Queensland. YCU members will have access to Auswide Bank's broad range of banking capabilities and geographic footprint".

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<sup>1</sup> Provided as an attachment to this announcement.





## The Proposal

Under the terms of the merger proposal, to be implemented via a scheme of arrangement, each YCU member<sup>2</sup> will receive for their YCU member share:

- \$4,055 in cash; and
- 696 Auswide Bank shares.

Based on an Auswide Bank share price of \$5.40,<sup>3</sup> the implied value of the scrip component of the proposed offer is \$3,758 per YCU member share and the implied value of the total proposed offer per YCU member is \$7,813. The total value of the proposed offer to YCU members is approximately \$32 million.

## Benefits to YCU Member Shareholders

- Immediate access to a broader range of banking products and services via an expanded distribution network;
- Access to familiar faces as, to the extent possible, Auswide Bank intends to retain YCU employees;
- No changes to the existing price positioning enjoyed by YCU members, other than in accordance with the loan agreements in place, in response to changes in the official interest rate by the Reserve Bank of Australia or to changes actually requested by individual members;
- Valuable merger consideration valued at \$7,813 per YCU member comprising 696 Auswide Bank shares and \$4,055 cash;
- The opportunity to retain an ownership interest in the combined group and participate in its ongoing success, including the opportunity to receive fully-franked dividends; and
- Access to potential capital gains tax roll-over relief in relation to the scrip component of the proposal consideration<sup>4</sup>.

Mr Rutherford said “we consider this merger with Auswide Bank to be an outstanding opportunity for YCU members. Apart from the compelling \$7,813 in consideration, our members will continue to enjoy some of the best aspects of the YCU culture and service proposition.”

“The Board of YCU unanimously recommends that all YCU members support the proposal, subject to an independent expert determining that the merger is in the best interests of YCU members and in the absence of a superior proposal,” he said.

Every member of the YCU Board intends to vote in favour of the proposed merger in the absence of a superior proposal.

<sup>2</sup> A person must be a YCU member as at 5.00pm on Monday 21 December 2015.

<sup>3</sup> Closing share price on 18 December 2015.

<sup>4</sup> Subject to final tax advice.





### **Benefits to Auswide Bank Customers and Shareholders**

- Significantly enhanced presence in South East Queensland including a CBD Brisbane branch;
- Expected to be cash earnings per share accretive on a normalised basis in 2017;
- Larger scale and greater geographic diversification of earnings;
- Future cost synergy benefits anticipated from the consolidation of technology platforms and back office functions; and
- Potential revenue synergies through cross-selling opportunities of Auswide Bank's existing capabilities to YCU's customer base, as well as leveraging YCU's branch to win new customers.

Mr Barrett said "consistent with our corporate strategy, this merger will provide Auswide Bank with an excellent platform from which to build our presence in South East Queensland. Auswide Bank is very pleased the YCU Board has unanimously endorsed the strategic rationale for the merger."

### **Transaction Process**

YCU and Auswide Bank have entered into a Merger Implementation Agreement under which they have agreed to proceed with the merger proposal by way of scheme of arrangement between YCU and its members. A copy of the Merger Implementation Agreement is attached to this announcement.

The proposal is subject to the approval by YCU members, regulatory and court approvals, the independent expert concluding that the scheme is in the best interests of YCU members and other conditions customary for a public transaction of this nature (including there being no material adverse change or prescribed events in respect of either party). Because of its corporate structure, the amendment of YCU's constitution by its members is also a condition precedent to the merger.

The Merger Implementation Agreement also includes customary deal protections, including no-shop, no-talk, matching right and break fee provisions.

Indicatively, YCU members should receive relevant documentation, including the report of an independent expert, in March 2016 with the scheme of arrangement expected to be implemented in May 2016.

### **Information**

For more information, please contact:

Mr Stephen Barnard  
Managing Director  
YCU – Your Credit Union  
Phone: 07 3020-5423  
Email: [sbarnard@ycu.com.au](mailto:sbarnard@ycu.com.au)

Mr Martin Barrett  
Managing Director  
Auswide Bank  
Phone: 07 4150-4001  
Email: [mbarrett@auswidebank.com.au](mailto:mbarrett@auswidebank.com.au)

Further information may be found on the YCU website at [www.ycu.com.au](http://www.ycu.com.au) and on the Auswide Bank corporate website at [www.auswidebankltd.com.au](http://www.auswidebankltd.com.au).



### **About YCU – Your Credit Union**

[www.ycu.com.au](http://www.ycu.com.au)

Based in Brisbane, YCU is a mutual financial institution that has been providing professional financial services since 1967. YCU is incorporated under the Banking Act (1959) and, as an Authorised Deposit-taking Institution its operations are overseen by the Australian Prudential Regulation Authority.

YCU currently operates one branch in Brisbane located at 100 Eagle Street. The credit union currently employs 11 staff.

YCU offers members a range of products and services including home loans, car loans, personal loans, transaction accounts, savings accounts and term deposits. YCU members have access to over 4,500 Rediteller® badged ATMs (operated by credit unions, NAB and Bank of Queensland), Westpac ATMs and St George ATMs.

### **About Auswide Bank Ltd**

[www.auswidebank.com.au](http://www.auswidebank.com.au)

Auswide Bank became Australia's tenth and Queensland's third Australian owned bank, listed and trading on the ASX, on April 1, 2015. (ASX: ABA) Auswide Bank had total assets of \$2.7 billion at 30 June 2015 and, as at 18 December 2015, had a market capitalisation of \$201 million.

Headquartered in Bundaberg in Central Queensland, the company had operated as a building society since 1966 and was principally the amalgamation of building societies based in Bundaberg, Maryborough, Gympie & northern Sunshine Coast, Gladstone and Mackay.

Auswide Bank operates a network of 26 retail branches from Morayfield to Cairns and mortgage broker service centres in Brisbane and the Gold Coast.

Auswide Bank has an Australian Credit Licence and an Australian Financial Services Licence issued by ASIC and is an Authorised Deposit-taking Institution prudentially supervised by the Australian Prudential Regulation Authority.

Auswide Bank offers Australians an extensive range of personal and business banking products & services issued directly or in partnership with leading service providers via an omni-channel distribution strategy which includes branches, strategic relationships and online & digital channels. Products include consumer and business finance; deposits and banking services; insurance and foreign exchange.

# Merger Implementation Agreement

## Annexure B Share Scheme

PLEASE REFER TO ATTACHMENT IV OF THE SCHEME BOOKLET

# **Merger Implementation Agreement**

## **Annexure C Deed Poll**

PLEASE REFER TO ATTACHMENT III OF THE SCHEME BOOKLET

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### **III: Deed Poll**



## Deed Poll

Dated *26 February 2016*

Given by Auswide Bank Ltd (ACN 087 652 060) ("**Auswide Bank**")

In favour of each registered holder of fully paid shares in Queensland Professional Credit Union Ltd (ACN 087 651 045) trading as Your Credit Union ("**YCU**") as at 5.00pm on the Record Date ("**Scheme Participants**")

**King & Wood Mallesons**  
Level 33  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000  
Australia  
T +61 7 3244 8000  
F +61 7 3244 8999  
DX 311 Brisbane  
[www.kwm.com](http://www.kwm.com)

# Deed Poll

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# Deed Poll

## Details

<b>Parties</b>	<b>Auswide Bank</b>	
<b>Auswide Bank</b>	<b>Name</b>	<b>Auswide Bank Ltd</b>
	ACN	087 652 060
	Address	Level 5, 16-20 Barolin Street Bundaberg QLD 4670
	Telephone	+61 7 4150 4000
	Email	mbarrett@auswidebank.com.au
	Fax	+61 7 4152 3566
	Attention	Managing Director
<b>In favour of</b>	Each registered holder of YCU Shares as at 5.00pm on the Record Date.	
<b>Recitals</b>	<b>A</b>	The directors of YCU have resolved that YCU should propose the Scheme.
	<b>B</b>	The effect of the Scheme will be that all Scheme Shares will be transferred to Auswide Bank.
	<b>C</b>	YCU and Auswide Bank have entered into the Merger Implementation Agreement.
	<b>D</b>	In the Merger Implementation Agreement, Auswide Bank agreed (amongst other things) to provide the Scheme Consideration to Scheme Participants, subject to the satisfaction of certain conditions.
	<b>E</b>	Auswide Bank is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform its obligations in relation to the Scheme.
<b>Governing law</b>	Queensland	
<b>Date of Deed Poll</b>	See Signing page	

# Deed Poll

## General terms

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### 1 Definitions and interpretation

#### 1.1 Definitions

In this deed poll (unless the context otherwise requires):

- (a) **Authorised Officer** means, in respect of a party, a director or secretary of the party or any other person appointed by a party to act as an Authorised Officer under this deed poll;
- (b) **Details** means the section of this deed poll headed "Details";
- (c) **Merger Implementation Agreement** means the merger implementation agreement dated 22 December 2015 between YCU and Auswide Bank under which, amongst other things, YCU has agreed to propose the Scheme to YCU Members, and each of Auswide Bank and YCU has agreed to take certain steps to give effect to the Scheme;
- (d) **Scheme** means the proposed scheme of arrangement between YCU and the Scheme Participants under which all the Scheme Shares will be transferred to Auswide Bank under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this deed poll, or as otherwise agreed by Auswide Bank and YCU, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by YCU and Auswide Bank in accordance with clause 8.2 of the Scheme; and
- (e) unless the context requires otherwise, all other capitalised words and phrases used in this deed poll have the same meaning as given to them in the Scheme.

#### 1.2 Interpretation

Clause 1.2 of the Scheme applies to the interpretation of this deed poll except that references to "this Scheme" in that clause are to be read as references to "this deed poll".

#### 1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this deed poll.

#### 1.4 Nature of deed poll

Auswide Bank acknowledges that this deed poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not a party to it.

---

## **2 Conditions precedent and termination**

### **2.1 Conditions precedent**

Auswide Bank's obligations under clause 3 are subject to the Scheme becoming Effective.

### **2.2 Termination**

Auswide Bank's obligations under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Scheme has not become Effective on or before the End Date; or
- (b) the Merger Implementation Agreement is terminated in accordance with its terms.

### **2.3 Consequences of termination**

If this deed poll is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) Auswide Bank is released from its obligations to further perform this deed poll except those obligations contained in clause 7.1; and
- (b) each Scheme Participant retains the rights, powers or remedies they have against Auswide Bank in respect of any breach of this deed poll which occurs before it is terminated.

---

## **3 Scheme Consideration**

Subject to clause 2, Auswide Bank undertakes in favour of each Scheme Participant:

- (a) to pay the cash component of the Scheme Consideration to the Trust Account on behalf of each Scheme Participant; and
- (b) subject to clauses 3.3, 6.6, 6.7 and 6.8 of the Scheme, issue the New Auswide Bank Shares to the Scheme Participants,

in accordance with the Scheme.

---

## **4 Representations and warranties**

Auswide Bank represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the 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; and



- (d) this deed poll is valid and binding upon Auswide Bank and enforceable against Auswide Bank in accordance with its terms.

---

## **5 Continuing obligations**

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Auswide Bank has fully performed its obligations under this deed poll; or  
(b) the earlier termination of this deed poll under clause 2.2.

---

## **6 Notices**

### **6.1 Form - all communications**

Unless expressly stated otherwise in this deed poll, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed poll must be:

- (a) in writing;  
(b) signed by the sender (if an individual) or an Authorised Officer of the sender; and  
(c) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

### **6.2 Delivery**

Communications must be:

- (a) left at the address set out or referred to in the Details;  
(b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;  
(c) sent by fax to the fax number set out or referred to in the Details; or  
(d) given in any other way permitted by law.

However, if the intended recipient has notified a changed address or fax number, then communications must be to that address or fax number.

### **6.3 When effective**

Communications take effect from the time they are received or taken to be received under clause 6.4 (whichever happens first) unless a later time is specified.

### **6.4 When taken to be received**

Communications are taken to be received:

- (a) if sent by post, three days after posting (or seven days after posting if sent from one country to another); or

- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent.

## **6.5 Receipt outside business hours**

Despite clauses 6.3 and 6.4, if communications are received or taken to be received under clause 6.4 after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

---

# **7 General**

## **7.1 Stamp duty**

Auswide Bank must:

- (a) pay all stamp duty (including fines, penalties and interest) payable and assessed on or in connection with this deed poll, the performance of this deed poll, or any instruments entered into under this deed poll and in respect of a transaction effected by or made under the Scheme and this deed poll; and
- (b) indemnify on demand each Scheme Participant against any liability arising from failure to comply with clause 7.1(a).

## **7.2 Waiver**

- (a) A waiver of any right arising from a breach of this deed poll or of any right, power, authority, discretion or remedy arising upon default under this deed poll must be in writing and signed by the party giving the waiver.
- (b) A failure or delay in exercise, or partial exercise, of:
  - (i) a right arising from a breach of this deed poll; or
  - (ii) a right, power, authority, discretion or remedy created or arising upon default under this deed poll,does not result in a waiver of that right, power, authority, discretion or remedy.
- (c) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this deed poll or on a default under this deed poll as constituting a waiver of that right, power, authority, discretion or remedy.
- (d) A party may not rely on any conduct of another party as a defence to exercise of a right, power, authority, discretion or remedy by that other party.

## **7.3 Variation**

A provision of this deed poll or any right created under it may not be varied, altered or otherwise amended unless:

- (a) the variation is agreed to by YCU and Auswide Bank in writing; and

- (b) the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event Auswide Bank must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

#### **7.4 Remedies cumulative**

The rights, powers and remedies of Auswide Bank and the Scheme Participants under this deed poll are cumulative and are in addition to and do not exclude any other rights, powers and remedies given by law independently of this deed poll.

#### **7.5 Assignment**

The rights and obligations of Auswide Bank and each Scheme Participant under this deed poll are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity and no person may attempt or purport to do so without the prior written consent of Auswide Bank and YCU.

#### **7.6 Governing law and jurisdiction**

This deed poll is governed by the law in force in Queensland. Auswide Bank irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of that place.

#### **7.7 Further action**

Auswide Bank must execute all deeds and other documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary or expedient to give full effect to this deed poll and the transactions contemplated by it.

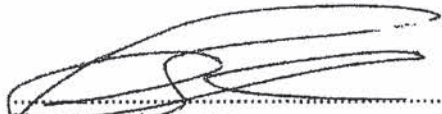
**EXECUTED** as a deed poll

# Deed Poll

## Signing page

DATED: 26 February 2016

**EXECUTED** by **AUSWIDE BANK LTD**  
in accordance with section 127(1) of  
the *Corporations Act 2001* (Cth) by  
authority of its directors:

  
.....  
Signature of director

**MARTIN BARRETT**  
.....

Name of director (block letters)

  
.....  
Signature of director/company  
secretary

**WILLIAM R SCHAFER**  
.....

Name of director/company secretary  
(block letters)



# Deed Poll

## Annexure A - Scheme

(Separately attached)

PLEASE REFER TO ATTACHMENT IV OF THE SCHEME BOOKLET

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## **IV: Scheme of Arrangement**

# Scheme of Arrangement

Queensland Professional Credit Union Ltd ACN 087 651 045 trading as  
Your Credit Union ("YCU")

Scheme Participants

**King & Wood Mallesons**

Level 33  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000  
Australia  
**T** +61 7 3244 8000  
**F** +61 7 3244 8999  
DX 311 Brisbane  
[www.kwm.com](http://www.kwm.com)

# Scheme of Arrangement

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# Scheme of Arrangement

## Details

Parties	YCU and Scheme Participants	
YCU	Name	Queensland Professional Credit Union Ltd
	ACN	087 651 045
	Address	Level 5, 100 Eagle Street BRISBANE QLD 4000
	Telephone	+61 7 3020 5423
	Email	SBarnard@ycu.com.au
	Fax	+61 7 3020 5475
	Attention	Managing Director
Scheme Participants	Name	Each person registered as a holder of YCU Shares as at 5.00pm on the Record Date
Governing law	Queensland	

# General terms

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## 1 Definitions and interpretation

### 1.1 Definitions

In this Scheme:

**ACCC** means the Australian Competition and Consumer Commission.

**APRA** means the Australian Prudential Regulatory Authority.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited or Australian Securities Exchange, as appropriate.

**Auswide Bank** means Auswide Bank Ltd (ABN 40 087 652 060).

**Auswide Bank Constitution** means the Auswide Bank Constitution dated 9 May 2000 as amended from time to time.

**Auswide Bank Share** means a fully paid ordinary share in the capital of Auswide Bank.

**Business Day** means a business day as defined in the Listing Rules.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Court** means the Supreme Court of Queensland, or such other court of competent jurisdiction under the Corporations Act agreed in writing by Auswide Bank and YCU.

**Deed Poll** means the deed poll executed by Auswide Bank substantially in the form of Annexure C to the Merger Implementation Agreement or as otherwise agreed by Auswide Bank and YCU under which Auswide Bank covenants in favour of each Scheme Participant to perform its obligations under this Scheme.

**Details** means the section of this agreement headed "Details".

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** means the date on which this Scheme becomes Effective.

**Eligible Member** means each Scheme Participant other than a Foreign YCU Member.

**Encumbrance** means any mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit à prendre, easement or any other security arrangement or any other arrangement having the same effect.



**End Date** means 30 June 2016 or such other date as is agreed in writing by Auswide Bank and YCU.

**Foreign YCU Member** means a YCU Member:

- (a) who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than residents of Australia and its external territories; or
- (b) whose address shown in the Register is a place outside Australia and its external territories or who is acting on behalf of such a person,

unless Auswide Bank determines (in consultation with YCU) that:

- (c) it is lawful and not unduly onerous or unduly impracticable to issue that YCU Member with Auswide Bank Shares on implementation of this Scheme; and
- (d) it is lawful for that YCU Member to participate in this Scheme by the law of the relevant place outside Australia and its external territories.

**Immediately Available Funds** means a bank cheque or other form of cleared funds acceptable to YCU.

**Implementation Date** means the fifth Business Day following the Record Date or such other date as is agreed in writing by Auswide Bank and YCU.

**Listing Rules** means the listing rules of ASX.

**Merger Implementation Agreement** means the merger implementation agreement dated 22 December 2015 between YCU and Auswide Bank under which, amongst other things, YCU has agreed to propose this Scheme to YCU Members, and each of Auswide Bank and YCU has agreed to take certain steps to give effect to this Scheme.

**New Auswide Bank Shares** means fully paid ordinary shares in the capital of Auswide Bank to be issued under this Scheme.

**Nominee** means Baillieu Holst Ltd (ACN 006 519 393) (AFSL No. 245421).

**RBA** means the Reserve Bank of Australia.

**Record Date** means 5.00pm on the fifth Business Day following the Effective Date or such other date as YCU and Auswide Bank agree in writing.

**Register** means the register of members of YCU maintained by or on behalf of YCU in accordance with section 168(1) of the Corporations Act.

**Registered Address** means, in relation to a YCU Member, the address shown in the Register.

**Regulatory Authority** includes:

- (a) APRA, RBA, ASX, ACCC, ASIC;
- (b) the Takeovers Panel;
- (c) a government or governmental, semi-governmental or judicial entity or authority;
- (d) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and

(e) any regulatory organisation established under statute.

**Scheme** means this scheme of arrangement between YCU and Scheme Participants under which all of the Scheme Shares will be transferred to Auswide Bank under Part 5.1 of the Corporations Act as described in clause 6 of this Scheme, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by YCU and Auswide Bank in accordance with clause 8.2 of this Scheme.

**Scheme Consideration** means the consideration described in clause 4.2 of the Merger Implementation Agreement to be provided by Auswide Bank to Scheme Participants under the terms of this Scheme for the transfer to Auswide Bank of their Scheme Shares.

**Scheme Meeting** means the meeting of YCU Members, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which YCU Members will vote on this Scheme.

**Scheme Participant** means each person who is a YCU Member as at 5.00pm on the Record Date.

**Scheme Share** means a YCU Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any YCU Shares issued on or before the Record Date.

**Second Court Date** means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving this Scheme.

**Share Sale Facility** means the facility under which Scheme Participants may elect to have sold (by the Nominee) the New Auswide Bank Shares they are entitled to receive under this Scheme.

**Share Sale Facility Terms** means the terms and conditions of the Share Sale Facility attached to or otherwise enclosed with the explanatory statement to be issued by YCU in connection with this Scheme.

**Share Scheme Transfer** means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, in favour of Auswide Bank as transferee which may be a master transfer of all Scheme Shares.

**Subsidiary** has the meaning given to it in the Corporations Act.

**Takeovers Panel** means the body called the Takeovers Panel continuing in existence under section 261 of the *Australian Securities and Investments Commission Act 2001* (Cth) and given various powers under Part 6.10 of the Corporations Act.

**Trust Account** means the trust account operated by or on behalf of YCU to hold the cash component of the Scheme Consideration on trust for the purpose of paying the cash component of the Scheme Consideration to the Scheme Participants in accordance with clause 6.3 of this Scheme.

**YCU** means Queensland Professional Credit Union Ltd (ACN 087 651 045).

**YCU Member** means each person registered in the Register as a holder of YCU Shares.

**YCU Share** means a fully paid share in the capital of YCU.



## 1.2 Reference to certain general terms

Unless the contrary intention appears, a reference in this Scheme to:

- (a) **(variations or replacement)** a document, agreement (including this agreement) or instrument is a reference to that document, agreement or instrument as amended, consolidated, supplemented, novated or replaced;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this agreement;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(party)** a party means a party to this Scheme;
- (g) **(person)** the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (h) **(executors, administrators, successors)** a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) **(dollars)** Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia;
- (j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (l) **(meaning not limited)** the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and
- (m) **(time of day)** time is a reference to Brisbane time.

## 1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this Scheme.

---

## **2 Preliminary**

### **2.1 YCU**

YCU is:

- (a) an unlisted public company limited by shares; and
- (b) incorporated in Australia and registered in Queensland.

As at 22 December 2015, YCU's issued securities comprise 4,094 YCU Shares.

### **2.2 Auswide Bank**

Auswide Bank is:

- (a) a public company limited by shares;
- (b) incorporated in Australia and registered in Queensland; and
- (c) admitted to the official list of the ASX and Auswide Bank Shares are officially quoted on the stock market conducted by ASX.

### **2.3 If Scheme becomes Effective**

If this Scheme becomes Effective:

- (a) in consideration of the transfer of each Scheme Share to Auswide Bank, YCU will procure Auswide Bank to provide the Scheme Consideration to YCU on behalf of each Scheme Participant in accordance with the terms of this Scheme;
- (b) all Scheme Shares will be transferred to Auswide Bank on the Implementation Date; and
- (c) YCU will enter the name of Auswide Bank in the Register in respect of all Scheme Shares transferred to Auswide Bank in accordance with the terms of this Scheme.

### **2.4 Merger Implementation Agreement**

YCU and Auswide Bank have agreed by executing the Merger Implementation Agreement to implement the terms of this Scheme.

### **2.5 Deed Poll**

Auswide Bank has executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) its obligations as contemplated by this Scheme, including to provide the Scheme Consideration.



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## **3 Conditions precedent**

### **3.1 Conditions precedent to Scheme**

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8.00am on the Second Court Date, the Deed Poll and Merger Implementation Agreement not having been terminated;
- (b) all of the conditions precedent in schedule 3 of the Merger Implementation Agreement having been satisfied or waived (other than the conditions precedent in items 1(c), 2, 3 or 4 of the conditions precedent in Schedule 3 which cannot be waived) in accordance with the terms of the Merger Implementation Agreement;
- (c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, YCU and Auswide Bank having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and
- (d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

### **3.2 Conditions precedent and operation of clause 5**

The satisfaction of each condition of clause 3.1 of this Scheme is a condition precedent to the operation of clause 5 of this Scheme.

### **3.3 Certificate in relation to conditions precedent**

YCU and Auswide Bank must each provide to the Court on the Second Court Date a certificate confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the conditions precedent in clause 3.1(c) and clause 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

The certificates referred to in this clause 3.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 of this Scheme (other than the conditions precedent in clause 3.1(c) and clause 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

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## **4 Scheme**

### **4.1 Effective Date**

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

### **4.2 End Date**

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

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## **5 Implementation of Scheme**

### **5.1 Lodgement of Court orders with ASIC**

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(d) of this Scheme) are satisfied, YCU must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as possible, and in any event by no later than 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Auswide Bank and YCU agree in writing.

### **5.2 Transfer and registration of Scheme Shares**

On the Implementation Date, but subject to the provision of the Scheme Consideration for the Scheme Shares in accordance with clauses 6.1 to 6.3 of this Scheme and Auswide Bank having provided YCU with written confirmation thereof:

- (a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Auswide Bank without the need for any further act by any Scheme Participant (other than acts performed by YCU as attorney and agent for Scheme Participants under clause 8.1 of this Scheme) by:
  - (i) YCU delivering to Auswide Bank a duly completed and executed Share Scheme Transfer executed on behalf of the Scheme Participants; and
  - (ii) Auswide Bank duly executing the Share Scheme Transfer and delivering it to YCU for registration; and
- (b) immediately after receipt of the duly executed Share Scheme Transfer, YCU must enter, or procure the entry of, the name of Auswide Bank in the Register in respect of all Scheme Shares transferred to Auswide Bank in accordance with the terms of this Scheme.

### **5.3 Entitlement to Scheme Consideration**

On the Implementation Date, in consideration for the transfer to Auswide Bank of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clause 6 of this Scheme.

### **5.4 Title and rights in YCU Shares**

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6 of this Scheme, on and from the Implementation Date, Auswide Bank will be beneficially entitled to the Scheme Shares transferred to it under this Scheme, pending registration by YCU of Auswide Bank in the Register as the holder of the Scheme Shares.

### **5.5 Scheme Participants' agreements**

Under this Scheme, each Scheme Participant agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme.



The Eligible Members accept the New Auswide Bank Shares issued by way of Scheme Consideration subject to the Auswide Bank Constitution and agree to be bound by the Auswide Bank Constitution.

## **5.6 Warranty by Scheme Participants**

Each Scheme Participant warrants to Auswide Bank and is deemed to have authorised YCU to warrant to Auswide Bank as agent and attorney for the Scheme Participant by virtue of this clause 5.6, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Auswide Bank under this Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Auswide Bank under this Scheme.

## **5.7 Transfer free from all Encumbrances**

To the extent permitted by law, all YCU Shares (including any rights and entitlements attaching to those shares) which are transferred to Auswide Bank under this Scheme will, at the date of the transfer of them to Auswide Bank, vest in Auswide Bank free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

## **5.8 Appointment of Auswide Bank as sole proxy**

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.2 and 6.2 of this Scheme, on and from the Implementation Date until YCU registers Auswide Bank as the holder of all of the YCU Shares in the Register, each Scheme Participant:

- (a) irrevocably appoints YCU as attorney and agent (and directs YCU in such capacity) to appoint Auswide Bank and each of its directors from time to time (jointly and each of them individually) as its sole proxy and where applicable, corporate representative, to attend shareholders' meetings, exercise the votes attaching to YCU Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.8(a)); and
- (b) must take all other actions in the capacity of the registered holder of YCU Shares as Auswide Bank directs.

YCU undertakes in favour of each Scheme Participant that it will appoint Auswide Bank and each of its directors from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.8(a) of this Scheme.

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# **6 Scheme Consideration**

## **6.1 Consideration under this Scheme**

On the Implementation Date, YCU must procure Auswide Bank to:



- (a) pay (or procure the payment of) the cash component of the Scheme Consideration to the Scheme Participants; and
- (b) subject to clauses 6.6, 6.7, 6.8 and 6.9 of this Scheme, issue the New Auswide Bank Shares to the Scheme Participants,

in accordance with clauses 6.2, 6.3 and 6.4 of this Scheme.

## **6.2 Satisfaction of obligations**

The obligation of YCU to procure payment of the cash component of the Scheme Consideration pursuant to clause 6.1 of this Scheme will be satisfied by YCU procuring Auswide Bank no later than two Business Days before the Implementation Date to deposit (or procure the deposit) in Immediately Available Funds the aggregate amount of the cash component of the Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited will be to Auswide Bank's account).

## **6.3 Payment of Scheme Consideration**

On the Implementation Date, subject to receipt of the cash component of the Scheme Consideration from Auswide Bank in accordance with clause 6.2 of this Scheme, YCU must pay to each Scheme Participant an amount equal to the cash component of the Scheme Consideration for each Scheme Share transferred to Auswide Bank on the Implementation Date by that Scheme Participant.

Unless otherwise directed by the Scheme Participants before the Record Date, the amounts referred to in this clause 6.3 of this Scheme must be paid by direct credit or sending a cheque drawn on an Australian bank in Australian currency on the Implementation Date to each Scheme Participant by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to their address recorded in the Register at 5.00pm on the Record Date.

## **6.4 Unclaimed monies**

YCU may cancel a cheque issued under clause 6.3, clause 6.7(a)(ii)(B) or clause 6.8(a)(ii)(B)(ab) of this Scheme if the cheque:

- (a) is returned to YCU; or
- (b) has not been presented for payment within six months after the date on which the cheque was sent.

During the period of one year commencing on the Implementation Date, on request from a Scheme Participant, YCU must reissue a cheque that was previously cancelled under this clause 6.4.

## **6.5 Orders of a court**

In the case of notice having been given to YCU (or the Registry) of an order made by a court of competent jurisdiction:

- (a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 6.3 of this Scheme, then YCU shall procure that payment is made in accordance with that order; or

- (b) which would prevent YCU from dispatching payment to any particular Scheme Participant in accordance with clause 6.3 of this Scheme, YCU will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the Scheme Consideration until such time as payment in accordance with clause 6.3 of this Scheme is permitted by law.

## **6.6 Provision of New Auswide Bank Shares as Scheme Consideration**

Subject to clauses 6.7, 6.8 and 6.9 of this Scheme, the obligation of Auswide Bank to issue the New Auswide Bank Shares pursuant to clause 6.1 of this Scheme will be satisfied by Auswide Bank:

- (a) if the Scheme Participant is an Eligible Member and does not make a valid election to have the New Auswide Bank Shares which the Scheme Participant is entitled to receive under this Scheme sold under the Share Sale Facility:
  - (i) on the Implementation Date, by entering the name of each Scheme Participant in the Auswide Bank share register in respect of the New Auswide Bank Shares which that Scheme Participant is entitled to receive under this Scheme; and
  - (ii) on or before the date that is ten Business Days after the Implementation Date, by sending or procuring the dispatch by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to each Scheme Participant to their address recorded in the Register at 5.00pm on the Record Date, a holding statement for the New Auswide Bank Shares issued to that Scheme Participant; or
- (b) if the Scheme Participant is an Eligible Member and has made a valid election to have the New Auswide Bank Shares which the Scheme Participant is entitled to receive under this Scheme sold under the Share Sale Facility, by issuing the New Auswide Bank Shares to which the Eligible Member would otherwise be entitled pursuant to clause 6.1, to the Nominee who will sell those New Auswide Bank Shares and pay to that Eligible Member the proceeds received in accordance with the Share Sale Facility Terms.

## **6.7 Foreign YCU Member**

- (a) Subject to clause 6.9 of this Scheme, the obligation of Auswide Bank to issue New Auswide Bank Shares to a Scheme Participant who is a Foreign YCU Member will be satisfied by Auswide Bank issuing the New Auswide Bank Shares to which the Scheme Participant would have been entitled (were they not a Foreign YCU Member) to the Nominee, and procuring that the Nominee:
  - (i) sells those New Auswide Bank Shares under the Share Sale Facility; and
  - (ii) as soon as reasonably practicable:
    - (A) accounts to the Foreign YCU Member for the proceeds of sale (on an averaged basis so that all Foreign YCU Members and all other Scheme Participants who have their New Auswide Bank Shares sold under the Share Sale Facility receive the same price per New Auswide Bank Share, rounded down to the nearest whole cent)



and any income referable to those New Auswide Bank Shares, after deduction of any applicable withholding tax and otherwise in accordance with the Share Sale Facility Terms; and

- (B) pays the amount to which the Foreign YCU Member is entitled under clause 6.7(a)(ii)(A) to the Foreign YCU Member by direct credit or by sending a cheque drawn on an Australian bank in Australian currency by pre-paid airmail post.
- (b) Payments to a Foreign YCU Member under clause 6.7(a)(ii)(B) will be in full satisfaction of the Foreign YCU Member's right to receive New Auswide Bank Shares under clause 6.1 of this Scheme.
- (c) Each Foreign YCU Member appoints YCU as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Foreign YCU Members under the Corporations Act.
- (d) The Nominee has been selected by Auswide Bank, and is the holder of an Australian financial services licence number 245421.

## 6.8 Breach of law or Auswide Bank Constitution

- (a) Where an issue of New Auswide Bank Shares to which a Scheme Participant would otherwise be entitled would result in a breach of law or breach of a provision of the Auswide Bank Constitution, Auswide Bank will, in full satisfaction of that Scheme Participant's rights to the New Auswide Bank Shares under clause 6.1 of this Scheme:
  - (i) issue the maximum possible number of New Auswide Bank Shares to the Scheme Participant without giving rise to such breach; and
  - (ii) subject to clause 6.9 of this Scheme, issue to the Nominee the remaining New Auswide Bank Shares to which the Scheme Participant would have been entitled (if the issue did not result in a breach of law or breach of a provision of the Auswide Bank Constitution), and procure that the Nominee:
    - (A) sells those New Auswide Bank Shares under the Share Sale Facility; and
    - (B) as soon as reasonably practicable:
      - (aa) accounts to the Scheme Participant for the proceeds of sale (on an averaged basis so that all Scheme Participants to whom this clause 6.8 applies and all other Scheme Participants who have their New Auswide Bank Shares sold under the Share Sale Facility receive the same price per New Auswide Bank Share, rounded down to the nearest whole cent) and any income referable to those New Auswide Bank Shares, after deduction of any applicable withholding tax and otherwise in accordance with the Share Sale Facility Terms; and
      - (ab) pays the amount to which the Scheme Participant is entitled under clause

6.8(a)(ii)(B)(aa) to the Scheme Participant by direct credit or by sending a cheque drawn on an Australian bank in Australian currency by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post).

- (b) Payment to a Scheme Participant under clause 6.8(a)(ii)(B)(ab) will be in full satisfaction of that Scheme Participant's right to receive New Auswide Bank Shares under clause 6.1 of this Scheme.
- (c) Each Scheme Participant covered by this clause 6.8 appoints YCU as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to that Scheme Participant under the Corporations Act.

## **6.9 Fractional entitlements**

- (a) If the number of YCU Shares held by a Scheme Participant is such that the aggregate entitlement of that Scheme Participant to New Auswide Bank Shares is not a whole number, then the entitlement in each case must be rounded up or down to the nearest whole number, with fractions of 0.5 being rounded up.
- (b) If Auswide Bank and YCU are of the opinion that several Scheme Participants, each of which holds a holding of YCU Shares which results in a fractional entitlement to New Auswide Bank Shares, have, before 5.00pm on the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to the rounding provided for in the calculation of each Scheme Participant's entitlement to the Scheme Consideration, Auswide Bank and YCU may give notice to those Scheme Participants:
  - (i) setting out the names and Registered Addresses of all of them;
  - (ii) stating that opinion; and
  - (iii) attributing to one of them specifically identified in the notice the YCU Shares held by all of them,

and, after the notice has been so given, the Scheme Participant specifically identified in the notice shall, for the purposes of this Scheme, be taken to hold all those YCU Shares and each of the other Scheme Participants whose names are set out in the notice shall, for the purposes of this Scheme, be taken to hold no YCU Shares.

## **6.10 New Auswide Bank Shares to rank equally**

- (a) New Auswide Bank Shares issued to Scheme Participants will rank equally in all respect with all existing Auswide Bank Shares.
- (b) On issue, each New Auswide Bank Share issued to Scheme Participants will be fully paid and free from any Encumbrance.

## **6.11 Joint holders**

In the case of Scheme Shares held in joint names:

- (a) any bank cheque required to be paid to Scheme Participants by Auswide Bank must be payable to the joint holders and be forwarded to the holder



whose name appears first in the Register as at 5.00pm on the Record Date; and

- (b) holding statements for New Auswide Bank Shares issued to Scheme Participants must be issued in the names of the joint holders and sent to the holder whose name appears first in the Register as at 5.00pm on the Record Date.

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## **7 Dealings in Scheme Shares**

### **7.1 Determination of Scheme Participants**

Subject to the Merger Implementation Agreement, to establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by YCU if registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Register is kept.

### **7.2 Register**

Subject to the Merger Implementation Agreement, YCU must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1 of this Scheme on or before 5.00pm on the Record Date provided that, for the avoidance of doubt, nothing in this clause 7.2 requires YCU to register a transfer that would result in a YCU Member holding a parcel of YCU Shares that is less than a "marketable parcel" (for the purposes of this clause 7.2, "marketable parcel" has the meaning given in the official operating rules of ASX).

### **7.3 No disposals after Effective Date**

If this 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 Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

YCU must not accept for registration nor recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after 5.00pm on the Record Date (except a transfer to Auswide Bank pursuant to this Scheme and any subsequent transfer by Auswide Bank or its successors in title).

### **7.4 Maintenance of YCU Register**

For the purpose of determining entitlements to the Scheme Consideration, YCU will maintain the Register in accordance with the provisions of clause 7 of this Scheme until the Scheme Consideration has been paid to the Scheme Participants and Auswide Bank has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

### **7.5 Effect of certificates and holding statements**

Subject to provision of the Scheme Consideration and registration of the transfer to Auswide Bank contemplated in clauses 5.2 and 6.3 of this Scheme, any statements of holding in respect of Scheme Shares will cease to have effect after 5.00pm on the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Auswide Bank and its successors in title). After 5.00pm on the Record Date, each entry current on the Register as

at 5.00pm on the Record Date (other than entries in respect of Auswide Bank or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration.

## **7.6 Details of Scheme Participants**

As soon as practicable after the Record Date, and in any event within one Business Day of the Record Date, YCU will ensure that details of:

- (a) the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at 5.00pm on the Record Date; and
- (b) the names and Registered Addresses of every Foreign YCU Member at 5.00pm on the Record Date,

are available to Auswide Bank in such form as Auswide Bank reasonably requires.

## **7.7 Quotation of New Auswide Bank Shares**

Auswide Bank will apply for the official quotation of the New Auswide Bank Shares on the ASX and will request that those shares be quoted on a deferred settlement basis as from or about 5 May 2016 and on a normal settlement basis as from or about 27 May 2016.

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# **8 General Scheme provisions**

## **8.1 Power of attorney**

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints YCU and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

- (a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer; and
- (b) enforcing the Deed Poll against Auswide Bank,

and YCU accepts such appointment.

## **8.2 Variations, alterations and conditions**

- (a) YCU may, with the consent of Auswide Bank (which cannot be unreasonably withheld), by its counsel or solicitor consent on behalf of all persons concerned to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.
- (b) Each Scheme Participant agrees to any such variation, alteration or condition which has been consented to by YCU in accordance with clause 8.2(a).

## **8.3 Further action by YCU**

YCU will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.



## **8.4 Authority and acknowledgement**

Each of the Scheme Participants:

- (a) irrevocably consents to YCU and Auswide Bank doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (b) acknowledges that this Scheme binds YCU and all Scheme Participants (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against this Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of YCU.

## **8.5 No liability when acting in good faith**

Neither YCU nor Auswide Bank, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

## **8.6 Enforcement of Deed Poll**

YCU undertakes in favour of each Scheme Participant to enforce the Deed Poll against Auswide Bank on behalf of and as agent and attorney for the Scheme Participants.

## **8.7 Stamp duty**

Auswide Bank will pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme.

## **8.8 Notices**

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to YCU, 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 YCU's registered office or at the office of the registrar of YCU Shares.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

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# **9 Governing law**

## **9.1 Governing law**

This Scheme is governed by the law in force in Queensland.

## **9.2 Jurisdiction**

Each party irrevocably and unconditionally:

- (a) submits to the non-exclusive jurisdiction of the courts of Queensland; and



- (b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

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## V: Notice of Scheme Meeting

Queensland Professional Credit Union Ltd  
(ACN 087 651 045)  
trading as YCU Your Credit Union  
("YCU")

### Notice of Scheme Meeting

#### NOTICE OF COURT ORDERED MEETING OF QUEENSLAND PROFESSIONAL CREDIT UNION LTD SHAREHOLDERS

Notice is hereby given that by an order of the Supreme Court of Queensland made on 10 March 2016 pursuant to section 411(1) of the *Corporations Act 2001* (Cth) ("Corporations Act") the Court has directed that a meeting of the holders of YCU Shares will be held at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, in the State of Queensland on Monday 18 April 2016 at 5.00pm (Brisbane time).

The Court has also directed that Gordon Rutherford or, failing him, John Strachan, act as Chairman of the meeting and has directed the Chairman to report the result of the meeting to the Court.

#### PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between YCU and the YCU Members (Scheme).

A copy of the Scheme and a copy of the Explanatory Statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this notice forms part.

#### RESOLUTION

The meeting will be asked to consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

"That, pursuant to and in accordance with section 411 of the Corporations Act, subject to the Merger Conditions being satisfied or waived, YCU Members are in favour of the Scheme proposed between YCU and the YCU Members, the terms of which are contained in and more particularly described in the Scheme Booklet (of which the notice convening the Scheme Meeting forms part), with or without such modifications or conditions as approved by the Court and, subject to approval of the Scheme by the Court, the YCU Board is authorised to implement the Scheme with any such modifications or conditions."

Date: 11 March 2016

By order of the Court



Stephen Barnard  
Company Secretary

## **Explanatory Notes for the Scheme Meeting:**

These notes should be read in conjunction with this Notice of Scheme Meeting.

### **Terminology**

Capitalised terms which are defined in Glossary of the Scheme Booklet which accompanies this Notice of Scheme Meeting have the same meaning when used in this notice (including these notes), unless the context requires otherwise.

### **Majority required**

In accordance with section 411(4)(a)(ii) of the Corporations Act, the resolution contained in this Notice of Scheme Meeting must be passed by:

- a. a majority in number of those YCU Members present and voting at the Scheme Meeting (either in person, by proxy or (in the case of corporate YCU Members) by a corporate representative); and
- b. at least 75% of the votes cast on the resolution contained in this Notice of Scheme Meeting.

The vote will be conducted by poll.

### **Entitlement to vote**

The Court has ordered that, for the purposes of the Scheme Meeting, each person registered in the YCU Register as a YCU Member at 5pm on 15 April 2016 (other than minors) is entitled to vote at the Scheme Meeting, either in person, by proxy or attorney or, in the case of a corporate YCU Member, by a personal representative.

Except for YCU Members who are minors, each YCU Member shall have only one (1) vote, except if that person has been appointed as the trustee for an unincorporated association, family trust or incorporated body, in which case he or she may have one vote as an individual YCU Member and one vote in that other capacity.

### **Members who are minors**

Under the YCU Constitution, YCU Members who are "minors" are not entitled to vote, and accordingly any vote purported to be cast (by whatever means) by a YCU Member who is a minor will be disregarded.

## **HOW TO VOTE**

YCU Members entitled to vote at the Scheme Meeting may vote:

- by attending the meeting and voting in person; or
- by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate YCU Members or proxies, a corporate representative to attend the meeting and vote on its behalf; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form accompanying this notice. A proxy may be an individual or a body corporate.

### **Voting in person**

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, in the State of Queensland on Monday 18 April 2016 at 5pm and bring the uncompleted proxy form or photo identification to assist with registration. You will be admitted to the Scheme Meeting and given a voting card upon disclosure at the point of entry of your name and address.

## Voting by proxy

### Proxy appointment

1. A YCU Member entitled to attend and vote may appoint a proxy.
2. A YCU Member entitled to cast two or more votes may appoint not more than two proxies.
3. A proxy can be an individual or a body corporate and need not be a YCU Member.
4. If the YCU Member appoints two proxies and the appointment does not specify the proportion or number of the YCU Member's votes, each proxy may exercise half of the votes.
5. At least 48 hours before the meeting, the YCU must receive:
  - a) the proxy's appointment; and
  - b) any authority under which the appointment was signed or a certified copy of the authority.
6. The proxy appointment and any authority appointing an attorney must be received by 5pm on 16 April 2016.
7. You may direct your proxy how to vote by marking the relevant box on the proxy form. If you do not mark any of the boxes, your proxy may vote as he or she decides. If the Chair of the Scheme Meeting is your proxy, and he has not been directed on how to vote on the special resolution, he intends to vote in favour of the resolution.

**Proxy by post, fax or delivery:** A Proxy Form for the Scheme Meeting and a pre-addressed envelope are enclosed. Additional information on proxies is included on the form, including how to appoint proxies and instructions on voting by proxies. A completed Proxy Form for the Scheme Meeting must be received by post or fax or delivery at the following addresses no later than 5pm on 16 April 2016 to YCU's registered office or to the address or fax number set out below:

- (i) By post to the Returning Officer at GPO Box 1282 Melbourne, Victoria 8060;
- (ii) By fax to the Returning Officer 1800 783 447; or
- (iii) By hand delivery to YCU's registered office at 5th floor, 100 Eagle Street, Brisbane, Queensland, 4000.

**Online Proxy:** You may submit your proxy online by visiting the Merger Website at <http://yourinterest.com.au/ycuawidemerger/>. To use this option you will need your member number. You will be taken to have signed the Proxy Form for the Scheme Meeting if you lodge it in accordance with the instructions on the website. A proxy cannot be appointed electronically if they are appointed under a Power of Attorney or similar authority. Please read the instructions for online proxy voting submissions carefully before you lodge your proxy. To be effective, a Proxy Form submitted online must be received by the Returning Officer no later than 5pm on 16 April 2016.

### Jointly held securities

If the YCU Shares are jointly held, only one of the joint YCU Members is entitled to vote. If more than one YCU Member votes, only the vote of the YCU Member whose name appears first in the YCU Register will be counted.

### Voting by attorney

A YCU Member entitled to attend and vote at the Scheme Meeting may appoint an attorney to vote at the Scheme Meeting.

To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the YCU Returning Officer before 5pm on 16 April 2016 in any of the following ways:

- (i) By post to the Returning Officer at GPO Box 1282 Melbourne, Victoria 8060;
- (ii) By fax to the Returning Officer at 1800 783 447; or
- (iii) By hand delivery to YCU's registered office at 5th floor, 100 Eagle Street, Brisbane, Queensland, 4000.

### **Voting by corporate representative**

To vote in person at the Scheme Meeting, a corporation who is a YCU Member, or who has been appointed as a proxy by a YCU Member, may appoint a person to act as its representative.

Persons who are attending as a corporate representative for a corporation must bring evidence of their appointment. The appointment must comply with section 250D of the Corporations Act. An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card upon providing, at the point of entry to the Scheme Meeting, written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

### **Court approval**

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme must be approved by the order of the Court. If all Merger Conditions are satisfied or waived (as appropriate) including the passing of the resolution put to the Scheme Meeting by the Requisite Majority, YCU intends to apply to the Court for the necessary orders to give effect to the Scheme.

If:

- (a) the Scheme Resolution is agreed to by the Required Majorities set out above; and
- (b) the Constitutional Amendment Resolution is passed at the Demutualisation Meeting,

the implementation of the Merger Proposal (with or without modification) will be subject to among other things the subsequent approval of the Court.

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## **VI: Notice of Demutualisation Meeting**

Queensland Professional Credit Union Ltd  
(ACN 087 651 045)  
trading as YCU Your Credit Union  
("YCU")

### **Notice of Special General Meeting (Demutualisation Meeting)**

Notice is hereby given that a Special General Meeting of the holders of YCU Shares will be held at 5.30pm (Brisbane time) (or immediately after the conclusion of the Scheme Meeting, whichever occurs later) on Monday 18 April 2016 at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, in the State of Queensland.

The Scheme Meeting of YCU is scheduled to commence at 5.00pm (Brisbane time) on the same day.

The YCU Board unanimously recommends YCU Members vote FOR the special resolution.

#### **Business of the meeting**

##### **Constitutional Amendment Resolution**

To consider and, if thought fit, to pass the following special resolution:

'That, if the Scheme is approved by the Court (with or without modifications), the YCU Constitution be amended pursuant to section 136(2) and 246B(2) of the Corporations Act and for all other purposes with effect from the time the Scheme becomes Effective in the manner described in section 15.5 of the Scheme Booklet (of which the notice convening the Demutualisation Meeting forms part) and more particularly as shown in the copy of the YCU Constitution tabled at the meeting and signed and dated by the Chairman of the meeting for the purposes of identification.'

By order of the YCU Board



Stephen Barnard  
Company Secretary

Date: 11 March 2016



## **Explanatory Notes:**

These notes should be read in conjunction with this Notice of Special General Meeting (Demutualisation Meeting).

An explanation of the Constitutional Amendments proposed under the Constitutional Amendment Resolution are set out in Section 15 of the Scheme Booklet.

A copy of the current YCU Constitution and a marked up version of the proposed amended YCU Constitution is available during business hours from the registered office of YCU at 5<sup>th</sup> Floor, 100 Eagle Street, Brisbane and can be downloaded from [www.ycu.com.au](http://www.ycu.com.au).

## **Terminology**

Capitalised terms which are defined in the Glossary Section of the Scheme Booklet which accompanies this Notice of Special General Meeting have the same meaning when used in this notice (including these notes) unless the context requires otherwise.

## **Requisite Majority**

In accordance with section 136(2) of the Corporations Act, the Constitutional Amendment Resolution contained in this Notice of Special General Meeting must be passed by a special resolution. Votes in favour of the resolution must be received from at least 75% of those YCU Members present and voting at the Demutualisation Meeting (either in person, by proxy or (in the case of corporate YCU Members) by a corporate representative).

The Scheme is conditional on this resolution being passed.

The vote will be conducted by poll.

## **Entitlement to vote**

Each person who is registered on the YCU Register as a YCU Member as at 5.30pm on 15 April 2016 (other than minors) is entitled to vote at the Demutualisation Meeting, either in person, by proxy or attorney or, in the case of a corporate YCU Member or proxy, by a representative.

Pursuant to YCU's Constitution, except for YCU Members who are minors, each YCU Member shall have only one (1) vote, except if that person has been appointed as the trustee for an unincorporated association, family trust or incorporated body, in which case he or she may have one vote as an individual YCU Member and one vote in that other capacity.

## **Members who are minors**

Under the YCU Constitution, YCU Members who are "minors" are not entitled to vote, and accordingly any vote purported to be cast (by whatever means) by a YCU Member who is a minor will be disregarded.

## **HOW TO VOTE**

YCU Members entitled to vote at the Demutualisation Meeting may vote:

- by attending the meeting and voting in person;
- by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate YCU Members or proxies, a corporate representative to attend the meeting and vote on its behalf; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form accompanying this notice. A proxy may be an individual or a body corporate.

## Voting in person

To vote in person at the Demutualisation Meeting, you must attend the Demutualisation Meeting to be held at City Hall - Kedron Room, 64 Adelaide Street, Brisbane, in the State of Queensland on Monday 18 April 2016 at 5.30pm (or immediately after the conclusion of the Scheme Meeting, whichever occurs later) and bring the uncompleted proxy form or photo identification to assist with registration. You will be admitted to the Demutualisation Meeting and given a voting card upon disclosure at the point of entry of your name and address.

## Voting by proxy

### Proxy appointment

1. A YCU Member entitled to attend and vote may appoint a proxy.
2. A YCU Member entitled to cast two or more votes may appoint not more than two proxies.
3. A proxy can be an individual or a body corporate and need not be a YCU Member.
4. If the YCU Member appoints two proxies and the appointment does not specify the proportion or number of the YCU Member's votes, each proxy may exercise half of the votes.
5. At least 48 hours before the meeting, YCU must receive:
  - a) the proxy's appointment; and
  - b) any authority under which the appointment was signed or a certified copy of the authority.
6. The proxy appointment and any authority appointing an attorney must be received by 5.30pm on 16 April 2016.
7. You may direct your proxy how to vote by marking the relevant box on the proxy form. If you do not mark any of the boxes, your proxy may vote as he or she decides. If the Chair of the Demutualisation Meeting is your proxy, and he has not been directed how to vote on the special resolutions, he intends to vote in favour of the resolutions.

**Proxy by post, fax or delivery:** A Proxy Form for the Demutualisation Meeting and a pre-addressed envelope are enclosed. Additional information on proxies is included on the form, including how to appoint proxies and instructions on voting by proxies. A completed Proxy Form for the Demutualisation Meeting must be received by post or fax or delivery no later than 5.30pm on 16 April 2016 to YCU's registered office or to the address or fax number set out below:

- (i) By post to the Returning Officer at GPO Box 1282 Melbourne, Victoria 8060;
- (ii) By fax to the Returning Officer at 1800 783 447; or
- (iii) By hand delivery to YCU's registered office at 5th floor, 100 Eagle Street, Brisbane, Queensland, 4000.

**Online Proxy:** You may submit your proxy online by visiting the Merger Website at <http://yourinterest.com.au/ycuawidemerger/>. To use this option you will need your member number. You will be taken to have signed the Proxy Form for the Demutualisation Meeting if you lodge it in accordance with the instructions on the website. A proxy cannot be appointed electronically if they are appointed under a Power of Attorney or similar authority. Please read the instructions for online proxy voting submissions carefully before you lodge your proxy. To be effective, a Proxy Form submitted online must be received by the Returning Officer no later than 5.30pm on 16 April 2016.

### **Jointly held securities**

If the YCU Shares are jointly held, only one of the joint YCU Members is entitled to vote. If more than one joint YCU Member votes, only the vote of the YCU Member whose name appears first in the YCU Register will be counted.

### **Voting by attorney**

A YCU Member entitled to attend and vote at the Demutualisation Meeting may appoint an attorney to vote at the Demutualisation Meeting.

To vote by attorney at this Demutualisation Meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the YCU Returning Officer before 5.30pm on 16 April 2016 in any of the following ways:

- (i) By post to the Returning Officer at GPO Box 1282 Melbourne, Victoria 8060;
- (ii) By fax to the Returning Officer at 1800 783 447; or
- (iii) By hand delivery to YCU's registered office at 5th floor, 100 Eagle Street, Brisbane, Queensland, 4000.

### **Voting by corporate representative**

To vote at the Demutualisation Meeting, a corporation who is a YCU Member, or who has been appointed as a proxy by a YCU Member, may appoint a person to act as its representative.

Persons who are attending as a corporate representative for a corporation must bring evidence of their appointment. The appointment must comply with section 250D of the Corporations Act. An authorised corporate representative will be admitted to the Demutualisation Meeting and given a voting card upon providing, at the point of entry to the Demutualisation Meeting, written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

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## **VII: Terms and conditions of the Share Sale Facility**

### **1. Overview**

The following terms and conditions apply to the Share Sale Facility. Auswide Bank has arranged for the Broker to offer this Share Sale Facility to eligible YCU Members in accordance with these terms and conditions.

Capitalised words are defined in the Glossary (see paragraph 13). Unless the context requires otherwise, the singular means the plural and vice versa.

### **2. Terms of participation**

The Share Sale Facility is available to YCU Members who have their registered address in Australia and who hold a YCU Share as at 5pm (Brisbane time) on 11 May 2016. Participation in the Share Sale Facility is entirely voluntary.

YCU Members electing to participate in the Share Sale Facility:

- do so on the terms and conditions set out in the Share Sale Facility Documents; and
- do so on the basis that all, and not only some, of the New Auswide Bank Shares that they are entitled to receive will be sold under the Share Sale Facility.

### **3. No charge to Share Sale Facility Participants**

Share Sale Facility Participants will not be liable to pay any brokerage or handling fees (including GST) for the sale of their Sale Shares under the Share Sale Facility. Any such charges and taxes will be paid by Auswide Bank. However, any other tax or charge on the sale of the Sale Shares will be for the account of the Share Sale Facility Participant.

### **4. Sale Period and conduct of sales**

The Share Sale Facility will operate for the Sale Period.

Under the Share Sale Facility, the Sale Shares which would otherwise be required to be issued to Share Sale Facility Participants under the Scheme will be issued to the Broker, for and on behalf of the Share Sale Facility Participant. The Broker will use its best endeavours to sell, or arrange for the sale by one of its affiliates, of the Sale Shares within the Sale Period.

The Sale Shares will be sold at the best price reasonably obtainable by the Broker for those shares either on the ASX in the ordinary course of business (including, in the Broker's sole discretion, by crossings). The Broker or its affiliates will determine, in their sole discretion, the best price reasonably obtainable for the Sale Shares at the time of sale. As such, Share Sale Facility Participants should be aware that sales of the Sale Shares may occur at any time during the Sale Period and may be sold in a number of different batches at differing prices and to different buyers at the sole discretion of the Broker. The proceeds will then be aggregated and distributed to Computershare who will forward the appropriate proceeds to Share Sale Facility Participants as detailed below.

All brokerage fees and other expenses associated with the sale of the Sale Shares payable to the Broker will be paid by Auswide Bank.

Within 3 Business Days of the expiry of the Sale Period, the Broker will forward the aggregate proceeds to an account nominated by Computershare and advise Computershare of the number of Sale Shares sold. Auswide Bank will then instruct Computershare to distribute such funds to Share Sale Facility Participants in accordance with paragraph 6 of these Terms and Conditions.

Share Sale Facility Participants should note that they will not have control over the time of the sale of their Sale Shares, and therefore will not be able to personally ensure that the sale

occurs at a certain or any price or at a certain or any time, if at all. The price per Sale Share sold under the Share Sale Facility and the proceeds which are eventually paid to a Share Sale Facility Participant will depend upon the market conditions prevailing at the time of the sale and may be different to the price of Auswide Bank Shares during or after the period between the announcement and completion of the Scheme and the price which appears in the newspaper or is quoted by the ASX and may not be the best execution price on the trading day or trading days that the Share Sale Facility Participant's Sale Shares are sold. Further, the proceeds eventually paid to a Share Sale Facility Participant may be less than the amount which the Share Sale Facility Participant may have recouped from the sale of Auswide Bank Shares on the ASX. The Broker will use its best endeavours to sell the Sale Shares through the Share Sale Facility on the ASX, however, neither Auswide Bank nor the Broker provide any assurance or guarantee that any sale of Sale Shares will occur during the Sale Period.

If a large number of YCU Members decide to participate in the Share Sale Facility and a large number of Sale Shares are sold under the Share Sale Facility, this may have an adverse effect on the price obtained for the Sale Shares, and the proceeds received and eventually distributed to Share Sale Facility Participants under the Share Sale Facility. None of Auswide Bank, the Broker, Computershare, YCU nor any other person will on any account be liable, and a Share Sale Facility Participant may not bring any claim or action against them, for not having sold any or all of the Sale Shares at any specific price or on any specific date or at all.

In the event that not all of the Sale Shares are sold through the Share Sale Facility at the expiry of the Sale Period, the aggregate proceeds obtained from the sale of the Sale Shares during the Sale Period will be distributed in accordance with these Terms and Conditions. Any remaining, unsold Sale Shares will be aggregated and divided among Share Sale Facility Participants who will each be sent their cheque for their portion of the aggregate proceeds obtained from the sale of the Sale Shares during the Sale Period or have their proceeds deposited directly into their YCU savings account, together with a holding statement for the balance of the unsold Sale Shares to which they are entitled to under the Scheme.

## **5. Calculation of amount payable to Share Sale Facility Participants**

Upon receipt of the aggregate proceeds of sale of the Sale Shares, Computershare will send to each Share Sale Facility Participant by cheque or direct deposit into the YCU member's savings account, an amount calculated by multiplying the number of Sale Shares which would have otherwise been required to be issued to the Share Sale Facility Participant by the volume weighted average price per Sale Share (in Australian dollars). The proceeds payable to each Share Sale Facility Participant will be calculated by Computershare and may not be challenged unless there is a manifest error. In arriving at the calculation fractions of a cent will be rounded down to the nearest whole cent.

No brokerage or handling fees (including GST) will be deducted from the proceeds of the sale of the Sale Shares as such charges and taxes will be paid by Auswide Bank.

## **6. Payment and confirmation**

Sale proceeds will be paid to each Share Sale Facility Participant by Computershare:

- a. within 10 days after the end of the Sale Period; and
- b. in Australian dollars by direct deposit into the YCU Member's savings account with YCU or by cheque posted to the address for that Share Sale Facility Participant as shown on the name and address set out on the Sell Form or (as amended by the Share Sale Facility Participant when completing the Sell Form) made payable to the name set out on the Sell Form all at the risk of the Share Sale Facility Participant.

Share Sale Facility Participants will receive, with their payment, a statement which sets out details of the calculation of the payment, including the volume weighted average proceeds per Sale Shares sold under the Share Sale Facility and if applicable, a holding statement for any unsold Sale Shares if all the Sale Shares are not sold under the Share Sale Facility during the Sale Period.

## **7. Electing to participate in the Share Sale Facility**

To participate in the Share Sale Facility, a YCU Member, must properly complete and sign the Sell Form or make an election online and return the relevant Sell Form to Computershare in accordance with the instructions on the Sell Form between 10 May 2016 and 5:00pm (Brisbane time) on 23 May 2016.

For minors (those YCU Members under the age of 18 as at 11 May 2016), a parent or guardian (over the age of 18 as at 11 May 2016) must complete and sign the Sell Form or make an election online on behalf of the minor.

Auswide Bank reserves the right on behalf of the Broker and for any reason, to modify the timetable for, or to terminate or suspend (for any period of time) the operation of, the Share Sale Facility (including to suspend the ability of people to elect to participate in, or to terminate or suspend the sale of Auswide Bank Shares under, the Share Sale Facility) in its sole discretion. Any such modification, termination or suspension will be announced to the ASX and advertised as soon as practicable by Auswide Bank in "The Australian" newspaper.

## **8. Appointment of the Broker as execution-only broker and role of Computershare**

Each Share Sale Facility Participant irrevocably appoints the Broker as "execution-only" broker to hold all of the Share Sale Facility Participant's Sale Shares on behalf of the Share Sale Facility Participant in accordance with the Share Sale Facility Documents. Instructions from Share Sale Facility Participants will be taken to be provided to the Broker at the time that Computershare advises the Broker that the relevant Share Sale Facility Participant's Sale Shares are included in accordance with the Share Sale Facility Documents.

The appointment of the Broker as 'execution-only' broker means that the Broker is not, nor are Auswide Bank, Computershare or YCU, giving, nor are any of them obliged to give, any advice to you. This paragraph does not constitute advice or a recommendation by any of the above to buy, sell or hold securities in Auswide Bank, nor that the Share Sale Facility or any other facility is the best or a preferable way to sell your Sale Shares. Accordingly, before you elect to use the Share Sale Facility you should ensure that the Share Sale Facility meets your own objectives, financial situation and needs. If you are unsure of what action to take you should consult a licensed financial adviser.

Auswide Bank and the Broker are irrevocably authorised by each Share Sale Facility Participant to do all things and execute all documents (including to effect any holding adjustment, securities transformation or other transmission or transaction in relation to a Share Sale Facility Participant's holding of Sale Shares and whether personally or, where practicable, through an agent) to facilitate the sale of all the Sale Shares by the Broker as broker under the Share Sale Facility.

Computershare will act as share registry for Auswide Bank in collating the Sell Form, issuing shares and handling payments to Share Sale Facility Participants. Computershare will act on Auswide Bank's behalf pursuant to instructions issued by Auswide Bank.

## **9. Consequences of electing to participate**

The Offer Period commences on 10 May 2016. In the event that a YCU Member provides a signed Sell Form to Computershare prior to the commencement of the Offer Period, Computershare will not process the Sell Form. Accordingly, the YCU Member will be permitted to withdraw its election to participate in the Share Sale Facility, at any time prior to 10 May 2016

If a YCU Member has not withdrawn its Sell Form by 10 May 2016, the YCU Member is irrevocably bound to sell the number of Auswide Bank Shares it is entitled to as Scheme Consideration and the YCU Member will not be able to cancel its election to sell or the sale process. Furthermore, the YCU Member would not be permitted to sell any of their Sale Shares outside the Share Sale Facility.



Share Sale Facility Participants will, or will be deemed to, direct Auswide Bank to procure the issue of the relevant Sale Shares directly to the Broker (or its nominee) for and on behalf of the Share Sale Facility Participant, in each case as their broker nominee, on Auswide Bank's issuer sponsored subregister for the purpose of sale under the Share Sale Facility.

Auswide Bank may, in its sole discretion, at any time determine on behalf of the Broker that an election to participate is valid in accordance with the Share Sale Facility Documents, even if the Sell Form is incomplete, contains errors or is otherwise defective. Auswide Bank (or any agent of Auswide Bank acting on its instructions) may correct any error in or omission from a Sell Form and complete the Sell Form by the insertion of any missing details.

Notwithstanding anything else in this document, neither Auswide Bank nor the Broker is under any obligation to accept any Sell Form, whether completed correctly or not. In particular, a Sell Form may not be accepted if it is not received in accordance with the instructions on the reverse of the form or if there is reason to believe that the relevant YCU Member cannot provide one or more of the warranties and acknowledgements set out in paragraph 10 of these Terms and Conditions.

## 10. Warranties

By sending or delivering a completed Sell Form or making an election online, a Share Sale Facility Participant represents, warrants and agrees with and to Auswide Bank, the Broker, Computershare and YCU and each of their officers, servants and agents that:

- (i) it has read, and agrees to, the terms and conditions of the Share Sale Facility Documents;
- (ii) it is irrevocably bound to sell all of its Sale Shares under the Share Sale Facility in return for the proceeds to be provided to it in accordance with the Share Sale Facility and otherwise in accordance with the Share Sale Facility Documents;
- (iii) at the time of giving the Sell Form or making an election online, it is eligible to participate in the Share Sale Facility;
- (iv) it warrants (and authorises the Broker to warrant on the Share Sale Facility Participant's behalf) to any buyer of the Share Sale Facility Participant's Sale Shares through the Share Sale Facility that the buyer will acquire good title to those Sale Shares and full legal and beneficial ownership of them free from all mortgages, charges, liens, encumbrances (whether legal or equitable), restrictions on transfer of any kind and from any third party rights;
- (v) it will not sell or encumber any of the Share Sale Facility Participant's Sale Shares to or in favour of any person or entity and that, if any Sale Shares are sold in breach of this warranty, the Share Sale Facility Participant will be deemed to have appointed the Broker or any officer of the Broker as its attorney to purchase Auswide Bank Shares in the Share Sale Facility Participant's name, and at the Share Sale Facility Participant's expense, to satisfy the Share Sale Facility Participant's obligations in relation to the sale of its Sale Shares, and will indemnify the Broker for all costs incurred by it in connection with any such purchase;
- (vi) none of Auswide Bank, the Broker, Computershare, YCU nor any other party involved in the Share Sale Facility has any liability to the Share Sale Facility Participant other than for the payment of any sale proceeds determined payable in accordance with the terms and conditions of the Share Sale Facility Documents;
- (vii) it acknowledges that none of Auswide Bank, the Broker, Computershare, YCU nor any other party involved in the Share Sale Facility has provided the Share Sale Facility Participant with any investment advice or made any securities recommendations, nor has any obligation to provide such advice or make any such recommendations, concerning the Share Sale Facility Participant's decision to sell their Sale Shares, and that the Share Sale Facility Participant has made its own decision to sell Auswide Bank

Shares under the Share Sale Facility based on its own investigations of the affairs of Auswide Bank and its own analysis of the Share Sale Facility Documents;

- (viii) it acknowledges and agrees that Auswide Bank and the Broker may appoint agents and delegates to perform any of their obligations under the Terms and Conditions;
- (ix) it acknowledges that no interest will be paid on amounts held on its behalf in the nominated account;
- (x) it acknowledges that it is the Share Sale Facility Participant's sole responsibility to ensure that its signed and completed Sell Form is received by Computershare between 10 May 2016 and 5:00pm (Brisbane time) on 23 May 2016;
- (xi) it appoints Auswide Bank as the Share Sale Facility Participant's agent to receive any notice, including the Financial Services Guide (and any update of that document), that the Broker or Computershare is required to provide under the Corporations Act; and
- (xii) it acknowledges that the Share Sale Facility Documents are governed by the laws in force in Queensland, and otherwise agrees to these Terms and Conditions.

## 11. Subsequent Information

If any further information relating to the Share Sale Facility is made available by Auswide Bank, it will be announced by Auswide Bank to ASX where it may be accessed on ASX's website [www.asx.com.au](http://www.asx.com.au).

## 12. Additional information

Share Sale Facility Participants should note that the price of Auswide Bank Shares is subject to change from time to time. Share Sale Facility Participants may obtain up to date information on the latest closing price of Auswide Bank Shares from ASX's website [www.asx.com.au](http://www.asx.com.au).

## 13. Glossary

**ASX** means ASX Limited ACN 008 624 691.

**Auswide Bank** means Auswide Bank Ltd ACN 087 652 060.

**Auswide Bank Share** means a fully paid ordinary share in Auswide Bank.

**Broker** means Baillieu Holst Ltd ACN 006 519 393.

**Business Day** means a day that is not a Saturday, Sunday, bank holiday or public holiday in Queensland.

**Computershare** means Computershare Investor Services Pty Limited ACN 078 279 277.

**Corporations Act** mean the Corporations Act 2001 (Cth).

**Court** means a court of competent jurisdiction under the Corporations Act.

**Effective Date** means the date on which the Scheme becomes Effective.

**Financial Services Guide** means a financial services guide as defined under section 761A of the Corporations Act.

**Implementation Date** means the fifth Business Day after the Record Date or such other date as is agreed between YCU and Auswide Bank.

**New Auswide Bank Shares** means fully paid ordinary shares in Auswide Bank to be issued to Scheme participants as part of the Scheme consideration.

**Sale Shares** means Auswide Bank Shares which YCU Members are entitled to receive under the Scheme but which they elect to sell under the Share Sale Facility.

**Share Sale Facility Participants** means the YCU Members who elect to have their New Auswide Bank Shares sold by the Broker, in accordance with the terms and conditions of the Share Sale Facility.

**Record Date** means 5pm (Brisbane time) on the fifth Business Day following the Effective Date or such other date (after the Effective Date) as YCU and Auswide Bank may agree in writing.

**Sale Period** means the period from 23 May 2016 to 24 June 2016 which, at Auswide Bank's election (subject to obtaining ASIC approval), may be extended for a further period of up to 60 days if necessary to complete the sale of the New Auswide Shares under the Share Sale Facility.

**Scheme** means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act proposed between YCU and the Scheme Participants as described in clause 4 (Outline of Share Scheme) of the Merger Implementation Agreement and set out as Attachment IV (Scheme of Arrangement), 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 Auswide Bank and YCU.

**Sell Form** means the sale instruction form enclosed with the Scheme Booklet and available at <http://yourinterest.com.au/ycuAuswidemerger/> properly completed in accordance with the instructions by which a Share Sale Facility Participant instructs the Broker as agent of the Share Sale Facility Participant to sell their Sale Shares under the Share Sale Facility.

**Share Sale Facility** means this share sale facility offered to eligible YCU Members to sell the New Auswide Bank Shares they are eligible to receive as part of their Scheme Consideration if the Scheme is implemented.

**Share Sale Facility Documents** means these terms and conditions, the Sell Form and any associated documents provided or made available in relation to the Share Sale Facility.

**Terms and Conditions** means these terms and conditions.

**YCU** means Queensland Professional Credit Union Ltd ACN 087 651 045 trading as Your Credit Union.

**YCU Member** means a member of YCU.

Personal information may be collected on the Sell Form by Auswide Bank and/or others involved in the Share Sale Facility for the purpose of the administration of, and the sale of Sale Shares under, the Share Sale Facility. That information may be disclosed between Auswide Bank and others involved and their respective related bodies corporate, to external service companies such as mail service providers or brokers or as otherwise required or permitted by law. Please contact Auswide Bank for details of your personal information held by it or to correct inaccurate or out of date information.

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## VIII: Taxation Considerations Report

## **TAXATION REPORT<sup>1</sup>**

### **YCU and AUSWIDE BANK MERGER PROPOSAL**

#### **PURPOSE OF THE TAXATION REPORT<sup>2</sup>**

This report has been prepared to generally discuss the taxation implications of the merger proposal for YCU members, including the implications of the demutualisation process. Whilst the information in the report intends to provide a broad coverage of all of the taxation consequences of the merger, **individual YCU members should consult their independent professional taxation adviser having regard to their individual circumstances, including if they wish to sell any New Auswide Bank Shares they will receive if the Scheme becomes Effective.**

For the purposes of the following summary and the detailed taxation discussion, it is assumed that the YCU member is a passive investor and holds their current member share in YCU on capital account. Any YCU member that holds their interest in YCU as a share trader or has acquired their interest for the purpose of profit making, will need to seek separate taxation advices.

The terms used in this Report are as defined in the Glossary of the Scheme Booklet.

#### **1. OVERVIEW**

##### **1.1 SUMMARY OF TAXATION CONSEQUENCES**

The merger proposal will be implemented in the following manner:

- (i) YCU will be demutualised as a result of amending YCU's constitution including permitting the shares currently held by YCU members to be transferred;

If the YCU members ratify the demutualisation resolution, then

- (ii) Pursuant to the merger of YCU and Auswide Bank, YCU members will transfer their YCU shares to Auswide Bank in consideration for the receipt of a cash payment and a number of Auswide Bank ordinary shares.

Each stage of the merger implementation arrangement has distinct taxation implications. In summary the stages and the taxation consequences are as follows:

##### **(i) Demutualisation:**

The constitutional changes proposed to change the shareholder rights will have no immediate taxation consequences for any of the YCU members.

##### **(ii) Merger arrangement**

The taxation implications of the transfer of YCU shares to Auswide Bank will differ for those members who acquired their YCU shares pre CGT (prior to 20<sup>th</sup> September 1985) or post CGT (on or after 20<sup>th</sup> September 1985):

###### **a. Pre CGT YCU members:**

- i. There is no CGT liability resulting from the transfer of the YCU Share to Auswide Bank;
- ii. Whilst the transfer of their YCU share for the nominated capital proceeds will constitute a CGT Event, any capital gain or capital loss arising from the CGT Event to the relevant YCU member will be disregarded.
- iii. The cost base of the Auswide Bank shares received in exchange for the YCU shares will be based on the market value of the Auswide Bank at the date of the merger; and
- iv. The acquisition date of the Auswide Bank shares will be the merger implementation date.

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<sup>1</sup> Brian Richards CTA, RichardsB Pty Ltd, 12 February 2016

<sup>2</sup> Taxation references in this report are made to Income Tax Assessment Act ("ITAA") of 1936 or 1997.

- b. Post CGT YCU members
  - i. The transfer of their YCU share to Auswide Bank will constitute a CGT Event;
  - ii. The capital proceeds for the transfer of the YCU share will be the total of the cash received and the relevant market value of the Auswide Bank share received;
  - iii. The CGT gain will be the difference between the capital proceeds and cost base of the YCU share;
  - iv. Subject to the next point, the YCU individual member who has held their YCU share for at least 12 months will be able to discount the gain by 50% (the discount is also available for trusts (50%), complying superannuation funds (33.3%). No discount is available for companies);
  - v. As some part of the capital proceeds includes the receipt of Auswide Bank shares, the YCU shareholder will have the choice to rollover/defer that part of the capital gain that is attributable to the receipt of the Auswide Bank shares. In these circumstances, YCU Members who elect for the scrip for scrip rollover to apply will not pay tax on the exchange of their YCU Share for the Auswide Bank Shares. Based on the hypothetical market value of the Auswide Bank share provided in the merger implementation document, approximately 48% of the gain may be deferred. However the actual proportion of the gain that may be deferred will depend on the actual market value of the New Auswide Bank Shares on the merger implementation date.
  - vi. The Auswide Bank share received will have a deemed cost base equal to:
    - (a) The market value of the Auswide Bank share if the rollover is not chosen
    - (b) The cost base of the YCU share if the rollover is chosen

If the share sale facility is nominated by the YCU member, the sale of their Auswide Bank share will be a CGT Event and the CGT consequences will be determined by the difference between the amounts received and the deemed cost base of the Auswide Bank share. Any gain will not be reduced by the CGT discount if the Auswide Bank share is not held for at least 12 months

For YCU members who have chosen the rollover concession, the deemed acquisition date of the Auswide Bank share will be deemed to be the date when the YCU member acquired their YCU share. YCU members who are non-residents of Australia will not have any CGT implications arising from the merger proposal. Non-residents are only subject to Australian CGT if the asset is taxable Australian property.<sup>3</sup> YCU shares are not taxable Australian property.

## 1.2 PARTICIPANTS IN MERGER PROPOSAL

Queensland Professional Credit Union Ltd ("YCU") and Auswide Bank Ltd ("Auswide Bank") have announced that they intend to merge. Details of the merger proposal is disclosed in the Merger Implementation Agreement (dated 22 December 2015) prepared for the respective parties. The merger is intended to be completed by 30<sup>th</sup> June 2016. The implementation date is specified as the 19<sup>th</sup> May 2016. Accordingly the taxation implications for the YCU members will be included in the YCU member's taxation returns for the year ended 30<sup>th</sup> June 2016.

## 1.3 DEMUTUALISATION OF YCU

The merger proposal is conditional on the demutualisation of YCU. The demutualisation process envisages that eligible members of YCU who currently own a member's share will hold a share interest in the demutualised corporate entity, whereby the share will entitle the holder to all of the usual shareholder rights, that is voting, income and capital entitlements. As explained in the merger implementation agreement "demutualisation" means the demutualisation of YCU from a mutual credit union structure to a non-mutual public company owned by shareholders in accordance with the Corporations Act. The demutualisation of YCU will be facilitated by specific changes to YCU's constitution. The ramifications of the constitutional changes will only be applicable as from the effective date. In practical terms the proposed constitutional changes are intended to facilitate the YCU member share having all of the usual ordinary share rights to facilitate the merger.

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<sup>3</sup> Division 855 ITAA 1997



## 1.4 MERGER OFFER TO YCU MEMBERS

Subsequent to the completion of demutualisation process, the merger scheme of arrangement, proposes that each YCU member will receive in exchange for their YCU member share:

- \$4,055 in cash; and
- 696 fully paid ordinary shares in Auswide Bank.

The implementation agreement further provides that Auswide Bank may establish a sale facility arrangement for Eligible YCU Members who nominate to sell their new Auswide Bank Shares received in accordance with the merger arrangement. Pursuant to that sale facility arrangement, Auswide Bank will sell the YCU member's New Auswide Bank Shares and pay to the YCU Member the proceeds received in accordance with a pre-determined formula.

For the purposes of this taxation report, the financial information provided by the merger documentation has been applied to provide the commentary on the taxation implications of the merger proposal. That is the capital proceeds will include the market value of the Auswide Bank shares and a cash amount. The projected capital proceeds attributable to the merger consideration for the YCU member, is \$7,813<sup>4</sup>, however the actual capital proceeds amount will be determined by the market value of the Auswide Bank shares as at the merger implementation date.

Nothing in this report is intended to infer the financial endorsement of the proposal or the provision of advices concerning the acceptability of the merger arrangement.

## 2. TAXATION IMPLICATIONS FOR YCU MEMBERS

There are two distinct stages to the proposed merger arrangement and each stage have taxation implications for YCU members:

- (i) The demutualisation process whereby the rights attached to YCU members shares are altered (Refer to Section 3); and
- (ii) The merger arrangement whereby YCU members will transfer their interests in YCU to Auswide Bank in consideration of the receipt of:
  - a. A cash amount; and
  - b. A parcel of Auswide Bank shares. (refer to Section 4)

## 3. TAXATION IMPLICATIONS OF THE DEMUTUALISATION OF YCU

### 3.1 INTRODUCTION

YCU is presently a mutual financial institution that has been providing professional financial services since 1967 and accordingly for taxation purposes there might be YCU members who became members of YCU prior to the introduction of CGT (20<sup>th</sup> September 1985).

YCU is an entity incorporated pursuant to the Corporations Act.

In accordance with the present constitutional provisions, inter alia:

- a YCU customer must acquire one member share for a cost of \$10;
- the constitution provides that the member share has limited rights, including:
  - no right to transfer a member share;
  - a single vote at meetings;
  - no entitlement to dividends;
  - participation in the distribution of profits or gains on the winding up of the entity.

It is proposed that YCU will be demutualised, whereby the rights attached to the YCU member share will be altered to principally permit the transfer to Auswide Bank.

To the extent that the demutualised process does not contemplate any extinguishment of existing rights, no cancellation of the present member share, the constitutional changes proposed will not have any immediate taxation consequences.

### 3.2 OVERVIEW OF DEMUTUALISATION OF YCU

It is proposed the YCU's constitution will be amended which will have the consequence, inter alia of enhancing the economic value of the present member share.

It is not envisaged that the current member share will be cancelled or replaced by another share.

<sup>4</sup> Based on the Auswide Bank ASX closing share price on 18 December 2015 of \$5.40,

From a taxation perspective the issues that arise are whether there are any income tax or CGT consequences for the YCU member. In this regard, I have considered whether:

- (i) the economic benefit received by the YCU member could be regarded as a dividend as that term is defined by section 6(1) ITAA 1936;
- (ii) the alteration of the share rights causes the direct value shifting provisions (Division 725 ITAA 1997) to apply;
- (iii) there are any other CGT Events that might apply to the changes to the share rights; and
- (iv) there are any integrity measures that might apply to the proposed demutualisation process.

### **Dividend**

Subsection 6(1) ITAA 1936 defines 'dividend' for the purposes of the income tax legislation to include:

- (a) any distribution made by a company to any of its shareholders, whether in money or other property; and
- (b) any amount credited by a company to any of its shareholders as shareholders.

With the proposed demutualisation process, YCU will not either make a distribution of money or YCU's property to the member shareholders or any amount being credited by YCU to any of its member shareholders as shareholders.

### **Value Shifting Provisions (Division 725 ITAA 1997)**

There are a number of reasons why the value shifting provisions do not apply:

- (i) The direct value shifting rules only apply if there is a shift of value from one shareholder to another shareholder as a consequence of a scheme that involves inter alia, an alteration to the share rights. There is no shift of value, all members shares are enhanced in economic value as a result of the demutualisation process;
- (ii) The direct value shifting rules do not apply unless there is any entity that controls YCU at some time during a scheme period. The proposed changes to the YCU constitution to implement the demutualisation scheme is dependent on the YCU membership passing the requisite resolution. Each member has one vote and accordingly there is no entity that presently controls YCU.

### **Other CGT Events**

In the overall context of the demutualisation scheme, the adjustment of share rights do not give rise to CGT outcomes because the proposed enhancements merely relate to the bundle of rights comprising the shares and the shares do not thereby convert into other interests.

It has been generally accepted that different rights attached to a share are not separate assets and accordingly any change to enhance the existing share rights of the YCU members have no CGT consequences (refer to taxation ruling TR 94/30).

No CGT event happens to the shareholder's member shares for CGT purposes. While there is a change in the form of the original shares, there is no change in their beneficial ownership.

As a further consequence of the proposed demutualisation process, the acquisition date and acquisition cost of the YCU share is not impacted. Accordingly, if a member acquired their member share prior to 20<sup>th</sup> September 1985 (pre CGT), the share in the demutualised entity will remain as a pre CGT share. If a member acquired their member share on or after 20<sup>th</sup> September 1985 (post CGT), the share in the demutualised entity will remain as a post CGT share with its acquisition date referenced to the date when the member acquired their original member share.

### **Integrity measures**

The ITAA provides for a number of integrity measures to negate any taxation benefit received by a taxpayer. The general anti-avoidance rule (Part IVA ITAA 1936) is not applicable if the taxpayer can justifiably demonstrate that the scheme is justified by regard to ordinary commercial purposes rather than a purpose to achieve a tax benefit.

The demutualisation scheme is being implemented solely to facilitate the merger of YCU with Auswide Bank. The demutualisation process does not have a tax benefit purpose or if it does such tax benefit is incidental.

Further, as it has been concluded that the benefits of demutualisation will not constitute a dividend, the anti-avoidance integrity measures associated with sections 45, 45A, 45B, and 45C ITAA 1936 are not applicable.

## **4. AUSWIDE BANK MERGER WITH YCU**

### **4.1 Overview**

The merger implementation arrangement proposes that Auswide Bank will acquire all of the YCU shares held by YCU members and YCU shareholders will receive capital proceeds consisting of:

- A cash amount; and
- A certain number of Auswide Bank shares.

The transfer of YCU shares to Auswide Bank will have varying income tax consequences depending on whether the YCU member shareholder is a pre or post CGT shareholder.

### **4.2 CGT CONSEQUENCES OF AUSWIDE BANK ACQUIRING THE YCU SHARES**

The acquisition of the YCU shares by Auswide Bank constitutes a CGT Event (CGT Event A1) and consequently if the capital proceeds received exceeds the YCU shares cost base (\$10), the post YCU shareholder will have an assessable capital gain.

#### **4.2.1 Pre CGT YCU Shareholder**

For those YCU members who acquired their shares before 20 September 1985 (pre-CGT) any capital gain or capital loss arising from the disposal of the YCU share will be disregarded.

For future CGT purposes, the Auswide Bank shares received will have a cost base equal to the market value of the Auswide Bank shares at the time of the merger.

#### **4.2.2 Post CGT YCU Shareholder**

##### **Assessable net capital gain to be included in taxation return for the year ended 30<sup>th</sup> June 2016**

Post YCU shareholders will have an assessable capital gain being the excess of the total amount of the capital proceeds (approximately \$ 7,813, depending on the Auswide Bank share price at the relevant time) over the cost base of the YCU share (\$10). That is \$7,803.

For post YCU members that have been a member for at least 12 months they can reduce the assessable capital gain by the CGT discount (Division 115 ITAA 1997) That is, the assessable net gain is \$3,901.50. **Note** that the CGT discount is available for individuals or trusts (50%) and complying superannuation funds (33.3%). Companies are not entitled to the CGT discount. (See below for further possible reductions of the net capital gain by the scrip for scrip rollover concession)

The assessable net capital gains will need to be included in the YCU shareholder's taxation return for the year ended 30<sup>th</sup> June 2016. Note, that if the YCU shareholder has any current year or carried forward capital losses, these losses can be offset against the assessable capital gain.

#### **Capital proceeds**

The capital proceeds<sup>5</sup> will be the aggregate of the amounts proposed to be provided by Auswide, namely:

- \$4,055 in cash; and
- The market value of 696 fully paid ordinary shares in Auswide Bank received. The market value will be the actual market value on the merger implementation date (Note that as the Scheme document examples for illustration purposes the market value of the Auswide Bank shares was \$5.40, at that time that would be \$3,758 for the 696 Auswide bank shares.)

Based on the foregoing, the expected capital proceeds receivable by the YCU shareholder for the "disposal" of their YCU share will be approximately \$ 7,813.

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<sup>5</sup> Section 116-20 ITAA 1997

## Calculation of assessable capital gain

To calculate the assessable capital gain, the amount of capital proceeds received is reduced by the deemed cost base of the YCU shares (see above in section 3).

### 4.3 SCRIP EXCHANGE

All post CGT YCU members will have the opportunity to choose to elect to defer that part of the capital gain attributable to exchange of YCU shares with the Auswide Bank shares pursuant to subdivision 124-M ITAA 1997 (scrip for scrip exchange).

For pre CGT YCU members, the transfer of their YCU share for the nominated capital proceeds will constitute a CGT event. However, any capital gain or capital loss arising to the relevant pre CGT YCU member will be disregarded as the subdivision 124-M rollover is not applicable to their share transfer. Accordingly, the following comments only apply to the post CGT member shareholders.

#### **Subdivision 124M Rollover – application to a post YCU member**

This subdivision provides each post CGT YCU shareholder with the choice to defer that part of their assessable gain generated by the transfer of the YCU shares to Auswide Bank that is attributable to the scrip exchange.

That is, that part of the capital gain that is attributable to the cash component of the arrangement cannot be deferred.

If the YCU shareholders are to make the above election the nature and terms of the merger share exchange must satisfy specific requirements outlined in Subdivision 124M IAA 1997:<sup>6</sup>

In my opinion the post YCU shareholders are entitled to choose the roll-over relief because the following requirements are all satisfied:

- (i) The YCU shareholder exchanges their interest in YCU (that is, the member share) for a share(s) in Auswide Bank;
- (ii) the exchange is in consequence of a single arrangement whereby:
  - (a) As a consequence of the merger arrangement, Auswide Bank will acquire at least 80% of the voting shares in YCU; and
  - (b) All members of YCU can participate in the arrangement on substantially the same terms for all of the owners of YCU interests
- (iii) as a consequence of the share exchange, the post YCU shareholder would have a capital gain, unless they elect to apply the subdivision 124-M rollover;
- (iv) the arrangement satisfies the “arm’s length” dealing test; and
- (v) the YCU shareholder makes an election to apply the subdivision 124-M rollover. There is no actual election notice to be completed by the taxpayer. Evidence of the rollover election is satisfied by the way in which the YCU shareholder completes their tax return for the year ended 30 June 2016.

It is further noted that YCU has more than 300 members and accordingly, the market value requirement and same share right conditions<sup>7</sup> are not applicable.

Accordingly and based on the information provided in the merger implementation document, Subdivision 124-M will be available to the post YCU shareholders to adopt either of the following two taxation options:

- (i) Apply subdivision 124-M rollover to disregard that part of the capital gain attributable to the scrip exchange. Having regard to the hypothetical values illustrated in the merger implementation document, the scrip component represents approximately 48 % of the capital proceeds receivable. Accordingly, the YCU shareholder can choose to defer 48% of the capital gain; or
- (ii) Choose not to apply subdivision 124-M and bring to account the entire capital gain attributable to the transfer of the YCU share to Auswide Bank as an assessable capital gain.

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<sup>6</sup> Section 124-780 ITAA 1997

<sup>7</sup> Subsection 124-780(4) & (5)

Based on the hypothetical value of the Auswide Bank shares that forms part of the capital proceeds, the capital gain calculation will be for a post YCU shareholder who has held their YCU share for more than 12 months:

Capital gain	\$ 7,803
Less (gain attributable to scrip \$3758/\$7813)	<u>\$ 3,753</u>
Balance gain	\$ 4,050
Division 115 discount (50%)*	<u>\$ 2,025</u>
<b>Assessable net gain</b>	<b><u>\$ 2,025</u></b>

\*If the YCU shareholder has any capital loss, the loss must be deducted from the balance of the gain prior to calculating the Division 115 discount.

If the post YCU member makes the choice to apply the application of the subdivision 124-M rollover, the deemed cost base of the Auswide Bank shares for future CGT transactions relating to the Auswide Bank shares is determined by the general CGT rules. That is the cost base of the Auswide Bank share will be determined in accordance with the cost base modification rules provided by section 112-110, that is, the first element of the Auswide Bank share's cost base is replaced by the YCU share's cost base at the time the Auswide Bank share is acquired.

If the YCU member does not choose to apply subdivision 124-M, in addition to the immediate capital gain consequences, for future CGT transactions the cost base of the Auswide Bank shares will be deemed to be the market value of the Auswide Bank shares at the time of the exchange.

#### **4.3.1 GST**

The transfer of the YCU members share to Auswide Bank is a financial supply and accordingly, there is no GST payable on the share transfer<sup>8</sup>.

#### **4.3.2 Sale facility arrangement**

For those YCU Members who are unwilling to retain their new Auswide Shares post the merger, as an alternative to directly selling their Auswide Bank Shares, once received, on the ASX, Auswide is setting up a share sale facility.

Under this Facility, Baillieu Holst (a nominated stockbroking firm) will aggregate all Auswide Bank Shares for which Sell Forms are received from YCU Members and then dispose of them on behalf of the YCU members in an orderly fashion designed to achieve the maximum price.

Participating YCU Members would then receive their share of the average gross proceeds achieved by Baillieu Holst with all brokerage and stamp duty costs being paid by Auswide Bank.

Pursuant to this arrangement, the YCU member who takes advantage of this arrangement, will have the following taxation consequences:

##### **(i) For all YCU members:**

The decision to participate in the sale facility arrangement does not alter the taxation implications of either the demutualisation or the merger arrangement discussed above;

##### **(ii) For pre CGT YCU members**

As has been stated above, on receipt of the Auswide Bank shares pursuant to the merger arrangement and the scrip exchange, there are no immediate CGT consequences as the YCU shares are pre CGT.

The Auswide Bank shares received by the YCU member are deemed to have a cost base equal to the market value of the Auswide Bank shares at the time of the share exchange. The acquisition date of the Auswide Bank shares will be the implementation merger date.

Consequently, if the Auswide Bank shares are sold pursuant to the facility arrangement, this represents a separate CGT Event and the capital proceeds received by the YCU members in respect of their Auswide Bank shares will be compared to the deemed cost base to determine whether they have either a capital gain or a capital loss. As the Auswide Bank share have not been held for at least 12 months, the CGT discount is not available.

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<sup>8</sup> GST Regulation 40-5.09

### (iii) For post CGT YCU members

For those post CGT YCU members who have received the Auswide Bank shares, the CGT consequences will be as follows, where they take advantage of the share facility arrangement:

- (a) If the YCU member has **not** elected to use the scrip for scrip rollover relief, the CGT consequences will be as follows:
- Because the YCU member has not elected the scrip for scrip rollover relief, the Auswide Bank shares received are deemed to have a cost base equal to the market value of the Auswide Bank shares at the time of the exchange;
  - The acquisition date of the Auswide Bank shares will be the implementation merger date;
  - The sale of the Auswide Bank shares via the share facility arrangement is a CGT Event;
  - The amount received by the YCU member pursuant to the share sale facility arrangement will be treated as the capital proceeds for the sale of their Auswide Bank Shares;
  - The capital proceeds received via the share sale facility is compared to the deemed cost base of the Auswide Bank shares to determine whether there is either a capital gain or a capital loss;
  - The gain will not be reduced by the CGT discount as the Auswide Bank share has not been held for at least 12 months.
- (b) If the YCU member has elected to use the scrip for scrip rollover election to defer the gain attributable to the scrip exchange, the CGT consequences are as follows:
- As the YCU member has elected to apply the scrip for scrip rollover election, the Auswide Bank shares are deemed to have a cost base equal to the cost base of their original YCU shares;
  - The acquisition date of the Auswide Bank share is deemed to be the date when the YCU member acquired their original YCU share;
  - The sale of the Auswide Bank shares via the share facility arrangement is a CGT Event;
  - The capital proceeds received pursuant to the share sale facility arrangement will be the capital proceeds for the sale of their Auswide Bank Shares;
  - The capital proceeds received for the sale of the Auswide Bank shares via the share sale facility is compared to the deemed cost base of the Auswide Bank shares to determine whether there is either a capital gain or a capital loss;
  - If the YCU member is deemed to have held their Auswide Bank share for more than 12 months, the capital gain made on the sale of the Auswide Bank shares via the share sale facility arrangement will be reduced by the CGT discount of 50%, if the share is held by an individual or a trust, or 33 1/3<sup>rd</sup> if held by a complying superannuation fund.

## 5. AUSWIDE BANK DIVIDENDS

Auswide Bank's prior dividend history shows that all recent year dividend payments have been fully franked. Whilst there is no representation in the merger proposal concerning the payment of future dividends, for the purposes of explanation, if Auswide Bank does pay a dividend the following taxation implications will apply to the shareholder.

As the Income Tax law currently provides, when a corporate entity pays a dividend to its Australian shareholders, the amount of the dividend received plus the franking credit are included in the shareholder's assessable income. The franking credit is then allowed as an offset against the shareholder's tax liability. For Individual shareholders who receive the dividend directly or indirectly (for example via a trust or a partnership), if the franking credits exceed the taxpayer's tax liability on their taxable income, the excess franking credits are refundable.



**For example:**

Fully franked dividend amount	\$70
Franking credits	\$30
Assessable Income	\$100

If the taxpayer's tax applicable to the dividend is for example 20%

Tax applicable	\$20
Less Franking credit offset	\$30
Excess – tax refund	\$10.

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## GLOSSARY, DEFINITIONS AND INTERPRETATION

The following is a glossary of certain terms used in this Scheme Booklet.

<b>ACCC</b>	means the Australian Competition and Consumer Commission.
<b>ADI</b>	means an Authorised Deposit-taking Institution under the Banking Act.
<b>APRA</b>	means the Australian Prudential Regulation Authority.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means ASX Limited ACN 008 624 691 or the Australian Securities Exchange as the context requires.
<b>ASX Listing Rules</b>	means the listing rules of the ASX from time to time as modified by any express written waiver or exemption given by the ASX.
<b>Auswide Bank</b>	means Auswide Bank Ltd ACN 087 652 060.
<b>Auswide Bank Board</b>	means the board of directors of Auswide Bank.
<b>Auswide Bank Directors</b>	means a member of the Auswide Bank Board.
<b>Auswide Bank Group</b>	means Auswide Bank and its subsidiaries.
<b>Auswide Bank Information</b>	means the information contained in the letter from the Chairman of Auswide Bank, and the information regarding Auswide Bank and its Related Bodies Corporate included in Sections 7 and 8.1-8.4 of this Scheme Booklet.
<b>Auswide Bank Material Adverse Change</b>	has the meaning given to it in the Merger Implementation Agreement.
<b>Auswide Bank Prescribed Event</b>	has the meaning given to it in the Merger Implementation Agreement.
<b>Auswide Bank Shareholders</b>	means each person who is registered in the Auswide Bank register from time to time as the holder of an Auswide Bank Share.
<b>Auswide Bank Share</b>	means a fully paid ordinary share in Auswide Bank.
<b>Banking Act</b>	means the Banking Act 1959 (Cth).
<b>Broker</b>	means Baillieu Holst ACN 006 519 393, the person appointed by Auswide Bank to sell or facilitate the transfer of the New Auswide Bank Shares on behalf of Ineligible Foreign Members and Share Sale Facility Participants, and includes any custodian acting on behalf of such person(s).
<b>Business Day</b>	means a day that is not a Saturday, Sunday, bank holiday or public holiday in Queensland.
<b>CGT</b>	means capital gains tax
<b>Competing Transaction</b>	has the meaning given to it in the Merger Implementation Agreement.

<b>Constitutional Amendments</b>	means the proposed amendments to the YCU Constitution to give effect to the Demutualisation, and as set out in Section 15.5.
<b>Constitutional Amendment Resolution</b>	the special resolution of YCU Members required to give effect to the Constitutional Amendments.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Corporations Regulations</b>	means the <i>Corporations Regulations 2001</i> (Cth).
<b>Court</b>	means a court of competent jurisdiction under the Corporations Act.
<b>Deed Poll</b>	means the deed poll dated 26 February 2016 executed by Auswide Bank whereby, among other things, Auswide Bank covenants to carry out its obligations under the Scheme, as set out in Attachment III ( <i>Deed Poll</i> ).
<b>Demutualisation</b>	the demutualisation of YCU under Part 5 of Schedule 4 to the Corporations Act required to give effect to the Merger Proposal whereby, amongst other things, the Constitutional Amendment Resolution is passed.
<b>Demutualisation Disclosure Statement</b>	means Section 15 of the Scheme Booklet and such other information in the Scheme Booklet which are incorporated by reference into that section.
<b>Demutualisation Meeting</b>	means the meeting to consider and, if thought fit, pass the Constitutional Amendment Resolution.
<b>Effective</b>	when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to the Scheme.
<b>Effective Date</b>	when used in relation to the Scheme, means the date on which the Scheme becomes Effective.
<b>End Date</b>	means 30 June 2016 or such other date as is agreed between YCU and Auswide Bank.
<b>Exclusivity Period</b>	has the meaning given to it in the Merger Implementation Agreement.
<b>Explanatory Statement</b>	means the contents of this Scheme Booklet which explain the scheme of arrangement to implement the Merger Proposal as required by Section 411 of the Corporations Act.
<b>Foreign YCU Member</b>	means a YCU Member: <ul style="list-style-type: none"> <li>• who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than residents in Australia and its external territories; or</li> <li>• who is recorded in the YCU Register at the Record Date as having a registered address outside Australia and its external territories or who is acting on behalf of such person.</li> </ul>
<b>FSSA</b>	means the <i>Financial Sector (Shareholdings) Act 1998</i> (Cth).
<b>FY</b>	means financial year.

<b>Governmental Agency</b>	means 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.
<b>GST</b>	has the meaning given to it in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Implementation</b>	means the implementation of the Scheme on the Implementation Date, so that all YCU Shares are transferred to Auswide Bank, such that YCU becomes a wholly owned subsidiary of Auswide Bank.
<b>Implementation Date</b>	means the fifth Business Day after the Record Date or such other date as is agreed between YCU and Auswide Bank.
<b>Independent Expert</b>	means Lonergan Edwards & Associates.
<b>Independent Expert's Report</b>	means the report of the Independent Expert as set out in Attachment I ( <i>Independent Expert's Report</i> ).
<b>Ineligible Foreign Member</b>	<p>means a Foreign YCU Member, unless YCU and Auswide Bank determine that:</p> <ul style="list-style-type: none"> <li>(a) it is lawful and not unduly onerous or unduly impracticable to issue that Foreign YCU Member with New Auswide Bank Shares under the Scheme; and</li> <li>(b) it is lawful for that Foreign YCU Member to participate in the Scheme by the law of the relevant place outside Australia and its external territories,</li> </ul> <p>as described in section 4.6.</p>
<b>Merger Conditions</b>	means the conditions precedent to the Merger Proposal as set out in Section 14.7 of the Scheme Booklet and clause 3 of the Merger Implementation Agreement.
<b>Merged Entity</b>	means the combined corporate group of Auswide Bank and YCU and each of their Related Bodies Corporate following Implementation.
<b>Merged Entity Board</b>	means the board of directors of the Merged Entity, being the current members of the Auswide Bank Board.
<b>Merger Implementation Agreement</b>	means the Merger Implementation Agreement dated 22 December 2015 between YCU and Auswide Bank, as set out in Attachment II ( <i>Merger Implementation Agreement</i> ).
<b>Merged Entity Information</b>	means the information concerning the Merged Entity appearing in this Scheme Booklet.
<b>Merger Proposal</b>	means the proposed Demutualisation of YCU and Scheme of Arrangement between Auswide Bank and YCU whereby Auswide Bank proposes to acquire all of the YCU Shares in exchange for 696 New Auswide Bank Shares and \$4,055 cash, for each fully paid YCU Share, such that following Implementation, YCU will become a wholly owned subsidiary of Auswide Bank.
<b>MRM</b>	means Mortgage Risk Management Pty Ltd ABN 99 082 740 010.

<b>NCD</b>	means a negotiable certificate of deposit, which is a short term security typically issued by an ADI to a larger institutional investor in order to raise funds.
<b>New Auswide Bank Shares</b>	means fully paid ordinary shares in Auswide Bank to be issued to Scheme Participants as part of the Scheme Consideration.
<b>Notice of Demutualisation Meeting</b>	means the notice of Demutualisation Meeting contained in Attachment VI ( <i>Notice of Demutualisation Meeting</i> ).
<b>Notice of Scheme Meeting</b>	means the notice of Scheme Meeting contained in Attachment V ( <i>Notice of Scheme Meeting</i> ).
<b>Offer Period</b>	means the period during which YCU Members will be able to elect to participate in the Share Sale Facility, which will be from 10 May 2016 to 23 May 2016 inclusive.
<b>Proxy Forms</b>	means one or both of the Proxy Form for the Demutualisation Meeting and the Proxy Form for the Scheme Meeting.
<b>Proxy Form for the Demutualisation Meeting</b>	means the proxy form for the Demutualisation Meeting accompanying this Scheme Booklet.
<b>Proxy Form for the Scheme Meeting</b>	means the proxy form for the Scheme Meeting accompanying this Scheme Booklet.
<b>Record Date</b>	means 5pm (Brisbane time) on the fifth Business Day following the Effective Date or such other date (after the Effective Date) as YCU and Auswide Bank may agree in writing.
<b>Regulatory Authority</b>	includes a Governmental Agency, any regulatory organisation established under statute.
<b>Reimbursement Amount</b>	means \$750,000.
<b>Related Body Corporate</b>	has the meaning given to it in the Corporations Act.
<b>Requisite Majority</b>	means: <ul style="list-style-type: none"> <li>• in relation to the Scheme Resolution, the resolution being passed by: <ul style="list-style-type: none"> <li>• a majority in number (more than 50%) of YCU Members, who are present and voting at the Scheme Meeting, either in person or by proxy, attorney or, in the case of corporate YCU Members, by its duly appointed corporate representative; and</li> <li>• at least 75% of the total number of votes cast on the Scheme Resolution.</li> </ul> </li> <li>• in relation to the Constitutional Amendment Resolution, the resolution being passed by at least 75% of the votes cast by YCU Members entitled to vote on the Constitutional Amendment Resolution.</li> </ul>
<b>Representatives</b>	has the meaning given to it in the Merger Implementation Agreement.

<b>Resolutions</b>	means the resolutions to be voted on by YCU Members at the Scheme Meeting and the Demutualisation Meeting as set out in the Notice of Scheme Meeting and the Notice of Demutualisation Meeting.
<b>Returning Officer</b>	means Computershare Investor Services Pty Limited.
<b>Sale Period</b>	means the period from 23 May 2016 to 24 June 2016 (inclusive) which, at Auswide Bank's election (subject to obtaining ASIC approval), may be extended for a further period of up to 60 Business Days if necessary to complete the sale of the Auswide Shares under the Share Sale Facility.
<b>Scheme</b>	means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act proposed between YCU and the Scheme Participants as described in clause 4 ( <i>Outline of Share Scheme</i> ) of the Merger Implementation Agreement and set out as Attachment IV ( <i>Scheme of Arrangement</i> ), 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 Auswide Bank and YCU.
<b>Scheme Booklet</b>	means this booklet containing, among other things, the Explanatory Statement for the Scheme, the Independent Expert's Report, a copy of the Merger Implementation Agreement, the Notice of the Scheme Meeting, the Demutualisation Disclosure Statement and the Notice of Demutualisation Meeting.
<b>Scheme Consideration</b>	means 696 New Auswide Bank Shares and \$4,055 cash to be issued to eligible YCU Members in respect of each fully paid YCU Share held as at the Record Date.
<b>Scheme Meeting</b>	means each meeting to be convened by the Court pursuant to the Scheme.
<b>Scheme of Arrangement</b>	a statutory procedure that is used to enable one company to acquire another company.
<b>Scheme Participant</b>	means each person who is recorded in the YCU Register as the holder of a YCU Share as at the Record Date.
<b>Scheme Resolution</b>	means the special resolution of YCU Members to approve the Scheme at the Scheme Meeting.
<b>Second Court Date</b>	means the first day of hearing of an application made to the Court for an order pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving the Scheme, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.
<b>Second Court Hearing</b>	means the hearing of the application made to the Court for an order pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving the Scheme.
<b>Section</b>	means a section of this Scheme Booklet.
<b>Sell Form</b>	the form enclosed with this Scheme Booklet and available online at <a href="http://yourinterest.com.au/ycuAuswidemerger/">http://yourinterest.com.au/ycuAuswidemerger/</a> for you to complete if YCU Members want to participate in the Share Sale Facility.
<b>Share Sale Facility</b>	the facility under which Scheme Participants may elect to sell the Auswide Bank Shares they are eligible to receive as part of their Scheme Consideration if the Scheme and the Merger Proposal are implemented.



<b>Share Sale Facility Participants</b>	means the YCU Members who elect to have their New Auswide Bank Shares sold by the Broker, in accordance with the terms and conditions of the Share Sale Facility.
<b>Superior Proposal</b>	means a bona fide Competing Transaction which the YCU Board, acting in good faith, determines is: <ul style="list-style-type: none"> <li>(a) reasonably capable of being completed taking into account all aspects of the Competing Transaction; and</li> <li>(b) more favourable to YCU Members than the Scheme, taking into account all terms and conditions of the Competing Transaction.</li> </ul>
<b>YCU</b>	means Queensland Professional Credit Union Ltd ACN 087 651 045 trading as YCU Your Credit Union.
<b>YCU Board</b>	means the board of directors of YCU.
<b>YCU Constitution</b>	means the constitution of YCU.
<b>YCU Directors</b>	means the directors of YCU.
<b>YCU Information</b>	means the information regarding YCU, other than the Auswide Bank Information, contained in the Scheme Booklet.
<b>YCU Information Line</b>	means the information line number being 07 3020 5423, which has been established by YCU in relation to the Merger Proposal.
<b>YCU Managing Director</b>	means the managing director of YCU.
<b>YCU Material Adverse Change</b>	has the meaning in clause 1.1 of the Merger Implementation Agreement.
<b>YCU Member</b>	means a member of YCU.
<b>YCU Prescribed Event</b>	has the meaning in clause 1.1 of the Merger Implementation Agreement.
<b>YCU Register</b>	means the register of shareholders maintained by YCU in accordance with the Corporations Act.
<b>YCU Share</b>	means the member share held by each YCU Member.

## Interpretation

In this Scheme Booklet (other than the Attachments):

- (i) except as otherwise provided, all words and phrases used in this Scheme Booklet have the meanings (if any) given to them by the Corporations Act;
- (ii) headings are for ease of reference only and will not affect the interpretation of this Scheme Booklet;
- (iii) words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders. A reference to a person includes a reference to a corporation;

- (iv) all dates and times are Brisbane, Australia times;
- (v) all data contained in charts, graphs and tables is based on information available at the date of this Scheme Booklet, unless otherwise stated;
- (vi) all numbers are rounded unless otherwise indicated;
- (vii) a reference to \$, A\$, AUD and cents is to Australian currency, unless otherwise stated; and
- (viii) a reference to a Section or Attachment is to a Section or Attachment of this Scheme Booklet, unless stated otherwise.

**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.

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## CORPORATE DIRECTORY

### **Company**

Queensland Professional Credit Union Ltd ACN 087 651 045  
trading as YCU Your Credit Union  
Australian Financial Services Licence 239562  
Australian Credit Licence 239562

### **Directors**

Gordon Rutherford (Chairman)  
John Strachan (Deputy Chairman)  
Stephen Barnard (Managing Director)  
Allan Richardson  
Chris Johnson  
Heather Hansen

### **Company secretary**

Stephen Barnard

### **Registered office**

Level 5, Sarina Russo River Centre  
100 Eagle Street, Brisbane Q 4000

Telephone	Freecall 1800 172 054
Facsimile	(07) 3020 5495
Mail	GPO Box 444 Brisbane QLD 4001
Email	contact@ycu.com.au
Website	www.ycu.com.au

### **YCU Information line**

(07) 3020 5423

### **Proxy submission website**

<http://yourinterest.com.au/ycuawidemerger>

### **Auditors**

Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000

### **Legal adviser**

Bright Corporate Law  
Level 20, 300 Queen Street  
Brisbane QLD 4000



