Disclosure Documents

For a Merger between
QT Mutual Bank Limited ACN 087 651 054 (QTMB)
and The Royal Automobile Club
of Queensland Limited ACN 009 660 575 (RACQ).

THE DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU

VOTE IN FAVOUR

OF THE MERGER RESOLUTION IN THE BALLOT*

* Subject to there being no Superior Proposal

Important notices

Purpose of this document

This document contains information for QTMB Members relating to the Merger Resolution and will assist QTMB Members in deciding how to vote on the Merger Resolution in the Ballot. The information comprises the disclosure statement, directors statement and independent expert report which are legally required to be provided to QTMB Members under Appendix 5 of the QTMB Constitution. QTMB Members should read this document before making a decision as to how to vote on the Merger Resolution in the Ballot. If you are in any doubt as to how to deal with this document, please call the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222 or consult your financial or legal adviser.

Responsibility statement

Except as outlined below, the information contained in this document has been provided by QTMB and is the responsibility of QTMB.

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

The Independent Expert has prepared the Independent Expert's Report included as Annexure A and is responsible for that report. None of QTMB, RACQ nor their respective officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except that QTMB is responsible for the information given by it to the Independent Expert.

ASIC

A copy of this document has been provided to ASIC for examination. Neither ASIC nor its officers takes any responsibility for the contents of this document.

No investment advice

The information contained in this document does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. The information in this document should not be relied upon as the sole basis for any decision in relation to the Merger Resolution. Before making any decision in relation to the Merger Resolution, including any decision to vote in favour or against the Merger Resolution in the Ballot, you should consider, with or without the assistance of a financial advisor, 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 in relation to your own financial position, please consult your financial or legal adviser.

Disclaimer as to forward looking statements

Certain statements in this document relate to the future. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of the QTMB Group or RACQ Group 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 economic conditions, exchange rates, interest rates, the regulatory environment, competitive pressures and market demand.

The forward looking statements in this document reflect views held only at the date of this document. Statements of the intentions of RACQ reflect its present intentions as at the date of this document and may be subject to change.

Other than as required by law, neither QTMB Group nor RACQ Group nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this document will actually occur.

Subject to any continuing obligations under law or as contemplated by Section 8.12, QTMB Group, RACQ Group and their respective directors and officers disclaim any obligation or undertaking to disseminate after the date of this document any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based. You are cautioned not to place reliance on any forward looking statement.

Defined terms

Capitalised terms and certain abbreviations used in this document have the defined meanings set out in Section 10.

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this document are subject to the effect of rounding. Accordingly, the actual calculations may differ from the calculations set out in this document.

Charts, maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this document are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at 12 August 2016.

Copies of Constitutions

Copies of the constitutions for QTMB and Club Finance Holdings can be found on the QTMB website, mutualstrength.qtmb.com.au, or obtained free of charge on request to the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222.

Privacy and personal information

QTMB Group and RACQ Group may collect personal information in the process of implementing the Merger. The personal information they may collect about you includes your name, contact details, date of birth and details of your QTMB Share. The collection of some of this information is required or authorised by the Corporations Act.

Members who are individuals and the other individuals in respect of whom this personal information is collected have certain rights to access the personal information collected in relation to them. Such individuals should contact: Australia 13 29 30 or outside Australia +61 7 3842 6222 in the first instance if they wish to request access to that personal information.

The personal information is collected for the primary purpose of assisting QTMB and RACQ to conduct the Ballot and implement the Merger. The personal information may be disclosed to QTMB Group's and RACQ Group's advisers, and to the Ballot's returning officer, share registries, printing and mailing contractors and other service providers.

The main consequence of not collecting this personal information is that QTMB and RACQ may be hindered in, or prevented from, conducting the Ballot and implementing the Merger.

No internet site is part of this document

QTMB Group and RACQ Group maintain internet websites. Any references in this document to a website is a textual reference for information only and does not form part of this document.

Notice to Overseas QTMB Members

Certain QTMB Members with a registered address outside of Australia will not be eligible to receive a Legacy Share and will instead receive $10 on the Implementation Date and similar contractual rights to the Legacy Share rights. All QTMB Members, irrespective of their location, will be eligible for RACQ Membership. See Section 7.5 for details.

The release, publication or distribution of this document in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this document should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This document complies with disclosure requirements in Australia and Australian law, which may be different to those requirements and laws in other countries.

This document and the Merger do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

References to time

Unless otherwise stipulated, all references to time in this document are to Brisbane time.

Date of document

This document is dated 12 August 2016.

Contents

This is an important document and requires your immediate attention. You should read this document before deciding whether or not to vote in favour of the Merger Resolution in the Ballot.

If you are in any doubt as to how to deal with this document, please call the QTMB Member Information Line or consult your financial or legal adviser.

The Ballot will close on 16 September 2016.

QTMB Member Information Line: Australia 13 29 30
or outside Australia +61 7 3842 6222

Chairman's Letter to Members

12 August 2016

Dear Member,

On behalf of the QTMB Board, I am pleased to present to you the exciting opportunity to merge QTMB and RACQ.

The QTMB Board believes that the Merger has the potential and the opportunity to create a new force in banking for Queenslanders, bringing together two mutual, member-focused organisations that are committed to an attractive retail bank offering that provides benefits for members.

Through the Merger we will have greater capacity to evolve and improve our products and services with the support of RACQ's resources and financial strength. It is expected that members will have greater access to banking services through increased digital capabilities, access to a wider branch network, longer contact centre operating hours and competitive products and services.

While QTMB currently has a sound financial position, there are considerable challenges which could negatively impact this position if we continue as a standalone mutual bank. These challenges include the very competitive market being driven by the low loan growth and interest rate environment, the increasing costs of regulation and the significant technology investment required to deliver an attractive digital offering to members. The Merger is expected to reduce these uncertainties and risks and will provide our members with a stronger, more resilient future.

Importantly, the Merger will allow QTMB to continue to operate on mutual principles and to continue to focus on the interests of members.

Further details relating to these benefits, opportunities, challenges and risks are outlined in this document (an outline of the key benefits each QTMB Member would likely receive is provided on the page immediately following this letter).

The Merger must be approved by QTMB Members in a series of votes. First, QTMB Members must vote on the Merger Resolution in a Ballot. The Ballot opens at 9.00am on 20 August 2016 and closes at 5.00 pm on 16 September 2016. The Ballot will be conducted online and by post.

At least 25% of QTMB Members must cast a vote on the Merger Resolution in the Ballot for it to be an effective vote. To be passed, the Merger Resolution requires at least 75% of votes cast to be in favour.

If the Merger Resolution is passed, QTMB Members will then be asked to vote on the resolutions to implement the Merger by approving a scheme of arrangement and certain changes to the QTMB Constitution. These will be considered at member meetings (the Member Meetings) to be held on or about 2 November 2016. Notices of the Member Meetings will be sent to you after the Ballot is completed.

Directors' recommendation

The Directors of QTMB believe the Merger is the best outcome for members and unanimously recommend that you vote in favour of the Merger[1].

[1] The Directors' recommendation is subject to there being no Superior Proposal.

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Your Board's recommendation is based on a number of important considerations:

- QTMB will become part of a member owned group with a common objective of exceptional service, with aligned cultural values, greater resources and diversified business operations
- QTMB's existing products and services are expected to improve over the near-term, with scope for continued improvement over the medium-term
- QTMB staff and Directors will be retained and its headquarters will remain in Queensland
- QTMB Members will receive RACQ Membership[2] (unless you are already an ordinary voting member of RACQ) and will gain access to RACQ Member benefits. Your years of QTMB Membership will be recognised in RACQ loyalty years associated with such RACQ Member benefits[3]. These benefits are only available to RACQ Members who choose to take advantage of the savings and discounts being offered through RACQ Membership. To retain these benefits you will simply need to continue to retain your RACQ Membership by holding an eligible RACQ product which includes a QTMB banking product
- You will retain indirect ownership of QTMB as long as you maintain your RACQ Membership whether received as part of the Merger if it is approved, or if you are already an ordinary voting member of RACQ. Such indirect ownership of QTMB will be held with all other ordinary voting members of RACQ
- QTMB Members' existing rights to current QTMB's reserves[4] will be preserved for a period of seven years by the issue of a Legacy Share (a redeemable preference share in Club Finance Holdings, a subsidiary of RACQ that will hold the shares in QTMB)
- No Superior Proposal has emerged as at the date of this document.

> "The QTMB Board believes that the Merger has the potential and the opportunity to create a new force in banking for Queenslanders, bringing together two mutual, member-focused organisations that are committed to an attractive retail bank offering that provides benefits for members.

There are disadvantages and risks associated with this proposed Merger and these are outlined in this document[5]. By voting in favour of the Merger, QTMB Members will forego the opportunity to benefit from an alternative proposal such as demutualisation (accompanied by a sale of the company or a listing on the securities market) or a voluntary winding up, that could crystallise value for QTMB Members[6].

However, the QTMB Board views the mutual structure to be of greater benefit to QTMB Members than any value that may be attained by QTMB Members through these alternative proposals.

[2] RACQ Membership is an entitlement to be an ordinary voting member of RACQ. The rights attaching to an ordinary voting membership of RACQ are set out in the RACQ Constitution and its by-laws with a summary of such rights set out in Section 7.3 and in the Independent Expert's Report.

[3] The RACQ Member benefits are set out in Section 1.2(g)

[4] The equity amount per QTMB Member as at 30 June 2015 based on the FY15 financial reports was $1,865. The amount of the equity per QTMB Member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but at this stage it is expected to increase from the previous year in line with the increases in eligible regulatory capital and the capital ratio set out in Section 4.5. If you are a QTMB Member with a registered address outside of Australia on the Record Date you will not receive a Legacy Share but you will receive similar contractual rights. See Section 7.5 for details.

[5] Refer to Sections 1.3 and 6.5 of this document, and the Independent Expert's Report.

[6] These alternative proposals are outlined in Section 1.3 and the Independent Expert's Report.

Chairman's Letter to Members (continued)

In any event, the Legacy Share to be issued to QTMB Members will preserve QTMB Members' existing rights to such value, being the current QTMB's reserves[7], for a period of seven years. This share entitles QTMB Members, for a period of seven years following the Merger, to receive a share of the accumulated QTMB Member funds as at 30 June 2016 if RACQ is demutualised, Club Finance Holdings or QTMB become insolvent or are wound-up or QTMB is sold by RACQ.

As recommended, the QTMB Board believes the Merger is the best outcome for QTMB Members.

Independent Expert

QTMB appointed Grant Samuel as the Independent Expert to prepare an Independent Expert's Report setting out whether, in its opinion, the Merger is in the best interest of QTMB Members.

The Independent Expert has concluded that, in the absence of a Superior Proposal:

- the Merger is in the best interests of QTMB Members; and
- the benefits being provided to QTMB Members are reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. As QTMB Members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to QTMB Members are fair.

What you will receive

The Merger involves the acquisition of all QTMB Shares held by QTMB Members by RACQ. Each QTMB Member will receive a Legacy Share[8].

The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products. As a consequence of the Merger and these amendments, on the Implementation Date each QTMB Member (who is not already an ordinary voting member of RACQ) will become an RACQ Member.

Conclusion

I encourage you to read this document because it contains important information about this Merger and will assist you in making an informed decision on how to vote on the Merger Resolution in the Ballot.

The proposed Merger is not automatic; it requires QTMB Members' votes to proceed. We strongly encourage you to have your say on this important matter by voting in the Ballot either online or by post.

If the Merger Resolution is passed, you will be sent notices of the Member Meetings and we encourage you to also vote on the resolutions at those meetings.

Your Board unanimously believes that this proposed Merger with RACQ is in the best interests of your bank and we encourage all members to vote in favour of the Merger Resolution in the Ballot. This is your bank and your vote is important.

Yours sincerely,

Peter Whitelaw

Chairman

QTMB Board

[7] See Note 4 on previous page.

[8] If you are a QTMB Member with a registered address outside of Australia on the Record Date you will not receive a Legacy Share but you will receive similar contractual rights. See Section 7.5 for details.

Overview of benefits available to Members over the near term

COMPONENT	BENEFITS	
Improved bank offering	**Competitive products and services**	• Access to RACQ's significant capabilities, resources and funding. • Become part of a member owned and diverse group, focused on the interests of members.
	Greater access and convenience	• Attractive digital offering through delivery of a new mobile app, greater internet banking functionality and ability to apply for banking products online. • Larger branch network and a contact centre operating 24/7. • A more integrated credit card offering, providing an enhanced customer experience.
Becoming a Member of RACQ	**Loyalty based discounts (indicative#)** Loyalty years will be the greater of membership years with QTMB or RACQ (if the member is also a member of RACQ)	see table below
	General discounts	• Access to savings through Show Your Card and Save program. • Theme park and ticket discounts. • Discounted movie tickets. • Participation in dining rewards program. • 24-hour travel assistance with Aussie Assist.

Blue 0 – 4 years	Bronze 5 – 9 years	Silver 10 – 24 years	Gold 25 – 49 years	Gold50 50+ years
Plus Care & Ultra Care Roadside Assistance				
–	5%	7.5%	25%	50%
Home, contents and car insurance*				
2.5 – 5%	7.5%	10%	12.5%	17.5%

*These discounts only apply if the member also holds a Roadside Assistance product.

The full range of discounts on Roadside Assistance and Insurance premiums, and all the relevant detail about them, is available online by visiting: http://www.racq.com.au/membership/what-you-get/save-on-racq-products-and-services.

Overview of scope to improve the bank offering for Members

Other Merger benefits are expected to provide scope to improve the retail bank offering to members over the medium term.

Overview of other Merger benefits

- Leveraging RACQ's infrastructure and capital to continue to improve the retail bank offering to members
- Transforming the scale and size of the banking operations through retailing a bank offering to RACQ's almost 1.6 million members

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Letter from RACQ Chairman

RACQ
It pays to belong

12 August 2016

Dear Member,

I write to you today to support your Board's recommendation in favour of the proposed Merger between two great Queensland organisations – RACQ and QTMB.

This Merger will create the opportunity to expand and grow the bank using the brand and financial strength of RACQ and the banking expertise of QTMB, and to extend and improve the range of products and services available to members of both organisations. I consider the opportunities from this merger to be truly compelling, however, this important step forward can't happen without you and the support of your fellow members. I encourage you to engage in the vote, and to vote in favour of the Merger.

As Queensland's largest member-owned organisation, and after more than 110 years of faithfully serving this State, we have been looking to bring the same trust, confidence and personal service we have always offered in insurance and assistance, to the banking sector. At the same time, your bank, QTMB, was looking for the right partner to help them grow and to build upon the proud legacy which you have helped create over the past 50 years. I believe this Merger will meet both organisations' objectives, and that we can blend together the best of both RACQ and QTMB to create something new and different in the Australian banking landscape.

> “The Merger will offer broader benefits and privileges to members of both organisations, building a competitive suite of products and services, and continuing a common focus on delivering exceptional service and value. Together we can achieve outcomes for members that neither organisation can achieve on its own.

Importantly, QTMB Members can be confident they will be joining together with another customer-owned organisation that is strongly member-driven, value-focused, and committed to serving the Queensland community. We will use the extensive resources and capabilities of RACQ to create a larger, stronger version of the mutual banking business model. Combined with the broader service offerings of RACQ, and a focus on returning value to Members rather than maximising profits, we aim to provide a compelling alternative to the traditional banks.

The Merger will offer broader benefits and privileges to members of both organisations, building a competitive suite of products and services, and continuing a common focus on delivering exceptional service and value. Together we can achieve outcomes for Members that neither organisation can achieve on its own.

Our Shared Vision

It is the shared vision of RACQ and QTMB to create a new broader type of members' mutual with banking, insurance, assistance, and all the lifestyle benefits and discounts which we collectively offer, within one trusted Queensland organisation, and one community of members reaping the mutual benefits and strengths of 1.6 million Queenslanders.

Our priorities in delivering an improved banking experience include:

- Broadening QTMB's digital offering - the development of a new mobile app, the development of online origination capabilities (across lending, deposits and members) and building greater internet banking functionality
- A more integrated credit card offering , providing an enhanced customer experience - for example, allowing QTMB Members (following development) access to their credit card balances through their online banking portal
- Providing bundling benefits and discounts to members over time across the entire suite of RACQ products and services[9]
- Being where our members want us, when they want us, and how they want to access us with a wide branch network, online banking including "click-to-chat" and 24/7 call centres.

RACQ currently intends to fund these enhancements through allowing QTMB's profits and reserves (surplus to those required to meet prudential capital requirements) to be used for these purposes for a period of three years after the Merger, and to provide any additional funding required from surplus RACQ Group capital, subject to the best interests of all members.

This is a very exciting time for our combined membership. Both RACQ and QTMB are stable, conservatively-run and financially strong customer-owned organisations, with shared values and objectives and a core focus on member benefit and value. We are ideally suited to each other.

We look forward to continuing to grow that value for you in the years ahead, and encourage you to vote in favour of this transformational merger proposal.

Yours sincerely

Nigel Alexander
Chairman and President
RACQ

[9] Applicable benefits and discount packages for those QTMB Members who are to become RACQ Members as a consequence of the Merger are still to be determined. They cannot, therefore, be calculated.

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Timetable and key dates for the Ballot

Event	Time and date
Ballot to vote on Merger Resolution opens	**9.00am, 20 August 2016**
Ballot to vote on Merger Resolution closes	**5.00pm, 16 September 2016**

Indicative key dates for the Merger

Event	Time and date
If the Merger Resolution is passed:	
Despatch of Notices of Member Meetings and Scheme Booklet	6 October 2016
Member Meetings - Special General Meeting and Scheme Meeting	2 November 2016, commencing at 6.00 pm
If the Merger is agreed to by the requisite majorities of QTMB Members:	
Second Court Hearing for approval of the Scheme	9 November 2016
Effective Date of the Scheme - Court order approving the Scheme lodged with ASIC	10 November 2016
Record Date - time and date for determining who is a QTMB Member for the purpose of participation in the Scheme	17 November 2016
Implementation Date for the Scheme - transfer of QTMB Shares to RACQ Group and issue of Legacy Shares[10]	24 November 2016

Unless otherwise indicated, all references to time in the above table are to Brisbane time.

All dates in the above timetable are indicative only and are subject to change. The actual timetable will depend on many factors outside of the control of QTMB including the time at which the Conditions Precedent are satisfied or, if applicable, waived, or approvals from the Court and other regulatory authorities are received. Those conditions are summarised in Section 7.12. QTMB (with the agreement of RACQ) has the right to vary the timetable set out above subject to the approval of such variation by the Court where required. Any variation to the timetable set out above will be published on the QTMB website, mutualstrength.qtmb.com.au

[10] If you are a QTMB Member with a registered address outside of Australia you will not receive a Legacy Share but you will receive similar contractual rights. See Section 7.5 for details.

Key Steps to Implement the Merger

The key steps to implement the Merger are set out below.

Step 1 Approval of Merger Resolution

QTMB Members must approve the Merger under Appendix 5 of the QTMB Constitution by passing the Merger Resolution in the Ballot. The Merger Resolution is set out below and on the Ballot Paper and is made in accordance with rule A5-4 of the QTMB Constitution:

That for the purpose of Appendix 5 of the QTMB Constitution and for all other purposes, QTMB Members approve the proposal under which Club Finance Holdings Limited ACN 612 096 787, a subsidiary in the RACQ Group, will acquire all of the shares in QTMB as described in the accompanying Disclosure Documents including the proposal to modify the QTMB Constitution to facilitate the proposed Scheme of Arrangement set out in the Constitution Resolution described in the Disclosure Documents.

For further information on the Merger Resolution, see Section 7.1.

Step 2 First Court Hearing to convene the Scheme Meeting

If the Merger Resolution is passed, QTMB will apply to the Court to convene a meeting of QTMB Members to approve the Scheme of Arrangement.

Step 3 Member Meetings

QTMB Members will be sent Notices of the Member Meetings at which they will be asked to vote on the Constitution Resolution and Scheme Resolution. The Member Meetings will be held consecutively and are expected to be held on Wednesday 2 November 2016 at the Royal International Convention Centre, 600 Gregory Terrace, Bowen Hills , commencing at 6.00 pm.

Step 4 Satisfaction of Conditions Precedent

Implementation of the Merger is subject to a number of Conditions Precedent which are summarised in Section 7.12. The key Conditions Precedent are the approval of the Merger Resolution by QTMB Members in the Ballot, approval of the resolutions at the Member Meetings, and the approval of the Merger by the Treasurer under the FSSA and the Banking Act.

Step 5 Second Court Hearing

If QTMB Members approve the Merger Resolution in the Ballot and the resolutions at the Member Meetings, QTMB will apply to the Court to approve the Scheme. More information regarding the Second Court Hearing can be found in Sections 3.6 and 7.7.

Step 6 Implementation of the Merger

If all Conditions Precedent have been satisfied or waived (as applicable), and the Court approves the Scheme, the RACQ Group will issue to each QTMB Member a Legacy Share[11] and acquire all QTMB Shares.

As a consequence of the Merger and the RACQ Board amending the RACQ by-laws to ensure that QTMB's banking products are eligible RACQ products, each QTMB Member (who is not already an ordinary voting member of RACQ) will become an RACQ Member[12].

Section 7 contains further details of the Merger.

[11] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

[12] RACQ Membership is an ordinary voting membership of RACQ. The rights attaching to an ordinary voting membership of RACQ are set out in the RACQ Constitution and its by-laws with a summary of such rights set out in Section 7.3 and the Independent Expert's Report.

How to Vote

Your Vote is Important

The Merger must be approved by QTMB Members in a series of votes.

The first vote is on the Merger Resolution in a Ballot.

You can vote in the Ballot either online or by post.

ONLINE

Go online at www.qtmb.com.au/vote

Step 1

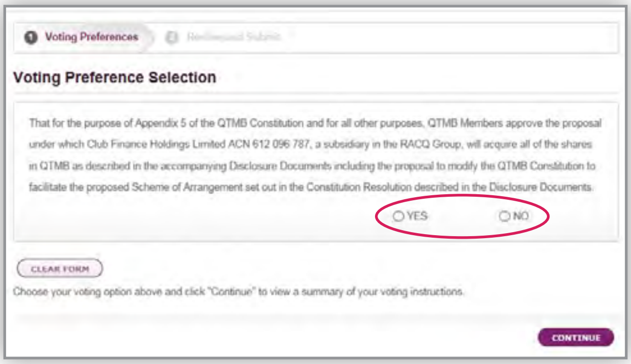
Login and complete your member identification number where indicated.

Step 2

Click on "LOGIN" button.

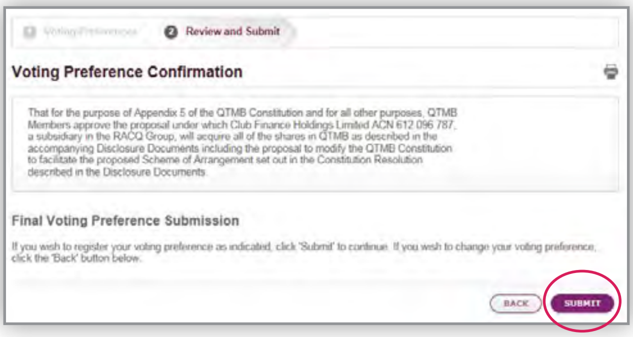
Step 3

- If you APPROVE the Merger Resolution in accordance with the terms outlined in this document, select "YES".
- If you DO NOT APPROVE the Merger Resolution in accordance with the terms outlined in this document, select "NO".



Step 4

Click on "Submit" before 5.00pm on 16 September 2016.



A dedicated terminal will be available at each QTMB Branch for Members to use should they wish to vote online but do not have access to the internet. A list of branches appears at the end of this document.

POST

Complete the Ballot Paper

Step 1

- If you APPROVE the Merger Resolution in accordance with the terms outlined in this document, place a mark (✘) in the space provided under the word "YES".
- If you DO NOT APPROVE the Merger Resolution in accordance with the terms outlined in this document, place a mark (✘) in the space provided under the word "NO".

Mark only one space.

Step 2

Place the completed Ballot Paper in the envelope marked 'Ballot Paper Envelope' and seal the envelope.

Step 3

Sign your name where indicated in the Member's Declaration section on the Ballot Paper envelope.

Step 4

Place the Ballot Paper envelope inside the reply paid envelope.

Step 5

Post the reply paid envelope so that it reaches the Returning Officer no later than 5.00pm on 16 September 2016.

QT Mutual Bank

Secret Ballot Paper

Merger Resolution

That for the purpose of Appendix 5 of the QTMB Constitution and for all other purposes, QTMB Members approve the proposal under which Club Finance Holdings Limited ACN 612 096 787, a subsidiary in the RACQ Group, will acquire all of the shares in QTMB as described in the accompanying Disclosure Documents including the proposal to modify the QTMB Constitution to facilitate the proposed Scheme of Arrangement set out in the Constitution Resolution described in the Disclosure Documents.

Yes	No

Voting Options

Members may lodge votes by Post or Electronically. **Each Member may only vote once.** To vote by Post follow the directions below;

Directions

1. You may vote by placing a mark (✘) in the box below the vote of your choice. If you mark more than one box or do not mark a box your vote will be invalid.
2. Put the ballot paper in the envelope marked 'Ballot Paper Envelope' and seal the envelope.
3. Sign and date the declaration on the front of the envelope.
4. Place the envelope marked 'Ballot Paper Envelope' into the reply paid envelope addressed to Computershare Investor Services.
5. Post the reply envelope, ensuring the Returning Officer receives your ballot prior to **5:00pm (Brisbane time) 16th September 2016.**

Returning Officer Initials:

QTMB PC1

If you have any questions on how to vote, call the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222.

Your Directors believe the Merger is a matter of importance for all QTMB Members and therefore urge you to vote on the Merger Resolution in the Ballot.

If you wish the Merger to proceed, it is important that you vote in favour of the Merger Resolution. The Merger will not proceed unless a minimum of 25% of QTMB Members vote in the Ballot and of those members who vote, not less than 75% must vote in favour of the Merger Resolution. If this does not occur, the Merger Resolution will be rejected and the Merger will not proceed.

Entitlement to vote

QTMB Members who are registered as members at 7pm on 10 August 2016 and who are not minors (i.e. under 18 years of age) are entitled to vote in the Ballot.

If you believe you should have received a Ballot Paper and have not, you can still vote online at www.qtmb.com.au/vote or please call the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222.

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1 Reasons to vote / not to vote in favour of the Merger

1.1 Summary

Reasons to vote in favour of the Merger:

- ✓ Your Directors unanimously recommend that you vote in favour of the Merger Resolution in the Ballot and approve the Merger[13]
- ✓ The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. As QTMB Members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to QTMB Members are fair
- ✓ QTMB will become part of a member owned group with a common objective of exceptional service, with aligned cultural values, greater resources and diversified business operations
- ✓ QTMB's existing products and services are expected to improve over the near-term, with scope for continued improvement over the medium-term. RACQ is committed to investing in the development and growth of the bank as a key part of its membership offer
- ✓ Retention of QTMB staff and Directors and its headquarters remain in Queensland
- ✓ Each QTMB Member will retain indirect ownership of QTMB as long as they maintain their RACQ Membership whether received as part of the Merger if it is approved, or if they are already an ordinary voting member of RACQ . Such indirect ownership of QTMB will be held with all other ordinary voting members of RACQ
- ✓ QTMB Members will receive an RACQ Membership (for QTMB Members who are not already ordinary voting members of RACQ) and gain access to RACQ Member benefits[14]. Your years of QTMB Membership will be recognised in RACQ loyalty years associated with such RACQ Member benefits[15]. These benefits are only available to RACQ Members who choose to take advantage of the savings and discounts being offered through RACQ Membership. To retain these benefits you will simply need to continue to retain your RACQ Membership by holding an eligible RACQ product which includes a QTMB banking product
- ✓ QTMB Members' existing rights to current QTMB's reserves will be preserved for a period of seven years by the issue of a Legacy Share
- ✓ No Superior Proposal has emerged as at the date of this document. The QTMB Board views the mutual structure retained in the Merger to be of greater benefit to QTMB Members than any value that may be attained by QTMB Members through alternative proposals to unlock value in the QTMB reserves.

Reasons to vote for the Merger are discussed in more detail in Section 1.2.

Although the Merger is recommended by your Directors, factors which may lead you to consider voting against the Merger Resolution include:

- ✗ You may disagree with the recommendation of your Directors and the conclusion of the Independent Expert
- ✗ Your rights as a QTMB Member will change - you will no longer have a member share in QTMB but will hold a Legacy Share[16] and be a member of RACQ. You may consider the change to a different set of organisational objects and member rights is not justified by the stated benefits of the Merger
- ✗ The prospects of QTMB Members unlocking value in QTMB's reserves will be reduced after the Merger and you may consider that there is potential for a Superior Proposal to emerge in the foreseeable future. By voting in favour of the Merger, QTMB Members will forego the opportunity to benefit from an alternative proposal such as demutualisation (accompanied by a sale of the company or a listing on a securities market) or a voluntary winding up, that could crystallise value for QTMB Members
- ✗ QTMB Members may prefer to deal with a mutual banking organisation in which they have a direct ownership interest and influence over its governance
- ✗ The business, products and services of QTMB may change
- ✗ Specific risks of RACQ's business may limit its ability to invest to enhance the banking experience and you may consider these risks outweigh the advantages of those benefits.

Reasons to vote against the Merger are discussed in more detail in Section 1.3.

[13] The Directors' recommendation is subject to there being no Superior Proposal.
[14] RACQ Business Class Members do not have access to all RACQ Membership benefits.
[15] The RACQ Member benefits are set out in Section 1.2(g).
[16] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

1.2 Reasons to vote in favour of the Merger

(a) Your Directors unanimously recommend that you vote in favour of the Merger Resolution and approve the Merger

Each of the Directors intends to vote in favour of the Merger Resolution and also in favour of the resolutions at the Member Meetings in the absence of a Superior Proposal.

In reaching this conclusion, the Directors carefully assessed the changing dynamics of the markets in which QTMB operates and the uncertainties and risks that QTMB would face if it were to continue as a standalone mutual bank. Further, the Directors have also carefully examined whether QTMB's currently sound financial position provides a reasonable platform from which to navigate the uncertainties and challenges as a standalone mutual bank. The Directors have formed the view that it does not.

The key strategic risk for QTMB is its restricted ability to evolve and enhance its products and services to continue to deliver an attractive retail bank offering to both existing QTMB Members and future generations of QTMB Members. QTMB's limited resources (financial and staff) constrains product and service development. For example, QTMB's digital offering is currently behind that offered by larger banks and it does not offer a credit card that is integrated with its internet and mobile banking platforms. This risk threatens its ongoing competitiveness over the medium term.

The Australian banking market is very competitive and is driven by the current low loan growth and low interest rate environment. This competition is placing pressure on the net interest margins of all banks, including QTMB. Increasing regulation and related compliance costs is also negatively impacting the profitability of smaller banks.

Given these factors, the Directors believe that the Merger is an excellent opportunity which delivers compelling benefits for QTMB Members.

If the Merger proceeds, it is expected to reduce the uncertainties and risks that will arise if QTMB continues as a standalone mutual bank, principally through leveraging RACQ's size, financial strength and capabilities to, for example:

- offer a more attractive retail bank offering over the medium-term; and
- act as a 'true mutual' by providing competitive pricing on loan products and deposits.

Importantly, the Merger allows QTMB to continue to operate on mutual principles and to continue to focus on the interests of members.

The QTMB Board considers the proposed Merger is in the best interests of QTMB and QTMB Members as a whole.

(b) The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is in the best interests of QTMB Members

Your Directors engaged Grant Samuel as the Independent Expert to prepare an Independent Expert's Report setting out whether, in its opinion, the Merger is in the best interests of QTMB Members.

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. As QTMB Members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to QTMB Members are fair.

A copy of the Independent Expert's Report is included in Annexure A.

(c) QTMB will become part of a member owned group with a common objective of exceptional service, with aligned cultural values, greater resources and diversified business operations

QTMB's proposed Merger with RACQ will bring together two mutual, member-focused organisations committed to an attractive retail bank offering that provides benefits to members.

The merger of QTMB and RACQ is an alignment of like values, reputation and integrity. These include being:

- Member owned and member focused organisations
- Dedicated to meeting the needs of their members and their communities
- Committed to providing exceptional service to members.

The Merger will allow QTMB to continue its long standing support of the education community through continuing sponsorship of various programs such as the Keyway Program for Kids, Aspirations for Kids in Sport and the Premier's Reading Challenge, and through RACQ's existing investment and involvement in the road safety and driver education school programs.

The proposed Merger is expected to increase QTMB's banking competitiveness and enable greater market penetration through access to RACQ's extensive membership base and distribution resources.

QTMB will be able to expand its products and services with the support of RACQ's resources and funding for continued growth. RACQ has significant resources and capabilities, with more than $1.1 billion in net assets. It currently has members in more than 60% of households in Queensland. Further, RACQ is a more operationally diverse business, offering insurance, assistance and lifestyle services and products.

RACQ has stated its intention to invest in the bank to deliver enhanced products and services to Queenslanders. This is expected to provide members with greater access to their banking services through increased digital capabilities, access to a wider branch network, longer contact centre operating hours and competitive products and services.

The addition of QTMB's banking offering will create a more diverse RACQ Group. Greater operational diversity (multiple sources of revenue and a more balanced risk profile) should create a stronger and more resilient future for QTMB and the RACQ Group.

1. Reasons to vote/not to vote in favour of the Merger (continued)

The merged group will have a combined membership of approximately 1.6 million members, and more than $3.9 billion in combined total assets.

(d) QTMB's existing products and services are expected to improve over the near-term, with scope for continued improvement over the medium-term. RACQ is committed to investing in the development and growth of the bank as a key part of its membership offer

QTMB and RACQ are committed to an attractive retail bank offering with a range of competitive products and services that provides benefits to members.

QTMB and RACQ will work towards improving QTMB Members' banking experiences by focussing on the following priorities:

- A stronger digital offering, including a new mobile app, greater internet banking functionality and enhanced platforms that will enable members to apply for banking products online.
- Improved customer service channels, including a larger branch network than the current QTMB or RACQ networks and a contact centre that is available to members 24 hours / 7 days a week.
- A more integrated credit card offering, providing an enhanced customer experience - for example, allowing QTMB Members (following development) access to their credit card balances through their online banking portal.

Delivery of these priorities over the near term will be supported by:

- RACQ's current intention is that no dividend or distribution would be made by QTMB for a period of three years after the Merger so that all of QTMB's profits and reserves (surplus to those required to meet prudential capital requirements) during that period may be reinvested by QTMB to assist in funding these enhancements. RACQ currently intends to also provide additional funding required from surplus RACQ Group capital, subject to the best interests of all members
- leveraging RACQ's existing capabilities already obtained, and investments made, in areas closely aligning with the enhanced banking capabilities to be delivered, e.g. leveraging RACQ's existing digital capabilities.

The longer term vision is to establish a scaleable banking platform for the sustainable benefit of all members. This should support:

- continued investment in improving and maintaining a relevant offering of banking services and products
- banking that offers value with competitive products and services.

The ability to access and deliver the required scale over the medium term, to improve the retail bank offering to members, will be enhanced by a combination of:

- leveraging RACQ's infrastructure and capital;
- investing a portion of RACQ's future profits and reserves for the benefit of members as a whole (as a mutually-operated organisation these are held exclusively for the benefit of all its members); and
- successfully executing the opportunity to retail a bank offering to RACQ's almost 1.6 million members to transform the size and scale of the banking operations.

Further information of current products offered by each of QTMB and RACQ can be found on their respective websites, qtmb.com.au and racq.com.au.

(e) Retention of QTMB staff and Directors and its headquarters remains in Queensland

There will be no forced redundancies from either QTMB or RACQ arising directly as a result of the Merger. Unlike many in-sector mergers with another bank or credit union, a merger with RACQ will enable QTMB to retain its employees and Directors and leverage their significant expertise in and knowledge of finance and banking. QTMB Members will also continue to enjoy the same familiarity with the QTMB staff they engage with for their banking activities.

Following the Merger, it is intended that all of the current directors of QTMB will remain on the QTMB Board and will be joined by the Group CEO of RACQ as a director together with up to two other RACQ Group non-executive directors nominated by RACQ.

The current QTMB Chairman will remain as Chairman of the QTMB Board following the Merger. QTMB's headquarters will remain in Queensland and, following the proposed Merger, QTMB Members will have access to an expanded network across Queensland.

(f) Each QTMB Member will retain indirect ownership of QTMB as long as they maintain their RACQ Membership

Following the Merger, each QTMB Member will be a member of RACQ with a vote on all RACQ matters requiring a vote by members [17].This will include the ability to vote on the director appointments to the RACQ Board in accordance with RACQ's Constitution (for further information see Section 7.3).

The RACQ Board will maintain a governance oversight over QTMB and will appoint the directors to the QTMB Board.

To remain an RACQ Member, you will simply need to continue to hold an eligible RACQ product. The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products.

More details on eligible RACQ products and the rights attaching to RACQ Membership are set out in Section 7.3.

[17] The RACQ Constitution provides that all members voting rights commence three months after first becoming a member. If you are not already an RACQ Member, your voting rights will commence three months after the Implementation Date, and therefore will not commence until after the 2016 RACQ AGM. You will, however, be entitled to attend and otherwise participate at the 2016 RACQ AGM if you are an RACQ Member at that time, and to vote at all subsequent AGMs for so long as you remain an RACQ Member.

(g) QTMB Members will receive an RACQ Membership (for QTMB Members who are not already RACQ Members) and gain access to RACQ Member benefits[18]. Your years of QTMB Membership will be recognised in RACQ loyalty years associated with such RACQ Member benefits[19]

Following the Merger, all QTMB Members will become members of RACQ, unless they are already a member of RACQ.

Members may take advantage of the benefits, privileges and advantages offered through RACQ Membership, including:

- recognition of QTMB Members' years of tenure in equivalent RACQ loyalty years. The RACQ loyalty program entitles RACQ Members to a variety of benefits and discounts based on their membership tenure. If you are already an RACQ Member, RACQ will recognise the longer period of your QTMB Membership or RACQ Membership in RACQ loyalty years[20]
- access to savings through Show Your Card and Save program
- theme park and ticket discounts
- discounted movie tickets
- participation in the dining rewards program
- 24-hour travel assistance in Australia with Aussie Assist
- receipt of The Road Ahead magazine.

As stated above, to retain these benefits, you will simply need to continue to retain your RACQ Membership by holding an eligible RACQ product which includes a QTMB banking product (see Section 7.3).

(h) QTMB Members' existing rights to current QTMB's reserves will be preserved for a period of seven years by the issue of a Legacy Share

Provision has been made to preserve QTMB Members' existing rights to current QTMB's reserves through the issue of a Legacy Share (a redeemable preference share in Club Finance Holdings, a subsidiary of RACQ that will hold the shares in QTMB) to each QTMB Member. If you are a QTMB Member with a registered address outside of Australia you will not receive a Legacy Share but you will receive $10 on the Implementation Date and similar contractual rights to the RACQ Legacy Share rights (see Section 7.5 for details).

This will entitle QTMB Members, for a period of seven years following the Merger, to receive a share of the accumulated QTMB Member funds as at 30 June 2016[21] if RACQ is demutualised, Club Finance Holdings or QTMB become insolvent or are wound-up or QTMB is sold by RACQ (called "**trigger events**").

If a trigger event occurs, this amount will be paid to each of those QTMB Members who have continuously held a QTMB banking product from the time of the Merger up until the time of the trigger event.

None of the trigger events are currently expected to occur and the QTMB Board considers the likelihood of the trigger events occurring within the relevant period of seven years to be remote.

If Club Finance Holdings has, at the time of a trigger event, insufficient funds available to it to pay out Legacy Share redemptions, there is a risk QTMB Members may fail to receive that payment given that no member of the RACQ Group has any legally enforceable obligation to contribute to that payment to QTMB Members.

Further details on the terms of Legacy Shares are set out in Section 7.4.

(i) No Superior Proposal has emerged as at the date of this document

Since QTMB announced the proposed Merger on 18 April 2016, no Superior Proposal to acquire or enter into a similar transaction with QTMB has emerged.

By voting in favour of the Merger, QTMB Members will forego the opportunity to benefit from an alternative proposal such as demutualisation (accompanied by a sale of the company or a listing on a securities market) or a voluntary winding up, that could crystallise value for QTMB Members[22].

However, the QTMB Board views the mutual structure retained in the Merger to be of greater benefit to QTMB Members than any value that may be attained by QTMB Members through these alternative proposals. In any event, the Legacy Share to be issued to QTMB Members will preserve QTMB Members' existing rights to such value, being the current QTMB's reserves[23], for a period of seven years.

As recommended, the QTMB Board believes the Merger is the best outcome for QTMB Members.

1.3 Reasons to vote against the Scheme

(a) You may disagree with the recommendation of your Directors and the conclusion of the Independent Expert

You may hold a different view to the Directors and the Independent Expert and believe that the benefits of the Merger, including a Legacy Share, RACQ Membership and enhanced product and service offerings, are inadequate and do not outweigh the disadvantages.

(b) Your rights as a QTMB Member will change - you will no longer have a member share in QTMB but will hold a Legacy Share and be a member of RACQ. You may consider the change to a different set of organisational objects and member rights is not justified by the stated benefits of the Merger

QTMB Members will no longer retain a QTMB Share but will have their years of tenure recognised with equivalent RACQ loyalty years. The RACQ loyalty program entitles RACQ Members to a variety of benefits and discounts based on their membership tenure[24].

[18] RACQ Business Class Members do not have access to all RACQ Membership benefits.
[19] The RACQ Member benefits are set out in Section 1.2(g).
[20] To be eligible for the Roadside Assistance loyalty discount on eligible RACQ Insurance products, a member must be a product holder of Roadside Assistance.
[21] The equity amount per QTMB Member as at 30 June 2015 based on the FY15 financial reports was $1,865. The amount of the equity per QTMB Member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but at this stage it is expected to increase from the previous year in line with the increases in eligible regulatory capital and the capital ratio set out in Section 4.5.
[22] These alternative proposals are outlined in Section 1.3 and the Independent Expert's Report.
[23] See Note 21 above.
[24] To be eligible for the Roadside Assistance loyalty discount on eligible RACQ Insurance products, a member must be a product holder of Roadside Assistance.

1. Reasons to vote/not to vote in favour of the Merger (continued)

The objects of RACQ set out in RACQ's Constitution are currently motoring centric reflecting its heritage as a motoring organisation. RACQ's objects do not reflect the heritage of QTMB arising from the teaching and education professions, nor does it include a common bond arising out of involvement in the education sector.

Importantly, RACQ's objects do, however, include a commitment to provide members with benefits, information, goods and services, clearly establishing its member focused objective evidenced by the products and services it currently provides to its members.

The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that financial, economic and social needs and promoting, encouraging and bringing about learning and social development among individual members within the communities they reside are adopted as objects of RACQ.

On and from the Implementation Date the by-laws will specify QTMB's banking products as eligible RACQ products[25] thus recognising (as it does for RACQ insurance products) the central focus of RACQ on offering these products for the benefit of its members.

The rights of members of RACQ and members of QTMB are different insofar as they relate to:

- Sharing members reserves on a winding up - currently, on a winding up and dissolution of QTMB, QTMB Members share equally in any distribution of surplus assets (i.e. the assets remaining, if any, after all liabilities are paid). RACQ Members do not share in surplus assets of RACQ on a winding up. RACQ's surplus assets would be given to an organisation with similar objects to RACQ and which similarly prohibited distributions to its members.
- How members may be treated in a demutualisation - currently, on a demutualisation of QTMB which involves distribution of QTMB's reserves, QTMB Members of more than 12 months standing share in that distribution. The treatment of RACQ Members on a demutualisation will depend on the terms of the proposal (which requires member approval). For example, different values may be placed on memberships depending on the eligible RACQ products held and the length of time a person may have been a member.
- The influence members have in the election of directors - currently, each QTMB Member has one vote in any election of directors of QTMB. RACQ Members can participate in the election of directors of RACQ, if an election is required, by exercising one vote, but only for the director or directors being elected from the regional zone in which the member is located. In order for such a vote to be valid, at least 5% of eligible RACQ Members in that zone must vote. If that does not occur, a casual vacancy arises and the RACQ Board may appoint a person to the vacancy for that zone. Further details on voting rights of RACQ Members are in Section 7.3.

A summary of the differences in rights between holding a QTMB Share and holding an RACQ Membership is set out in Section 7.5.

As set out in Section 1.2(h), provision has been made to preserve existing QTMB Members' rights to current QTMB's reserves through the issue of a Legacy Share to each QTMB Member[26]. A Legacy Share is a redeemable preference share in Club Finance Holdings, a subsidiary of RACQ that will hold the shares in QTMB.

This will entitle QTMB Members, for a period of seven years following the Merger, to receive a share of the accumulated QTMB Member funds as at 30 June 2016[27] if RACQ is demutualised, Club Finance Holdings or QTMB become insolvent or are wound-up or QTMB is sold by RACQ. In such a case, this payment will be made to those QTMB Members who have continuously held a QTMB banking product from the time of the Merger up until the time of the trigger event.

The terms of the Legacy Shares can only be varied with the consent of the holders of those shares by special resolution (**Class Consent**) and Club Finance Holdings may not issue further securities which rank in priority to the Legacy Shares without first obtaining Class Consent.

(c) The prospects of QTMB Members unlocking value in QTMB's reserves will be reduced after the Merger and you may consider that there is potential for a Superior Proposal to emerge in the foreseeable future

It is possible that a more attractive proposal for QTMB Members could materialise in the future. However, since the announcement of the proposed Merger on 18 April 2016, your Directors have not received a Superior Proposal.

The Merger Implementation Agreement allows other external parties to submit an alternative proposal to QTMB and for the QTMB Board to meet its fiduciary duties to consider if any such proposal is more favourable to QTMB Members up until the time of the QTMB Member vote.

The Directors believe that the prospect of executing a Superior Proposal which results in QTMB Members receiving a share of QTMB's reserves is unlikely. If the Merger proceeds, the prospects of the value being unlocked in QTMB's reserves (through the Legacy Share interest) will be reduced. This view reflects the following factors:

- A strong belief that adopting the principles of mutuality represents the best model for providing a superior bank offering to members. Under the mutual model all accumulated reserves are held for the ultimate benefit of current and future members.
- The reserves have been accumulated from banking interactions with current and past members of QTMB. A demutualisation of QTMB and payout of the reserves to members only rewards those who happen to be members at the time it occurs – and not all members past and present who have contributed to the reserves.

The preceding views are also shared by RACQ directors, particularly those relating to the importance and benefits to members of operating a mutually driven model.

Research conducted with QTMB Members during March 2016, highlighted that they highly value a mutual structure that keeps their interests as the focus of decisions and not the pursuit of

[25] See Section 7.3 for details.
[26] For Overseas QTMB Members see Sections 1.2(h) and 7.5.
[27] The equity amount per QTMB Member as at 30 June 2015 based on the FY15 financial reports was $1,865. The amount of the equity per QTMB Member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but at this stage it is expected to increase from the previous year in line increases in eligible regulatory capital and the capital ratio set out in Section 4.5.

profits to benefit “shareholders”. The feedback received from QTMB Members, following the announcement of the proposed Merger on 18 April 2016, has supported the research finding regarding the highly valued mutual structure.

(d) Members may prefer to deal with a mutual banking organisation in which they have a direct ownership interest and influence over its governance

After the Merger, QTMB Members will no longer have a direct ownership interest in QTMB and influence over its governance through directly electing its directors. A member may prefer a mutual banking organisation where such members' rights are preserved. As highlighted in Section 1.2(f), QTMB Members will, however, retain an indirect ownership interest in QTMB through their RACQ Membership and will be able to participate in RACQ director elections (see Section 7.3 for further information). This indirect ownership of QTMB will be held with all other ordinary voting members of RACQ.

(e) The business, products and services of QTMB may change

While the existing suite of products and services offered by QTMB will be retained after the proposed Merger, this may change in the future.

Future changes, however, are expected to align to the aim of delivering an attractive retail bank offering members value with competitive products and services.

(f) Specific risks of RACQ's business may limit its ability to invest to enhance the banking experience and you may consider these risks outweigh the advantages of those benefits

Potentially, a scenario could occur in which an RACQ business incurs significant losses that erode RACQ Group's surplus capital and consequently limits its ability to invest in enhancements to the banking member experience by improving QTMB's products and services. Additionally, significant losses from other RACQ businesses could constrain the ability to pursue banking business growth because of the reduction in RACQ Group capital to fund that growth.

The most significant group of other business risks are associated with RACQ Insurance, which currently contributes the majority of RACQ Group's annual profits.

The Directors carefully examined the risks associated with RACQ Insurance, and other risks that could have a detrimental impact on QTMB after the Merger before entering into the Merger Implementation Agreement.

The Directors formed the opinion that:

- RACQ Insurance has a strong capital position (holding greater than two times the minimum regulatory capital requirement) and industry conservative reinsurance and provisioning arrangements (probability of sufficiency attaching to the outstanding claims provision of 92.5% across all short and long-tail insurance claims) as at 30 June 2016, which provides it with a firm base to withstand negative business events
- no undue material risks or liabilities were discovered during QTMB's due diligence investigations.

Section 6.5 contains more information on the risks associated with RACQ's businesses.

As an ADI, QTMB will continue to be subject to the same prudential regulation (overseen by APRA) as before the Merger including the requirement to maintain or exceed a prescribed level of regulatory capital. Customer deposits will continue to be used to support the lending activities of QTMB and will be protected in the same way (including the Commonwealth Government guarantee of ADI customer deposits up to $250,000).

1.4 Other relevant considerations

(a) Implications of not approving the Merger Resolution

If the Merger Resolution is not approved by QTMB Members by the requisite majority the Merger will not proceed and QTMB Members will remain members of QTMB and retain their QTMB Shares.

(b) Implications of not approving the Merger at the Member Meetings

If the Merger is not approved by QTMB Members at the Member Meetings or the Scheme is not approved by the Court, QTMB Members will remain members of QTMB and retain their QTMB Shares.

(c) The Merger may be implemented even if you vote against it

You should be aware that even if you do not vote, or you vote against the Merger Resolution or the resolutions at the Member Meetings, the Merger may still be implemented if it is approved by the requisite majorities of QTMB Members and the Scheme is approved by the Court.

If this occurs, your QTMB Share will be transferred to the RACQ Group and you will receive a Legacy Share[28], even though you did not vote on, or voted against, the Merger.

As a consequence of the Merger and the RACQ Board amending its by-laws to ensure that QTMB's banking products are eligible RACQ products, each QTMB Member (who is not already a member of RACQ) will become an RACQ Member.

(d) Conditionality of the Merger

The implementation of the Merger is subject to a number of Conditions Precedent, including:

- Approval of the Commonwealth Treasurer under the FSSA and the Banking Act
- Approval of APRA under the Banking Act
- QTMB Member approval of the Merger Resolution in a Ballot
- QTMB Member approvals of the Merger at the Member Meetings
- Court approval of the Scheme
- No QTMB Prescribed Event, RACQ Prescribed Event, QTMB Material Adverse Change or RACQ Material Adverse Change having occurred between 31 March 2016 (being the day the Merger Implementation Agreement was entered into) and 8.00 am on the Second Court Date.

These conditions are summarised in Section 7.12(a) and set out in full in Schedule 3 of the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

[28] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

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2 Frequently asked questions

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

The Merger at a Glance

1. What is the Merger?

The Merger will involve the acquisition of all QTMB Shares by the RACQ Group through the implementation of a Scheme of Arrangement.

For more information, refer to Sections 3 and 6

2. Why is QTMB proposing the Merger with RACQ?

The QTMB Board believes that the Merger has the potential and the opportunity to create a new force in banking for Queenslanders, bringing together two mutual, member-focused organisations that are committed to an attractive retail bank offering that provides benefits for members.

Through the Merger QTMB will have greater capacity to evolve and improve its products and services with the support of RACQ's resources and financial strength. It is expected that members will have greater access to their banking services through increased digital capabilities, access to a wider branch network, longer contact centre operating hours and competitive products and services.

The Merger is expected to reduce uncertainties and risks that will arise if we continue as a standalone mutual bank and will provide QTMB Members with a stronger, more resilient future.

Importantly, the Merger will allow QTMB to continue to operate on mutual principles and to continue to focus on the interests of members.

For more information, refer to Section 6

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3. What are the details of the transaction and what will you receive?

The Merger involves the RACQ Group acquiring all QTMB Shares. If the Merger is implemented, each QTMB Member will receive a Legacy Share[29] (a redeemable preference share in Club Finance Holdings, a subsidiary of RACQ that will hold the shares in QTMB).

The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products. As a consequence of the Merger and those amendments, on the Implementation Date each QTMB Member (who is not already an ordinary voting member of RACQ) will become an RACQ Member.

For more information, refer to Section 3

4. What is the recommendation of the Directors?

The Directors believe the Merger is the best outcome for QTMB Members and unanimously recommend that you vote in favour of the Merger Resolution in the Ballot and the resolutions at the Member Meetings in the absence of a Superior Proposal.

Each of the Directors intends to vote in favour of the Merger Resolution and the resolutions at the Member Meetings in the absence of a Superior Proposal.

For more information, refer to Section 3.2

5. What are the reasons to vote in favour of the Merger?

Reasons to vote in favour of the Merger Resolution in the Ballot and to approve the Merger:

- Your Directors unanimously recommend that you vote in favour of the Merger Resolution in the Ballot and to approve the Merger
- The Independent Expert has concluded that in the absence of a Superior Proposal, the Merger is in the best interests of QTMB Members
- QTMB will become part of a member owned group with a common objective of exceptional service, with aligned cultural values, greater resources and diversified business operations
- Existing products and services will improve over the near-term, with scope for continued improvement over the medium-term
- Retention of QTMB staff and Directors and QTMB headquarters to remain in Queensland
- Each QTMB Member will retain indirect ownership of QTMB as long as they maintain their RACQ Membership whether received as part of the Merger if it is approved, or if you are already an ordinary voting member of RACQ. Such indirect ownership of QTMB will be held with all other ordinary voting members of RACQ
- RACQ Membership and access to RACQ Member benefits[30] (for QTMB Members who are not already RACQ Members). Your years of QTMB Membership will be recognised in RACQ loyalty years associated with such RACQ Member benefits[31].
- QTMB Members' existing rights to current QTMB's reserves will be preserved for a period of seven years by the issue of a Legacy Share
- No Superior Proposal has emerged as at the date of this document. The QTMB Board views the mutual structure retained by the Merger to be of greater benefit to QTMB Members than any value that may be attained by QTMB Members through alternative proposals to unlock value in the QTMB reserves.

The reasons to vote in favour of the Merger Resolution in the Ballot and to approve the Merger are set out in more detail in Section 1.2.

[29] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

[30] RACQ Business Class Members do not have access to all RACQ Membership benefits.

[31] These benefits are only available to RACQ Members who choose to take advantage of the savings and discounts being offered through RACQ Membership.

2. Frequently asked questions (continued)

6. What are the reasons not to vote in favour of the Merger?

Possible reasons not to vote in favour of the Merger Resolution:

- You may disagree with the recommendation of your Directors and the conclusion of the Independent Expert
- Your rights as a QTMB Member will change - you will no longer have a member share in QTMB but will hold a Legacy Share and be a member of RACQ. You may consider the change to a different set of organisational objects and member rights is not justified by the stated benefits of the Merger
- The prospects of QTMB Members unlocking value in QTMB's reserves will be reduced after the Merger and you may consider that there is potential for a Superior Proposal to emerge in the foreseeable future. By voting in favour of the Merger, QTMB Members will forego the opportunity to benefit from an alternative proposal such as demutualisation (accompanied by a sale of the company or a listing on a securities market) or a voluntary winding up, that could crystallise value for QTMB Members
- QTMB Members may prefer to deal with a mutual banking organisation in which they have a direct ownership interest and influence over its governance
- The business, products and services of QTMB may change
- Specific risks of RACQ's business may limit its ability to invest to enhance the banking experience and you may consider these risks outweigh the advantages of those benefits.

The possible reasons not to vote in favour of the Merger Resolution are set out in detail in Section 1.3.

For more information, refer to Section 1.3

7. What is the Independent Expert's conclusion?

The Independent Expert (Grant Samuel) has concluded that, in the absence of a Superior Proposal, the Merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are reasonable, having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB.

As QTMB Members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to QTMB Members are fair.

For more information, refer to Annexure A

8. What are the prospects of receiving a Superior Proposal?

Since the Scheme was announced on 18 April 2016, no Superior Proposal to acquire QTMB has emerged.

QTMB has agreed to certain exclusivity and reimbursement fee provisions in favour of RACQ, which are summarised in Section 7.12.

For more information, refer to Sections 1.2(i) and 1.3(c), Section 7.12

9. What is the process of implementing the Merger?

QTMB Members must first vote on the Merger Resolution in the Ballot.

If the Merger Resolution is passed QTMB Members will be asked to vote in a two-step process at the Member Meetings expected to be held on 2 November 2016 at the Royal International Convention Centre, commencing at 6.00 pm.

- Members will first attend a Special General Meeting to vote on the Constitution Resolution.
- The second step is a Scheme Meeting where QTMB Members will vote on the Scheme Resolution. This will take place immediately after the Special General Meeting.

How to Vote, page 12, refer to Section 3.6

10. What is the Merger Resolution?

The Merger Resolution is required under Appendix 5 of the QTMB Constitution to approve the proposed Merger.

QTMB Members will vote on the Merger Resolution in a Ballot to be conducted online and by post. The Ballot opens at 9.00am on 20 August 2016 and closes at 5.00pm on 16 September 2016.

The implementation of the Merger is conditional on QTMB Members also approving the resolution at the Member Meetings and the Scheme being approved by the Court.

How to Vote, page 12, refer to Section 7.1

11. What is the Constitution Resolution?

To facilitate the Merger, some changes need to be made to the QTMB Constitution including:

- the ability to transfer a QTMB Share under the Scheme;
- providing for an additional director and appointment of non-members as directors to the QTMB Board to facilitate RACQ's nominees joining the QTMB Board if the Merger is approved; and
- repealing Division 19 and Appendix 5 of the QTMB Constitution, because after the Merger these procedures will no longer be required.

This is a necessary step to complete the Merger.

QTMB Members will vote on the Constitution Resolution at a Special General Meeting to be held on 2 November 2016 at the Royal International Convention Centre, commencing at 6.00 pm.

The implementation of the changes to the QTMB Constitution is conditional on QTMB Members also approving the Scheme at the Scheme Meeting and the Scheme being approved by the Court.

For more information, refer to Section 7.2

12. What is a Scheme of Arrangement?

A Scheme of Arrangement is a legal arrangement which enables one company to acquire another company.

13. What should I do?

You should read this document and decide how you wish to vote in the Ballot.

Your vote is important and we strongly encourage you to participate in this important decision by voting in the Ballot online or by post.

How to Vote, page 12 and Ballot Paper

What Will You Receive Under the Merger?

14. What will I receive if the Merger proceeds?

If the Merger is implemented, each QTMB Member will receive a Legacy Share[32].

The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products. As a consequence of the Merger and those Amendments, on the Implementation Date each QTMB Member (who is not already an ordinary voting member of RACQ) will become an RACQ Member.

For more information, refer to Section 3.1

[32] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

2. Frequently asked questions (continued)

15. What is an RACQ Membership?

You will obtain and retain RACQ Membership by holding an eligible RACQ product which, after the Implementation Date will include all QTMB banking products.

RACQ Members may take advantage of the benefits, privileges and advantages offered through RACQ Membership, including[33]:

- access to savings through Show Your Card and Save program
- theme park and ticket discounts
- discounted movie tickets
- participation in the dining rewards program
- 24-hour travel assistance in Australia with Aussie Assist
- receipt of The Road Ahead magazine.

RACQ Membership does not entitle the holder to the benefit of RACQ roadside assistance services. This is a product which members may purchase separately.

For more information, refer to Section 7.3

16. What is a Legacy Share?

A redeemable preference share in Club Finance Holdings entitling QTMB Members, for a period of seven years following the Merger, to receive a share of the accumulated QTMB Member funds as at 30 June 2016[34] if RACQ is demutualised, Club Finance Holdings or QTMB become insolvent or are wound-up or QTMB is sold by RACQ (called **"trigger events"**).

If a trigger event occurs, this amount will be paid to each of those QTMB Members who have continuously held a QTMB banking product from the time of the Merger up until the time of the trigger event.

A Legacy Share may be redeemed by Club Finance Holdings for $10 if the holder ceases to hold a banking product at any time following the Merger or otherwise will be redeemed at the end of seven years after the Merger.

If you are a QTMB Member with a registered address outside of Australia you will not receive a Legacy Share but you will receive $10 on the Implementation Date and similar contractual rights to the Legacy Share rights. See Section 7.5 for details.

For more information, refer to Section 7.4 and Annexure B

17. Who is Club Finance Holdings?

Club Finance Holdings is a subsidiary of RACQ incorporated on 28 April 2016. It has been formed for the purpose of acquiring shares in QTMB and acting as an APRA registered non-operating holding company, subject to APRA approval. It will also be the issuer of the Legacy Shares for QTMB Members. It currently has no other business or activities.

On implementation of the Merger, the directors of Club Finance Holdings will be:

Nigel WF Alexander

Bronwyn K Morris

Campbell J Charlton

Elizabeth M Jameson

Karl D Morris

Ian A Gillespie

Profiles of these directors are contained in Section 5.3.

For more information, refer to Section 5.4

[33] RACQ Business Class Members do not have access to all RACQ Membership benefits.

[34] The equity amount per QTMB Member as at 30 June 2015 based on the FY15 financial reports was $1,865. The amount of the equity per QTMB Member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but at this stage it is expected to increase from the previous year in line with increases in eligible regulatory capital and the capital ratio set out in Section 4.5.

18. What are the tax consequences of the Scheme for me?

Section 9 provides a general outline of the Australian income tax, capital gains tax (CGT), GST and stamp duty consequences for QTMB Members who dispose of their QTMB Share to RACQ in accordance with the Scheme.

It is anticipated that an ATO Class Ruling will be issued recognising that QTMB Members who are neither "non residents" nor "temporary residents" of Australia will be eligible for scrip for scrip rollover relief. This means that they will be entitled to disregard any CGT gain in respect of the exchange of their QTMB Share for a Legacy Share, and the Legacy Share (acquired upon the exchange) will be treated as having a cost base of $10.

There are no CGT or income tax consequences of QTMB Members becoming RACQ Members as a result of the Merger.

No stamp duty will be payable by any QTMB Member on the disposal of QTMB Shares to RACQ.

You should consult with your own financial/tax adviser with regards to current tax laws and your particular investment circumstances.

For more information, refer to Section 9

19. Overseas QTMB Member - What do I receive if I have a registered address outside of Australia?

Overseas QTMB Members with a registered address outside of Australia will not receive a Legacy Share but will instead receive $10 on the Implementation Date and contractual rights giving them access to a share of the accumulated QTMB Member funds as at 30 June 2016 if a trigger event occurs for the Legacy Shares.

All QTMB Members, irrespective of their location, will be eligible for RACQ Membership as a consequence of holding a QTMB banking product on the Implementation Date.

For more information, refer to Section 7.5

Approval of the Merger Resolution

20. Am I entitled to vote on the Merger Resolution?

All QTMB Members entered on the Register on 10 August 2016 and who are not minors (i.e. under 18 years of age) will be entitled to vote in the Ballot.

How to Vote, page 12

21. How do I vote on the Merger Resolution?

You may vote in the Ballot online or by post. For further details see page 12.

How to Vote, page 12

22. When can I vote in the Ballot?

The Ballot opens at 9.00am on 20 August 2016 and closes at 5.00pm on 16 September 2016.

Your Ballot must be submitted online or be received by the Returning Officer by 5.00pm on 16 September 2016 for it to be counted.

How to Vote, page 12

23. What vote is required to approve the Merger Resolution?

For the Merger Resolution to be passed, at least 25% of QTMB Members who are eligible to vote must cast a vote on the Merger Resolution, with 75% of the votes being in favour.

How to Vote, page 12

CONTENTS

24. Why is the Ballot being held before the Member Meetings?

Appendix 5 of the QTMB Constitution requires QTMB Members to first vote on the Merger Resolution before QTMB can apply to the Court for an order to convene the Scheme Meeting.

For more information, refer to Section 7.1

25. Should I vote?

Voting is not compulsory.

However, your vote is important and the Directors strongly encourage you to participate in this important decision by voting in the Ballot.

Importantly, to obtain an effective Merger Resolution, at least 25% of QTMB Members must vote.

The Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Merger Resolution in the Ballot.

How to Vote, page 12

26. What happens if I do not vote in the Ballot, or I vote against the Merger Resolution?

The Merger Resolution may not be approved by the requisite majority required under the QTMB Constitution and, if that occurs, the Merger will not proceed.

However, if all the resolutions are approved (under the Ballot and at the Member Meetings), and the Scheme is approved by the Court, the Merger will proceed and, if you are a QTMB Member on the Record Date, your QTMB Share will be transferred to the RACQ Group and you will receive a Legacy Share[35].

As a consequence of the Merger and the RACQ Board amending its by-laws to ensure that QTMB's banking products are eligible RACQ products, each QTMB Member (who is not already a member of RACQ) will become an RACQ Member.

This will occur even if you did not vote at all or you voted against the Merger Resolution or the Merger generally.

For more information, refer to Section 1.4(c)

27. What happens if the Merger Resolution is not approved?

If the Merger Resolution is not approved by the requisite majority, the Member Meetings will not be held, the Scheme will not proceed, QTMB Members will retain their QTMB Shares, QTMB will continue to operate as a stand-alone entity, QTMB Members will not receive a Legacy Share and QTMB Members who are not already a member of RACQ will not be eligible for RACQ Membership as a consequence of the Merger. QTMB will continue to focus on its current business plan and strategy.

For more information, refer to Section 1.4

28. When will the results of the Ballot be available?

The results of the Ballot will be available shortly after the close of the Ballot and will be announced once available.

[35] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

The Resolutions at the Member Meetings

29. What resolutions are being considered at the Member Meetings?

QTMB Members will be asked to vote on two resolutions at the Member Meetings.

A Special General Meeting will be held first at which QTMB Members will vote on proposed changes to the QTMB Constitution to facilitate the Merger, including the ability to transfer QTMB Shares under the Scheme and the ability for non-members to join the QTMB Board to facilitate the appointment of RACQ's nominees on the QTMB Board. This is the Constitution Resolution.

If this resolution is approved, QTMB Members will vote immediately afterwards on the approval of the Scheme at a Scheme Meeting. This is the Scheme Resolution.

For more information, refer to Section 7.2

30. What vote is required to approve the resolutions?

For the Constitution Resolution to be passed, at least 75% of QTMB Members who vote on the Constitution Resolution must vote in favour.

For the Scheme Resolution to be approved, at least 75% of the votes cast by QTMB Members must be in favour.

It is also necessary for the Court to approve the Merger before it can become Effective.

31. Why are two meetings being convened?

The QTMB Constitution changes must be approved by QTMB Members at a Special General Meeting convened under the QTMB Constitution before the Scheme can be approved.

For the Merger to proceed, QTMB Members must vote in favour of the Scheme at a separate Court ordered Scheme Meeting.

The Member Meetings are being held one after the other and are expected to be on 2 November 2016 at the Royal International Convention Centre, commencing at 6.00 pm.

32. Are RACQ Members required to vote for the Merger?

Under the RACQ Constitution, RACQ Members are not required to vote for the Merger. Persons who are members of both QTMB and RACQ are entitled to vote in the capacity of a QTMB Member and are strongly encouraged to participate in this important decision by voting.

For more information, refer to Section 3.6

Pre-conditions to the Merger

33. Is the Merger subject to any conditions?

Yes. The key Conditions Precedent are the approval of the Merger Resolution by QTMB Members by Ballot, approval of the resolutions by QTMB Members at the Member Meetings, and the approval of the Merger by the Treasurer for the Commonwealth under the FSSA and the Banking Act.

The Conditions Precedent are summarised in Section 7.12 and are set out in full in the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

For more information, refer to Section 7.12

2. Frequently asked questions (continued)

34. What happens if any one of the Conditions Precedent is not satisfied or waived?

If any one of the Conditions Precedent is not satisfied or waived (as applicable), the Merger will not be implemented. QTMB Members will retain their QTMB Shares, QTMB will continue to operate as a stand-alone entity, QTMB Members will not receive a Legacy Share and QTMB Members who are not already a member of RACQ will not be eligible for RACQ Membership as a consequence of the Merger. QTMB will continue to focus on its current business plan and strategy.

For more information, refer to Section 7.12

35. What happens if a Superior Proposal emerges?

If a Superior Proposal emerges, the Directors will reconsider their recommendation in respect of the Merger Resolution and the Merger generally.

For more information, refer to Sections 1.3(c), 7.12

What Happens to QTMB After the Merger?

36. Who will own QTMB following completion of the Merger?

After implementation, QTMB will become a subsidiary in the RACQ Group.

RACQ is owned by its members, which after the Merger includes QTMB Members.

For more information, refer to Section 6

37. Will QTMB change its name?

RACQ has applied to APRA for permission to maintain use of the current name of QTMB for a transitional period. It is expected that after that period, QTMB will change its name to one that reflects the RACQ brand.

For more information, refer to Section 6.6

38. Who will manage QTMB following completion of the Merger?

The current management of QTMB will remain in place after implementation of the Merger[36].

Following the Merger, it is intended that all of the current directors of QTMB will remain on the QTMB Board and will be joined by the Group CEO of RACQ as a director together with up to two other RACQ Group non-executive directors nominated by RACQ.

The current QTMB Chairman will remain as Chairman of the QTMB Board following the Merger.

For more information, refer to Section 6

39. What will happen to QTMB's business?

Through the Merger, QTMB will become the banking arm of RACQ.

RACQ's intentions for the QTMB business are outlined in detail in Section 6.4.

For more information, refer to Section 6.4

40. Can I keep my share in QTMB?

No, if the Merger is implemented, all QTMB Shares will be transferred to the RACQ Group.

This will occur even if you did not vote at all or you voted against the Merger.

For more information, refer to Section 6

[36] The Chief Operating Officer of QTMB has elected to take a voluntary redundancy in September 2016. See Section 8.7 for further information.

41. Who is RACQ?

RACQ is a mutual company, operated for the benefit of members and the communities in which they live. It is incorporated in Australia as an unlisted public company limited by guarantee. Founded in 1905, RACQ is Queensland's largest club offering a diverse range of products and services to its almost 1.6 million members across Queensland. More than 60% of households in Queensland contain RACQ Members.

Key services include provision of insurance, assistance and lifestyle products and services.

For more information, refer to Section 5

42. Who is Club Finance Holdings?

Club Finance Holdings is a subsidiary of RACQ incorporated on 28 April 2016. It has been formed for the purpose of acquiring shares in QTMB and acting as an APRA registered non-operating holding company, subject to APRA approval. It will also be the issuer of the Legacy Shares for QTMB Members. It currently has no other business or activities.

On implementation of the Merger, the directors of Club Finance Holdings will be:

Nigel WF Alexander

Bronwyn K Morris

Campbell J Charlton

Elizabeth M Jameson

Karl D Morris

Ian A Gillespie

Profiles of these directors are contained in Section 5.3.

For more information, refer to Section 5.4

43. Do I get free RACQ roadside assistance with my RACQ Membership?

No. Roadside assistance is available for purchase as a separate product.

Questions?

44. What if I have other questions?

If you have any further questions concerning the Ballot, the Merger Resolution or the proposed Merger, please call the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222 or consult your financial or legal adviser.

We encourage you to actively stay informed by regularly visiting the QTMB website, **mutualstrength.qtmb.com.au**, and our Facebook page.

3 Key features of the Merger

3.1 Overview

On 18 April 2016, QTMB announced it had entered into a Merger Implementation Agreement with RACQ.

A summary of the Merger Implementation Agreement is set out in Section 7.12 and a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au.

The proposed Merger is to be implemented by way of a Scheme. The Scheme involves the RACQ Group acquiring all QTMB Shares.

If the Scheme is approved and implemented, each QTMB Member will receive a Legacy Share (a redeemable preference share in Club Finance Holdings, a subsidiary of RACQ that will hold the shares in QTMB).

If you are a QTMB Member with a registered address outside of Australia you will not receive a Legacy Share but you will receive $10 on the Implementation Date and similar contractual rights. See Section 7.5 for details.

The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products. As a consequence of the Merger and those amendments, on the Implementation Date each QTMB Member (who is not already an ordinary voting member of RACQ) will become an RACQ Member.

After implementation, QTMB will become a subsidiary in the RACQ Group.

Amongst other things, the Scheme is conditional on:

- QTMB Members approving the Merger Resolution by Ballot; and
- QTMB Members approving the Constitution Resolution and Scheme Resolution at Member Meetings expected to be held on 2 November 2016 at the Royal International Convention Centre, commencing at 6.00 pm.

More information on the Merger Resolution and the Constitution Resolution can be found in Sections 7.1 and 7.2.

3.2 Directors' recommendation

The Directors unanimously recommend that QTMB Members vote in favour of the Merger Resolution in the Ballot and approve the Merger, in the absence of a Superior Proposal.

The reasons for this recommendation and other matters that you may wish to take into consideration are set out in Section 1.

In considering whether to vote in favour of the Merger Resolution in the Ballot, the Directors encourage you to:

- read this document (including the Independent Expert's Report);
- consider the choices available to you as outlined in Section 1;
- have regard to your individual circumstances; and
- if required, obtain advice from your financial or legal adviser.

3.3 Voting intention of the Directors

Each Director intends to vote in the Ballot in favour of the Merger Resolution.

3.4 Independent Expert's opinion

QTMB appointed Grant Samuel as an Independent Expert to prepare an Independent Expert's Report setting out whether, in its opinion, the Merger is in the best interests of QTMB Members.

That report concludes that, in the absence of a Superior Proposal, the Merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. As QTMB Members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to QTMB Members are fair.

The Independent Expert's Report is set out in full in Annexure A.

3.5 Conditions Precedent

Implementation of the Merger is subject to a number of Conditions Precedent which are summarised in Section 7.12 and set out in full in Schedule 3 of the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

The key Conditions Precedent are the approval of the Merger Resolution by QTMB Members by Ballot, approval of the resolutions by QTMB Members at the Member Meetings and the approval of the Merger by the Treasurer for the Commonwealth under the FSSA and the Banking Act.

3.6 Key steps to implement the Merger and approvals required

The Merger will only be implemented if:

- the Merger Resolution is approved by the requisite majority of QTMB Members in the Ballot;
- the Constitution Resolution is approved by the requisite majority of QTMB Members at the Special General Meeting[37];
- the Scheme is approved by the requisite majority of QTMB Members at the Scheme Meeting[38]; and
- the Scheme is approved by the Court at the Second Court Hearing.

[37] Votes on the Constitution Resolution by QTMB Members can be made either by proxy or by attending the Member Meetings in person, by attorney or, in the case of corporations, by authorised representative.

[38] Votes on the Scheme Resolution by QTMB Members can be made either by proxy or by attending the Member Meetings in person, by attorney or, in the case of corporations, by authorised representative.

The key steps to implement the Merger are as follows:

- At least 25% of QTMB Members entitled to vote must cast a vote on the Merger Resolution and the resolution must be approved by at least 75% of votes cast by QTMB Members.
- If the Merger Resolution is passed, QTMB will apply to the Court at the First Court Hearing for an order to convene a meeting of QTMB Members to approve the Scheme.
- The Constitution Resolution must be approved by at least 75% of votes cast by QTMB Members at the Special General Meeting[39].
- Approval of the Scheme by a majority in number of QTMB Members present and voting at the Court ordered Scheme Meeting[40] and at least 75% of votes cast by QTMB Members.
- If the requisite majorities (as outlined above) approve the Merger, then QTMB will apply to the Court to approve the Scheme at the Second Court Hearing (currently expected to be held on 9 November 2016). Details of this procedure will be sent to members with the Notices of the Member Meetings.
- If all Conditions Precedent have been satisfied or waived (as applicable), and the Court approves the Scheme, QTMB will lodge with ASIC an office copy of the Court order approving the Scheme.
- On the Implementation Date, the RACQ Group will issue to each QTMB Member a Legacy Share[41] and acquire all existing QTMB Shares.
- The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products. As a consequence of the Merger and those amendments, on the Implementation Date each QTMB Member (who is not already an ordinary voting member of RACQ) will become an RACQ Member.

Section 7 contains further details of the Merger.

3.7 Exclusivity arrangements

QTMB has agreed under the Merger Implementation Agreement that it will comply with certain restrictions in relation to soliciting alternative proposals or competing transactions with third parties, and responding to approaches by third parties in relation to the QTMB Group.

Further details about these arrangements are set out in Section 7.12 and they are set out in full in clause 10 of the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

3.8 Reimbursement Amount

Under the Merger Implementation Agreement either QTMB or RACQ may be obliged to pay the Reimbursement Amount to the other party if the Merger does not proceed in certain circumstances. The Reimbursement Amount is $1.5 million. The amount is not payable if the Merger does not proceed because QTMB Members do not vote in favour of approving the Merger.

Further details about the Reimbursement Amount are set out in Section 7.12 and the relevant provisions are set out in full in clause 11 of the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

3.9 Taxation implications

A general guide to the taxation implications of the Merger is set out in Section 9. This guide is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any QTMB Member.

3.10 If the Merger Resolution is not approved

If the Merger Resolution is not approved, the Merger will not proceed, QTMB Members will remain members of QTMB and retain their QTMB Shares, QTMB will continue to operate as a stand-alone entity, QTMB Members will not receive a Legacy Share and QTMB Members who are not already a member of RACQ will not be eligible for RACQ Membership as a consequence of the Merger. QTMB will continue to focus on its current business plan and strategy.

3.11 Action to be taken by QTMB Members

You should read this document. If you are in any doubt as to how to deal with this document, please call the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222 or consult your financial or legal adviser.

Instructions on how to vote in the Ballot are set out on page 12 and on accompanying Ballot Paper and materials.

3.12 Further information for QTMB Members

If you have any further questions concerning the Ballot, the Merger Resolution or the proposed Merger, please call the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222 or consult your financial or legal adviser.

[39] See note 37 above.

[40] Including QTMB Members voting by proxy or in person at the Scheme Meeting.

[41] For Overseas QTMB Members see Sections 1.2(h) and 7.5.

4 Information on QTMB

4.1 Overview of QTMB

QTMB is a member-owned mutual bank, offering a broad range of retail banking products and services to the education community, their families and increasingly the wider community.

Established in 1965, QTMB has more than 60,000 members and more than $1.39 billion in total assets. QTMB principally offers a range of retail banking products and services, including home loans, term deposits and savings accounts to its members through its branch, mobile lender, contact centre, internet banking and ATM networks across Queensland.

QTMB has 14 branches across Queensland, with 10 in Brisbane and one in each of Cairns, Toowoomba, Townsville and the Gold Coast. QTMB directly employs more than 200 staff.

QTMB is an Authorised Deposit-taking Institution and is regulated by APRA. It has an Australian Financial Services Licence and a Credit Licence.

QTMB holds a BBB+/A-2 credit rating from Standard and Poor's and an A3 credit rating from Moody's, underlining its financial stability.

QTMB maintains strong links with the communities in which it operates, supporting community events, organisations and charities through its Supporting Communities Program.

4.2 QTMB's business

QTMB's principal activities are the provision of retail banking products and services to its members, with a focus on raising funds (predominantly through member deposits) and providing finance for predominantly housing purposes.

QTMB offers members a broad range of retail banking products and services, including:

- Transaction and savings accounts
- Term deposits
- Home loans
- Car loans
- Personal loans, including secured and unsecured
- Credit cards (through a white-label distribution arrangement with Citigroup)
- Foreign currency products through Western Union and Travelex

In addition, QTMB also offers members a range of additional services and these include:

- Financial planning through QT Financial Planning. QTMB retains a 75% ownership interest in QT Financial Planning
- Insurances (under an agency distribution arrangement with CGU and Zurich)
- Motor vehicle consultants (an in-house car brokerage service for members).

QTMB's banking products and services can be accessed via a number of channels including online, phone, and its branch, mobile lender and ATM (through rediATM) networks.

4.3 QTMB Board and senior management

QTMB is overseen by the QTMB Board which comprises seven non-executive Directors.

Operational management of QTMB is executed by the Chief Executive Officer who has executives directly reporting to him covering the key disciplines of finance, marketing, operations, risk, human resources and sales.

The Directors and Chief Executive Officer of QTMB are:

Peter Whitelaw (Chair) B.Econ, B.Ed Studies, M.Ed, Grad.Dip.School Admin, Grad Cert.Soc.Sc, MAMI, MAICD
Director since 2001. Chair since October 2008. Previously a state secondary school principal and District Director in Education Queensland. Chair of QTMB's Remuneration Committee and member of the Governance and Strategic Initiative Committees.

John Fisher-Stamp (Deputy Chair) B.Bus.A, FCA, FTIA, MIMC, GAICD, CFP
Director since 2008. Deputy Chair since 2014. John is a chartered accountant and a director of financial and advisory services group The DKM Group – Brisbane, an Executive Director of USA corporation Ouro Mining, Inc and a Director of ASX-listed company A-Cap Resources Limited. John is a chair of QTMB's Board Audit Committee and member of the Mutual Bank's Board Risk, Board Remuneration and Strategic Initiative Committees.

Adam Allan B.Bus, MBA, F Fin, GAICD, AFAIM, AFAMI
Director since 2013. Currently a Councillor with the Brisbane City Council. Has previously held senior executive roles with a number of global financial services organisations including with the HSBC Group. Member of QTMB's Board Governance, Board Risk, Board Remuneration and Strategic Initiative Committees.

Janette Bowe BHA, MBA, GAICD
Director since 2012. Currently a consultant and company director. Has previously held senior executive roles with the Commonwealth Bank of Australia and Suncorp-Metway Ltd. Chair of QTMB's Board Risk Committee and member of the Board Audit, Board Remuneration and Strategic Initiative Committees.

Helen Coyer B.Bus (Accounting), GradDipIT, CPA, GAICD, AIMM
Director since 2014. Currently a senior executive with the key educational peak body in Queensland, and has previously held senior executive roles with QSuper and the Australian Taxation Office. Member of QTMB's Board Governance, Board Risk and Strategic Initiative Committees.

Nathan King B.Bus (Banking and Finance), CPA, ACIS (Company Secretarial Practice), GAICD
Director since 2007. Nathan brings experience leading accounting, finance and IT areas in small, medium and global sized businesses. Currently, Chief Financial Officer and Company Secretary with Lindsay Australia. Previously with Rio Tinto, Sydney Airport, Hilton and Hyatt Hotels. Prior to that a small business operator. Chair of QTMB's Board Governance Committee and member of the Board Audit Committee.

Anthony McGruther M. Ed, Grad.Dip Admin
Director since 2009. Currently an educational consultant. Previously a teacher and school principal and President of Australian and Queensland State Primary School Principals' associations. Member of QTMB's Board Audit and Board Governance Committees.

Steve Targett (Chief Executive Officer) MAIEx (Diploma), Series 3 US Futures, MAICD
Chief Executive Officer since November 2013. Currently a director of Cuscal, TAS, and P&Cs Queensland. Previous chair of the Australian Financial Markets Association for 3 years. Previously held senior executive roles with ANZ, NAB and Lloyds TSB in London, and Directorships with Lloyds TSB, National Bank of NZ, Clydesdale Bank, Yorkshire Bank, Northern Bank, National Irish Bank and the International Swaps and Derivatives Association.

4.4 Historical financial overview

Summary financial statements

A summary of the audited financial position as at FY14 and FY15 is detailed below.

QT Mutual Bank Limited and Subsidiaries

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Economic Entity		Mutual Bank	
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Interest income	**66,471**	66,468	**66,471**	66,468
Interest expense	**(31,264)**	(32,821)	**(31,290)**	(32,841)
NET INTEREST INCOME	**35,207**	33,647	**35,181**	33,627
Other revenue and income	**11,886**	12,007	**9,038**	9,079
Impairment loss on loans and advances to members	**(240)**	(52)	**(240)**	(52)
Employee benefits expense	**(18,801)**	(18,246)	**(17,172)**	(16,614)
Occupancy expense	**(3,060)**	(3,237)	**(3,054)**	(3,231)
Depreciation and amortisation expense	**(2,269)**	(2,387)	**(2,255)**	(2,368)
Other Expenses	**(13,690)**	(14,168)	**(13,060)**	(13,579)
PROFIT BEFORE INCOME TAX EXPENSE	**9,033**	7,564	**8,438**	6,862
Income tax expense	**(2,370)**	(2,010)	**(1,965)**	(1,687)
PROFIT FOR THE YEAR	**6,663**	5,554	**6,473**	5,175
OTHER COMPREHENSIVE INCOME **Items that may be reclassified to profit or loss**				
Net changes in fair value of cash flow hedges	**(19)**	131	**(19)**	131
Income tax relating to these items	**6**	(39)	**6**	(39)
Items that will not be reclassified as profit or loss				
Actuarial gains/(losses) from defined benefit superannuation plan	**27**	579	**27**	579
Income tax relating to these items	**(8)**	(174)	**(8)**	(174)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	**6**	497	**6**	497
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,669**	6,051	**6,479**	5,672
PROFIT ATTRIBUTABLE TO:				
Non-controlling interest	**235**	188	**-**	-
Controlling interest	**6,428**	5,366	**6,473**	5,175
PROFIT FOR THE YEAR	**6,663**	5,554	**6,473**	5,175
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Non-controlling interest	**235**	188	**-**	-
Controlling interest	**6,434**	5,863	**6,479**	5,672
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,669**	6,051	**6,479**	5,672

4. Information on QTMB (continued)

QT Mutual Bank Limited and Subsidiaries
STATEMENTS OF FINANCIAL POSITION

For the year ended 30 June 2015

	Economic Entity		Mutual Bank	
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
ASSETS				
Cash and cash equivalents	**14,657**	43,725	**14,657**	43,725
Income tax receivable	**70**	154	**244**	290
Other receivables	**2,327**	1,888	**1,754**	1,376
Financial assets at fair value through other comprehensive income	**3,000**	-	**3,075**	-
Financial assets available-for-sale	**-**	3,000	**-**	3,075
Financial assets at amortised cost	**178,497**	-	**178,497**	-
Financial assets held-to-maturity	**-**	172,911	**-**	172,911
Loans and advances	**1,178,706**	1,094,148	**1,178,706**	1,094,148
Property, plant and equipment	**7,522**	7,067	**7,495**	7,030
Deferred tax assets	**2,104**	2,227	**1,972**	2,113
Intangible assets	**2,669**	3,214	**2,669**	3,214
Defined benefit superannuation asset	**667**	705	**667**	705
Other assets	**910**	803	**881**	801
TOTAL ASSETS	**1,391,129**	1,329,842	**1,390,617**	1,329,388
LIABILITIES				
Other payables	**4,641**	4,491	**4,368**	4,181
Borrowings	**4,538**	1,246	**4,538**	1,246
Deposits	**1,231,764**	1,200,144	**1,232,534**	1,201,015
Medium term notes	**20,035**	-	**20,035**	-
Derivatives	**283**	264	**283**	264
Provisions	**1,496**	1,744	**1,358**	1,660
TOTAL LIABILITIES	**1,262,757**	1,207,889	**1,263,116**	1,208,366
NET ASSETS	**128,372**	121,953	**127,501**	121,022
EQUITY				
Redeemed preference share capital account	**918**	898	**918**	898
Retained earnings	**125,388**	119,110	**124,754**	118,431
Reserves	**1,829**	1,693	**1,829**	1,693
Controlling interest	**128,135**	121,701	**127,501**	121,022
Non-controlling interest	**237**	252	**-**	-
TOTAL EQUITY	**128,372**	121,953	**127,501**	121,022

Discussion of financial information

Home loans comprise over 95% of QTMB's total loan portfolio, with the dominant proportion of loans being loans for properties in Queensland with a negligible interstate exposure. The majority of the home loan portfolio has a loan-to-value ratio below 80%, while higher loan-to-value ratios typically are required to be mortgage insured.

Retail deposits comprise the majority of QTMB's funding, typically in excess of 85% of total funding, with the remainder of funding predominantly coming from negotiable certificates of deposits and medium term note programs.

During the 2016 financial year, QTMB has continued to operate profitably and consistently with organisational objectives.

4.5 Material change in QTMB's financial position since the last published accounts (30 June 2015)

Since the last published accounts for the year ending 30 June 2015, QTMB's financial position has continued to strengthen. As at 30 June 2015 QTMB had a base of $120 million in eligible regulatory capital (consisting almost entirely of Tier 1 regulatory capital) and a capital ratio of 18.6%. This has improved further to an eligible regulatory capital position of just over $124 million and a capital ratio of 19.3% as at 31 March 2016. This is expected to improve further with the sale of the St Pauls Terrace head office premises (due for completion on or before 31 October 2016), which is estimated to increase the capital ratio by approximately 220 basis points.

To the best knowledge of any Director, except as set out above, the financial position of QTMB has not materially changed since 30 June 2015, the date of QTMB's last published financial statement, save for the costs of the Merger (estimated to be $4 million).

After the Merger, QTMB will be consolidated in the financial statements of the RACQ group. Given the significant size disparity between QTMB and RACQ (which is evident when comparing the information in Sections 4.4 and 5.5), and that QTMB Members are primarily customers and not investors in QTMB or RACQ in the ordinary sense, the Board considered that detailed information on the pro-forma consolidated financial position of RACQ with a merged QTMB would not provide material relevant information to QTMB Members. The information in sections 4 and 5 indicate that both organisations are expected to have a strong and sound overall financial position as at 30 June 2016 which is expected to extend to the merged group.

4.6 Publicly available information

ASIC maintains a record of documents lodged with it by QTMB, and these may be obtained from or inspected at any office of ASIC. Information is also available on the QTMB website at http://www.qtmb.com.au under the 'Corporate Information' tab within the 'About us' section.

CONTENTS

5 Information on RACQ

5.1 Overview of RACQ

RACQ is a mutual company, operated for the benefit of members and the communities in which they live.

Founded in 1905, RACQ is Queensland's largest club and peak motoring body with almost 1.6 million members. More than 60% of households in Queensland contain RACQ Members.

RACQ offers a diverse range of products and services including assistance, insurance, travel and lifestyle products and services. It is Queensland's largest motor insurer brand and second largest home insurer.

Currently, there are 98 outlets (RACQ branded stores, a mobile member centre and independent agents) throughout the State. RACQ directly employs approximately 2,000 staff plus an extensive network of contractors and agents representing RACQ across Queensland.

RACQ provides wide community support through road safety education programs, consumer and motoring advice, its long-term sponsorship of the RACQ rescue helicopter network across Queensland and the activities of the RACQ Foundation which provides funding to community groups in need across Queensland.

RACQ's current net assets are $1.1 billion, with total assets of over $2.4 billion.

5.2 RACQ's business

RACQ operates three revenue-generating business divisions - assistance, insurance and lifestyle services.

Assistance

Roadside assistance is one of RACQ's cornerstone product offerings, with an extensive network of approximately 750 rescue vehicles positioned throughout Queensland.

RACQ offers a range of motoring services and products, including motor vehicle inspections, pre-purchase and warranty expiry checks, battery installation and glass repair, fitting and tinting.

During FY15, RACQ answered more than 1.3 million calls for roadside assistance, attended more than 900,000 roadside incidents and installed more than 150,000 RACQ-branded batteries.

RACQ also delivers 24/7 traffic clearance and incident management services for the Queensland Government, Brisbane City Council and Queensland Motorways. In FY15 the Recovery and Incident Management team attended to more than 49,000 priority jobs with an average response time of fewer than 19 minutes.

RACQ recently added Home Assistance Services to its member offering.

Insurance

RACQ Insurance was founded in 1971, is Queensland's largest motor insurer brand, second largest home insurer and one of four Queensland CTP insurers and is one of Australia's top ten general insurers.

The RACQ Group offers a range of general insurance products (directly and through white-label and partnership arrangements) including car, motorcycle, caravan, trailer, home contents and building, compulsory third party (CTP), boat, life and income protection, body corporate and pet.

The insurance business has extensive reach, with one in five Queensland vehicles currently covered by RACQ Insurance and approximately 415,000 home and contents policies currently in force in Queensland.

During FY15, RACQ Insurance achieved policy growth of 3.7% and a total annual written premium income of $704 million. In the same period, the business processed more than 27,000 event claims worth almost $200 million.

Lifestyle Services

The Lifestyle Services business offers a range of discounted lifestyle products and services including travel services. Savings, rewards and discounts are available when the Lifestyle product is purchased, or it is available to an RACQ Member when that member purchases an eligible RACQ product such as roadside assistance or home insurance.

In FY15, members purchased over 500,000 discounted movie tickets worth almost $5 million, up from 410,000 tickets sold the previous year. RACQ also sold over 174,000 discounted theme park and attraction tickets worth over $12 million to members. Participating restaurants in the Dining Rewards program was doubled to over 500. The Show Your Card and Save program generated $10 million in member savings in FY15.

The growing RACQ Travel network is a popular resource for RACQ Members. RACQ currently has 39 travel agents in 13 offices around Queensland, with new offices in Capalaba and Hervey Bay. The business recorded gross sales of over $50 million in FY15 and a 14% increase in growth, mainly across packaged tours and cruises.

Membership

RACQ is committed to its overriding purpose of serving its members through the provision of superior products and services, member-exclusive benefits and privileges, maintaining very high service standards, and continuing to serve and support the Queensland community.

The RACQ Foundation was established in 2011 to deliver aid to Queensland communities impacted by natural disasters from flooding, cyclones, storms and drought. Over the past four years the RACQ Foundation has helped over 161 organisations in Queensland with total approved funding of over $7.82 million.

RACQ proudly supports a network of community rescue helicopters operating across Queensland and has done so for more than 20 years. A commitment of over $5.0 million is made annually to help ensure this important service is made available to the Queensland community. The network currently comprises 10 helicopters based in Brisbane, Gold Coast, Toowoomba, Sunshine Coast, Bundaberg, Mackay, Rockhampton, and Mt Isa.

RACQ's commitment to the community is also evident in its support of numerous events, sponsorships and educational and training programs. These include:

- Years Ahead and Streets Ahead educational programs that promote road safety amongst children, teenagers and senior citizens;
- RACQ Docudrama, a free senior school road safety education program delivered on behalf of the State Government where emergency service workers and other local professionals give teenagers the tools to avoid being involved in dangerous situations through real world examples;
- Free2go and Learn2Go programs that prepare young adults for driving on the road;
- A five year sponsorship of the North Queensland Games;
- Naming rights sponsor of the RNA show in Brisbane (EKKA);
- The annual RACQ Motorfest event, the largest car show in Queensland;
- Mater International Women's Day Fun Run, a fundraising event with proceeds going towards women living with breast-cancer;
- The RACQ Technology Challenge, a 24-hour car race featuring human-powered vehicles created by students from local schools, showcasing their skills and knowledge in technology;
- A partnership with Australia Zoo, where RACQ contributed approximately $65,000 in FY15 to the Wildlife Warriors charity; and
- A program of morning tea events across the State for our Gold50 members.

RACQ contributes significantly to the improvement of life in Queensland through its advocacy efforts. RACQ is Queensland's peak motoring body with a 110 year history of fighting for safer drivers in safer cars on safer roads. RACQ campaigns for vital infrastructure funding from all three levels of Government while also performing ongoing consumer protection advocacy, particularly when it comes to cars, fuel and charges and fees on motorists. RACQ's credibility and effective policy, education and road safety program development also ensures it is one of Queensland's highest profile organisations.

Investments in capacity and capability

RACQ has an ongoing commitment to improving and investing in the capacity and capabilities of the RACQ Group, which go towards delivering member value. This relates both to customer facing investments, such as the RACQ Group's ongoing commitment to a high level of training for front line staff, and investments in customer facing systems and processes, such as the RACQ Group's ongoing development of its core digital infrastructure, customer discount applications and enhanced communications platforms.

RACQ is also committed to ongoing investment in non-customer facing processes, systems, and capabilities which drive greater capacity and efficiency for members. These include the RACQ Group's recent replacement of its core finance system, and its future schedule of ongoing upgrades and updates for organisational systems and processes.

5.3 RACQ Group Boards and senior management

RACQ

RACQ is the parent company of the RACQ Group. The directors of RACQ are:

Nigel WF Alexander

BBus, MAppFin, FCPA, FAICD

President and chairman and member of the Group Governance and Remuneration Committee (director, South East Zone, since 2000). Chairman of RACQ Insurance and Club Insurance Holdings Pty Ltd. Mr Alexander is the current chief executive officer of The North Australian Pastoral Company Pty Limited and also a director and vice-president of the Australian Automobile Association. He is a qualified accountant, having previously worked in corporate finance roles with both Australian and international banks.

Bronwyn K Morris

BCom, FCA, FAICD

Vice-president and deputy chairman, chair of the Group Governance and Remuneration Committee and member of the Group Audit Committee (director, South East Zone, since 2008). Director of RACQ Insurance and Club Insurance Holdings Pty Ltd. Ms Morris specialised for more than 20 years as a chartered accountant in audit and corporate services. Ms Morris is a Queensland councillor of the Australian Institute of Company Directors and is chairman of LGIAsuper and the Finance and Audit Committee of the Gold Coast 2018 Commonwealth Games Corporation. She serves as a director of a number of entities, including Watpac Limited and Collins Foods Limited.

Fay L Barker OAM

FAICD

Member of the Group Investment Committee and Group Governance and Remuneration Committee (director, North Zone, since 2001). Chairman of RACQ Foundation Pty Ltd. Ms Barker is chairperson of the Townsville Hospital Foundation and is a former Townsville City councillor. Her other current directorships include chair of the Benefactors of the Good Shepherd Nursing Homes Limited and chair of the Virginia Chadwick Memorial Foundation. Ms Barker is a former director of the Townsville Port Authority, the Great Barrier Reef Marine Park Authority and a former member of the James Cook University Council.

Campbell J Charlton

BCom, LL.B, FCA (Rtd), MAICD

Member of the Group Audit Committee and the Risk and Compliance Committee (director, Far North Zone, since 2014). Mr Charlton has a 35-year career as a chartered accountant and corporate advisor. He is a member of the James Cook University Council, the Queensland Government's Commonwealth Games Legacy Advisory Committee and the Executive Committee of the Australia Papua New Guinea Business Council. Mr Charlton is also a director of North Queensland Cowboys Rugby League Club Limited. He is a former chairman of Tourism Tropical North Queensland and Advance Cairns Limited. He was also chairman of the judging panels of both the Australian Tourism Awards and the Queensland Tourism Awards.

5. Information on RACQ (continued)

Anthony (Tony) M Gambling

BBus, BEcon, MBA, FCPA, FAIM, FAICD, JP (Qual)

Chairman of the Group Investment Committee (director, Central Zone, since 2005). Director of RACQ Insurance and Club Insurance Holdings Pty Ltd. Mr Gambling is general manager of Mango 4 Office Technology and a former director of companies involved in the commercialisation of emerging technologies. He is a member of the Central Queensland Committee of the Australian Institute of Company Directors and the Queensland Small Medium Enterprise Committee of CPA Australia.

Elizabeth M Jameson

LL.B (Hons I), BA, FAICD, MQLS

Chair of the Group Audit Committee and member of the Group Governance and Remuneration committee (director, South East Zone, since 2008). Director of RACQ Insurance and Club Insurance Holdings Pty Ltd. Ms Jameson is the principal and founder of corporate governance consultancy Board Matters Pty Ltd and associated firm Board Matters Legal (since 2002). Ms Jameson was formerly a partner of a national law firm (in their corporate/commercial division). She is chair of Brisbane Girls Grammar School, a board member of the Queensland Theatre Company and an independent member of the Board of Management of the Queensland Police Service. Ms Jameson has also served on the boards of more than 20 other organisations in the private, not-for-profit and public sectors during the past 20 years.

Stephen J Maitland OAM, RFD

BEc, MBus, LLM, FAICD, FCPA, FCIS, , SFFin

Chair of the Risk and Compliance Committee and member of the Group Audit Committee (director, South East Zone, since 2008). Mr Maitland has a background in finance, is a qualified accountant and company secretary and the principal of corporate advisory firm Delphin Associates. He was Chief Executive Officer of the Queensland Office of Financial Supervision (1992 to 1999) and had a 20-year career in corporate banking. Mr Maitland is also a director of Australian Unity Limited, QInsure Ltd and several private companies.

Karl D Morris

BCom, MSAA, FAICD, FFin

Member of the Group Investment Committee and the Risk and Compliance Committee (director, South East Zone, since 2010). Mr Morris is executive chairman of Ord Minnett Limited and has a career spanning over 29 years in financial services and wealth management. Mr Morris is chairman and master member of the Stockbrokers Association of Australia Limited, chairman of QSuper, member of the Catholic Foundation Archdiocese of Brisbane and member of the Financial Sector Advisory Council.

RACQ Insurance

RACQ Insurance is a wholly-owned subsidiary of RACQ. The directors of RACQ Insurance, in addition to the four who are also directors of RACQ noted above, are:

Neville Ide

BBus, MComm, FCPA, FAICD

Member of the Group Investment Committee and the Level 2 Group Risk and Compliance Committee. Mr Ide's role at Suncorp Group Limited was Group Treasurer from 2002 to 2009 having held responsibility for capital market funding (debt and equity), balance sheet management, interest rate and foreign exchange product sales and trading. Mr Ide is currently a director of Queensland Police Credit Union Limited and SunWater Limited and a member of the Public Trust Office Investment Board.

Raymond Jones

Dip Marketing, Graduate Harvard Business School AMP, AFAMI, MAICD, AFFSI

Member of the Group Governance and Remuneration Committee and the Level 2 Group Risk and Compliance Committee. Mr Jones has a strong background in the insurance industry. He was Managing Director of QBE Australia, and held senior roles with American International Group and Citibank. He served as President/Director of Insurance Council of Australia, as a Director of Insurance Ombudsman, President of Australian Insurance Association, and Chairman of Insurance Statistics Australia.

He is past Chairman of AIA Australia, past Chair of Vaccinoma, is on the advisory panel of MJM Corporate Solutions, chair of BizAdLive, an advisory panel member at Taurus Marketing, and is a representative for Halliday Munro Consulting.

Melvyn J (Vyn) Tozer

BComm (UWA) D.Bus.S (Accy) FCPA MAICD

Chair of the Level 2 Group Risk and Compliance Committee and Member of the Group Audit Committee. Mr Tozer has extensive skills and experience in finance, accounting and insurance. He also serves as Chairman of RACT Insurance Pty Ltd. Mr Tozer was formerly managing director of Fortis Australia Limited, Chairman of Avant Insurance Limited, Australian Health Service Alliance Limited and a director of Avant Mutual Group Limited, Medical Indemnity Industry Association of Australia, Elders Financial Services Group Pty Ltd, Insurance Council of Australia, and Insurance Statistics Australia.

RACQ Executives

The key officers of RACQ are its Group Chief Executive Officer and Company Secretary:

Ian A Gillespie

BA, Dip Laws(BAB), MAICD, FAIM,

GROUP CHIEF EXECUTIVE OFFICER

Mr Gillespie has been CEO of the RACQ Group since 2006. He is a director of RACQ Insurance, Club Insurance Holdings Pty Ltd, RACQ Foundation Pty Ltd, RACQ Operations Pty Ltd and several other RACQ Group and related entities. He is also a director of the Australian Automobile Association, the Confederation of Australian Motor Sport, the Business Council of Cooperatives and Mutuals (BCCM), Chairman of Australian Motoring Services Pty Ltd, and Vice-Chair of the Global Mobility Alliance. Mr Gillespie has over 30 years' experience at general management and chief executive level in a broad range of industries in Australia and internationally.

Mr Gillespie is supported by a nine member group executive team covering assistance, insurance, finance, development, technology, legal and risk, governance, human resources, and advocacy.

Bradley D Bowes

PhD, FGIA, FCIS, MAICD

GROUP COMPANY SECRETARY

Mr Bowes is company secretary for all the legal entities within the RACQ Group and heads the Group Secretariat with responsibility for group-wide corporate governance matters, including managing all matters associated with the efficient operation of the various boards and committees and of each annual general meeting. Mr Bowes is a chartered company secretary with over 20 years' experience in senior management and similar governance roles in both private enterprise and the public sector across a range of industries.

5.4 Club Finance Holdings

Club Finance Holdings will be, if the Merger is implemented, a non-operating holding company. It was registered in Queensland on 28 April 2016 for the purpose of implementing the merger of QTMB into the RACQ Group. RACQ Investments No. 2 Pty Ltd, a wholly owned subsidiary of RACQ and is the controlling shareholder of Club Finance Holdings.

RACQ is the ultimate parent company of Club Finance Holdings. Following the Merger, Club Finance Holdings will hold 100% of the issued share capital in QTMB.

The constitution of Club Finance Holdings imposes certain restrictions on the powers of the directors. The directors may not without RACQ's consent:

- exercise their powers to issue and cancel shares and grant options over unissued shares;
- sell or dispose of Club Finance Holdings main undertaking;
- borrow money;
- lend money or extend credit; or
- give financial benefit to a related party.

The Legacy Shares will be issued by Club Finance Holdings.

5. Information on RACQ (continued)

5.5 Historical financial overview

(a) **Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 30 June 2015**

	RACQ Group	
	2015	**2014**
	$'000	**$'000**
Revenue		
Insurance premium revenue	704,207	693,788
Membership subscription and entrance fee revenue	134,342	131,208
Reinsurance and other recoveries revenue	162,538	66,535
Investment income	57,895	56,016
Member services revenue	32,157	30,178
Other income	19,205	16,549
Total revenue	**1,110,344**	**994,274**
Expenses		
Insurance claims expense	(573,159)	(437,481)
Employee benefits expense	(135,621)	(124,999)
Outwards reinsurance premium expense	(76,548)	(77,013)
Payments to contractors for roadside assistance and provision of other member services	(51,929)	(51,472)
Communication and information technology expenses	(41,163)	(27,254)
Other underwriting and acquisition costs	(56,146)	(66,528)
Depreciation and amortisation expense	(51,159)	(50,865)
Property and related costs	(12,197)	(5,476)
Other expenses	(42,358)	(35,683)
Total expenses	**(1,040,280)**	**(876,771)**
Share of profit / (loss) of equity-accounted investments in Associates	(60)	-
Surplus before income tax	**70,004**	**117,503**
Income tax expense	(19,779)	(27,327)
Surplus for the year	**50,225**	**90,176**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	1,179	619
Income tax expense	(354)	(186)
Total items that will not be reclassified to profit or loss	**825**	**433**
Items that may be reclassified subsequently to profit or loss:		
Net change in fair value of financial assets held as available-for-sale	(195)	3,088
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss	550	381
Income tax expense	(107)	(1,041)
Total items that may be reclassified subsequently to profit or loss	**248**	**2,428**
Total other comprehensive income for the year, net of income tax	**1,073**	**2,861**
Total comprehensive income for the year	**51,298**	**93,037**

(b) Consolidated Balance Sheet as at 30 June 2015

	RACQ Group	
	2015	**2014**
	$'000	**$'000**
Assets		
Cash and cash equivalents	55,311	47,232
Trade and other receivables	159,606	153,991
Reinsurance and other recoveries receivable	135,263	85,404
Investment securities	435,193	434,630
Deferred acquisition costs	37,351	33,756
Other current assets	9,575	7,387
Current tax receivable	10,061	-
Total current assets	**842,360**	**762,400**
Reinsurance and other recoveries receivable	72,017	84,554
Investment securities	1,028,685	1,039,860
Investment property	7,398	7,552
Property, plant and equipment	147,089	76,737
Intangible assets	347,197	351,831
Deferred tax assets	24,118	20,607
Other non-current assets	8,280	11,447
Equity-accounted investment in Associates	941	1
Total non-current assets	**1,635,725**	**1,592,589**
Total assets	**2,478,085**	**2,354,989**
Liabilities		
Trade and other payables	64,086	38,800
Unearned revenue	411,715	410,035
Outstanding claims liability	327,436	252,788
Current tax payable	-	14,664
Employee benefits	26,291	23,774
Total current liabilities	**829,528**	**740,061**
Outstanding claims liability	522,663	540,666
Employee benefits	4,470	4,146
Other non-current liabilities	10	-
Total non-current liabilities	**527,143**	**544,812**
Total liabilities	**1,356,671**	**1,284,873**
Net assets	**1,121,414**	**1,070,116**
Accumulated funds		
Reserves	10,345	10,097
Retained surplus	1,111,069	1,060,019
Total accumulated funds	**1,121,414**	**1,070,116**

5. Information on RACQ (continued)

5.6 Material change in RACQ's financial position since the last published accounts (30 June 2015)

At the date of this document RACQ's FY16 results were not yet finalised. For the nine months ended 31 March 2016, RACQ had generated a surplus after tax in the order of $6.8 million, which was ahead of the RACQ Board's approved budget. The claim liability provisions within RACQ Insurance are the main source of RACQ's profit variability, and as such the performance of the quarter ending 30 June will be a key determinant of the full year result. Based on known claims and experience to date there are no issues that will have a material impact on the RACQ Group's net asset position.

5.7 Pre-Merger benefits

During the four months before the date of this document, neither RACQ nor any of their Associates has 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 where the benefit was not offered to all QTMB Members.

5.8 Benefits to Directors

RACQ will not be making any payment or giving any benefit to any current member of the QTMB Board if the Merger becomes Effective.

5.9 RACQ's Disclosure

RACQ is a public company limited by guarantee and does not have continuous disclosure obligations like a company listed on ASX. RACQ will provide a copy of any of the following documents, free of charge, to any QTMB Member who requests a copy before the Scheme Meeting:

- the annual financial reports for RACQ for the year ended 30 June 2015; and
- a copy of RACQ's Constitution.

These documents can also be accessed through RACQ's website at racq.com.au.

CONTENTS

6 Information about the Merged Entity

6.1 Rationale for the Merger

The proposed Merger between QTMB and RACQ will create a member-owned bank that aims to deliver enhanced value to its members.

The Merger will establish a banking subsidiary within the RACQ Group, alongside its assistance, insurance and lifestyle operations which service approximately 1.6 million members across Queensland.

QTMB's expertise, products and experience in banking will provide a solid foundation for RACQ to continue to grow and expand its member offering.

The banking operation of the merged entity will be differentiated through both organisations' shared cultural values and commitment to their members. The new entity will also leverage RACQ's resources, including its distribution footprint, investment in technology and systems, capital and people, policies and practices.

Both the boards of QTMB and RACQ believe that the combination of the two companies will provide members of the merged entity with a number of benefits.

Some key highlights of the merged entity include:

- a wider footprint than the current individual QTMB or RACQ branch networks, allowing for increased customer access and connectivity;
- investment from RACQ over time in an enhanced banking platform, including a new mobile app, greater internet banking functionality and enhanced online platform;
- QTMB Members being recognised for their years of tenure in equivalent RACQ loyalty years. The RACQ loyalty program entitles RACQ Members to a variety of benefits and discounts based on their membership tenure.[42]
- QTMB Members will become RACQ Members (if not already members) and benefit from a range of discounts and benefits across RACQ's areas of operation.[43]

6.2 Overarching vision and strategy

The vision is to establish a scalable banking platform which could achieve significant growth and expansion over time, by bringing together the RACQ brand, resources and member base with the banking expertise and products of QTMB.

Through this proposed Merger, the merged entity's aim is to become a compelling alternative choice in the competitive financial services sector.

The Merger also supports QTMB's long-term growth strategy to bring products and services to a wider customer base.

6.3 Board and management of the Merged Entity

If the Merger is implemented, all current directors of the QTMB Board will remain as directors of QTMB.

The RACQ Group CEO will join the QTMB Board as a director together with up to two other RACQ Group non-executive directors nominated by RACQ.

QTMB CEO Steve Targett will remain CEO of QTMB and will report to the Chair of the QTMB Board, Further, Mr Targett will become a member of the RACQ Group executive team and will have a direct reporting line to the RACQ Group CEO.

The RACQ Board will maintain a governance oversight over the banking division of the merged entity through the bank board and will appoint directors from the RACQ Group to the bank board.

6.4 RACQ's intentions if the Merger is implemented

Members of the mutual organisation will have an enhanced banking experience, with the focus on sustainably returning value to members (as opposed to traditional banks which focus on maximising profits from their customers to enhance the wealth of shareholders).

In the near-term, RACQ intends to deliver:

- increased investment in technology and new digital capabilities including a new mobile app, greater internet banking functionality and enhanced platforms that enable members to apply for banking products online;
- increased customer touch points including a larger branch network than either the current QTMB or RACQ networks, a contact centre available to customers 24 hours/seven days a week and 'click to chat' capabilities; and
- a wider product range including a more integrated credit card offering, providing an enhanced customer experience.

By leveraging RACQ's assets, capital and capabilities over the medium-term, the merged entity will work towards delivering a scaleable banking platform that can achieve significant growth in the financial services sector.

This will help achieve the long-term aspirations for the business of:

- continued investment in maintaining and improving a competitive offering of products and services; and
- providing Queenslanders with banking that offers value with competitive products and services.

[42] To be eligible for the Roadside Assistance loyalty discount on eligible RACQ Insurance products, a member must be a product holder of Roadside Assistance.

[43] RACQ Business Class Members do not have access to all RACQ Membership benefits.

6. Information about the Merged Entity (continued)

6.5 Risks applicable to the Merger and becoming an RACQ Member

(a) Risk factors applicable to the Merger

If the Scheme is implemented, QTMB will become part of the RACQ Group. RACQ Group will be subject to all of the existing risks of QTMB before the Merger.

There are also additional risks associated with the implementation of the Scheme, which are outlined below.

Integration risks

There is a risk that integration of QTMB into the RACQ Group may not be completed successfully. Integration risks include possible differences in management culture and loss of key personnel. There is no guarantee that integration will be successful or that it will be achieved within the expected time frame and cost.

The integration risks are lower than those that would exist in a merger of QTMB with another mutual bank as the Merger with RACQ will avoid the complexity of integrating separate banking platforms and the issues of duplicated resources.

Although RACQ is committed to the timely completion of the integration of QTMB into the RACQ Group, there remains a risk that unforeseen issues and difficulties may arise that may result in integration benefits for QTMB and RACQ not being realised or delayed.

Internal allocation of funds

Whilst RACQ has stated its intention to further invest in QTMB following the Merger, for example to develop the existing banking platform to deliver enhanced products and services to banking customers, there is a risk that other entities in the RACQ Group (for example, the insurance business) may require greater capital commitments to those that are currently anticipated.

If further investment is required elsewhere within the RACQ Group, this may delay, reduce, or result in changes to, anticipated investments and developments in QTMB.

(b) Risks factors applicable to Legacy Shares

Limited rights under Legacy Shares

Following implementation of the Scheme, a QTMB Member will have no ongoing direct right to vote on the strategic direction of QTMB (other than in their capacity as an RACQ ordinary voting member).

The Legacy Shares:

(i) have only limited rights to a distribution of funds by Club Finance Holdings, which apply only in specific circumstances; and

(ii) are not transferrable and so are not liquid.

Insufficient funds to pay the Preserved Surplus Amount (as described in Section 7.4)

The Preserved Surplus Amount is payable by Club Finance Holdings to certain QTMB Members if RACQ is demutualised, Club Finance Holdings or QTMB become insolvent or are wound-up or QTMB is sold by RACQ after the Implementation Date. If QTMB is sold, the proceeds of the sale will likely be available to fund payment of the Preserved Surplus Amount.

However if Club Finance Holdings or QTMB become insolvent the prospect of Club Finance Holdings having sufficient funds to pay the Preserved Surplus Amount is greatly reduced. Club Finance Holdings would rely on the wider RACQ Group to fund the Preserved Surplus Amount although no member of the RACQ Group would have any legal obligation to make any contribution to it for that purpose and any such contribution would be made (if at all) on a purely voluntary basis.

Like all businesses the RACQ Group faces operational, competition, systems and personnel risks. Banking businesses are exposed to credit and liquidity risk and changes in the general economy. In addition, general insurance businesses are exposed to litigation and subject to claims and policy benefits arising from catastrophes and large individual risk losses caused by natural and man-made events or disasters.

These events are inherently unpredictable in terms of their incidence and severity and may have a material adverse effect on the financial performance of the RACQ Group, which may impact Club Finance Holdings and QTMB.

However, the insurance operations of RACQ and the banking operations of QTMB are subject to prudential regulation (overseen by APRA). Among other requirements, APRA requires all general insurance companies and banks to meet minimum capital requirements for their operations and to meet liquidity standards. This level of prudential regulation mitigates against, but does not eliminate, insolvency risk.

(c) Liability under member guarantee for RACQ Membership

If RACQ is wound up, each person that is a member of RACQ at that time, or was a member in the year prior to the winding up, must contribute to the winding up to the extent of each member's guarantee. The maximum liability for each member under this guarantee is $2.

(d) General risks to RACQ

Major weather events resulting in widespread property damage and disruption could affect the financial performance of RACQ's business (including both assistance and insurance business lines). While reasonable steps have been taken to mitigate the financial impact of such risks, such as the purchase of appropriate reinsurance policies, the likelihood of such risks cannot themselves be reduced.

Changes in economic conditions both in Australia and globally could affect the financial performance of RACQ's business (including QTMB following the Merger). No assurance can be made that the performance of RACQ will not be adversely affected by these changes, which include changes in:

(i) inflation and interest rates;

(ii) employment levels and labour costs which may affect the cost structures of the businesses;

(iii) household income, total investment and economic output; and

(iv) fiscal, monetary and regulatory policies.

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

6.6 Outlook of the Merged Entity

The outlook for the merged entity is summarised as follows:

Brand

A banking subsidiary will be created under the RACQ Group. RACQ has applied to APRA for permission to maintain use of the current name of QTMB for a transitional period. It is expected that after that period, QTMB will change its name to one that reflects the RACQ brand.

Head office and branches

The headquarters for the merged entity will remain in Queensland.

The new organisation will have a wider footprint than the existing branch networks of either QTMB or RACQ. It is RACQ's current intention that QTMB branches will be retained for the immediately foreseeable future except in locations where there is duplication, in which case a QTMB and RACQ branch may be merged.

RACQ may periodically review all distribution channels, including the branch network, to ensure they are delivering members convenience and choice via the most effective offering.

RACQ has no intention to make any material changes to other fixed assets of QTMB. QTMB Members should note that, as at the date of this document, QTMB has entered into an agreement relating to the sale of its existing headquarters at 454 St Paul's Tce, Fortitude Valley, and this property will not constitute a fixed asset of QTMB after the Merger.

Board and Management

The composition of the merged entity's board is referred to in Section 6.3.

Employees

There will be no forced redundancies from either QTMB or RACQ arising directly as a result of the proposed Merger.

Through this proposed merger, QTMB will become the new banking arm of RACQ. As RACQ currently does not have a banking division, the merged entity will be able to retain QTMB's employees and leverage their expertise and knowledge in banking.

Other than as specified in this document, the existing leave and remuneration entitlements of QTMB staff will remain in place and be unaffected by the Merger for FY17.

Operations

RACQ does not intend to immediately make any significant changes to the customer-facing banking operations of the merged entity that will be formed as a result of the proposed Merger and business will continue as usual. The new merged entity will however be working towards a range of product and customer experience improvements which are intended to improve the value proposition offered to members, which will result in operational changes over time.

RACQ, will also conduct a strategic review of the back-office and administrative operations in the short-term to look at ways to create further operational efficiencies.

Products and services

All QTMB product and service types will be retained by the merged entity immediately following the Merger.

The merged entity will also introduce new products and services in the short to medium term including enhanced online and mobile banking options and a more integrated credit card offering. Members will also be able to access a number of member discounts.

After the Implementation Date, RACQ Insurance will seek to replace CGU Insurance Ltd as the provider of the core general insurance product offering to QTMB Members following a transition period to be agreed between QTMB and RACQ. Following the transition, RACQ Insurance would issue new quotes, new policies and renewal policies to QTMB Members, based on RACQ Insurance's assessment of the underwriting risk of the policies on an individual basis. For other general insurance products (such as consumer credit insurance and business insurance), QTMB and RACQ presently intend to extend the existing arrangements with CGU Insurance Ltd.

CONTENTS

7 Key Information about the Merger

7.1 Details of the Merger Resolution

For the Merger to proceed, QTMB Members must approve the Merger under Appendix 5 of the QTMB Constitution by passing the Merger Resolution in the Ballot.

Appendix 5 deals with demutualisation of QTMB and sets out a procedure for approving a demutualisation. There are a range of events that are caught by the expression demutualisation. If the Merger is approved and implemented, QTMB will, in effect, be demutualised by becoming a subsidiary of RACQ, even though RACQ is itself a mutual company and QTMB Members will be members of RACQ.

The Ballot must occur before QTMB can apply to the Court at the First Court Hearing for an order to convene a meeting of QTMB Members to approve the Scheme.

Approval of the Merger Resolution is one of the Conditions Precedent under the Merger Implementation Agreement and the Merger will only proceed if the other Conditions Precedent are satisfied or waived. The Conditions Precedent are summarised in Section 7.12 and are set out in full in the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

The Merger Resolution is the subject of this document and is the resolution that you are being asked to vote on in the Ballot. You can vote on the Ballot either online or by completing and returning the enclosed Ballot Paper. The Ballot opens at 9.00am on 20 August 2016 and closes at 5.00pm on 16 September 2016.

Ordinarily, Appendix 5 requires a ballot of QTMB Members to approve a demutualisation proposal before any steps are taken to implement the proposal to be conducted by post. Under powers given to it under the QTMB Constitution, ASIC has issued a notice to cease the effect of Appendix 5 (other than subclause A5-1(4)). The effect of the notice is to permit the Ballot to be conducted electronically through the online voting option, as well as by post and by the collection of ballots in ballot boxes at branches. A copy of the notice issued by ASIC may be found at mutualstrength.qtmb.com.au.

This was considered more efficient as it means all QTMB Members are given greater opportunity to vote in the Ballot.

The Merger Resolution is set out in full on the Ballot Paper and at page 11.

7.2 Explanation of QTMB Constitution Changes

To facilitate the Merger, certain changes to the QTMB Constitution are required. These changes will be considered at the later Member Meetings and will not take effect unless the Merger is approved:

- **Increasing maximum number of directors** - RACQ intends to appoint up to three additional directors to the QTMB Board if the Merger is approved. The maximum number of directors permitted under the QTMB Constitution is nine and there are currently seven directors. Therefore, one additional director position needs to be created. The change to the QTMB Constitution is to increase the maximum number of directors from 9 to 10.
- **Director need not be a member** - to facilitate the appointment of the RACQ nominee directors, this change removes the requirement that a director be a member of QTMB.
- **Allowing a transfer of QTMB Shares under a scheme** - the effect of this clause is to delete clauses A2-D1-2(2) and A2-D1-8(1) that prevent the transfer of a QTMB Share and insert a new clause A2-D1-8(1) to the effect that a QTMB Share cannot be transferred except by way of a scheme of arrangement, as follows:

  'A member may not transfer their member share except by way of or pursuant to a scheme of arrangement approved under Part 5.1 of the Corporations Act 2001 (Cth).'
- **Repealing Division 19 and Appendix 5** - Appendix 5 deals with demutualisation of QTMB and sets out a procedure for approving a demutualisation that involves postal ballots of members and other procedures. Changes to certain provisions of the QTMB Constitution are regarded as a demutualisation. To ensure QTMB can operate effectively after the Merger, RACQ will need to replace the QTMB Constitution and remove provisions such as the requirement that borrowing customers be members of QTMB. To facilitate this, it is proposed to repeal Division 19 and Appendix 5 so RACQ as the new sole member of QTMB can make the necessary changes quickly and without needing to follow the Appendix 5 procedures.

The Constitution Resolution is set out in full in Annexure C.

7.3 Rights attaching to RACQ Membership

General

RACQ Membership is an entitlement to be an ordinary voting member of RACQ. RACQ Membership obtained as a consequence of the Merger will be in the same class and rank equally in all respects with other RACQ ordinary voting members. RACQ Membership does not entitle the holder to the benefit of RACQ roadside assistance services. This is a product which members may purchase separately.

To be eligible to be an ordinary voting member of RACQ, a member must hold an eligible RACQ product. As at the date of this document, an eligible RACQ product means any of the following products offered by the RACQ Group or an approved third party:

- a roadside assistance product, excluding a fleet fee for service product or a roadside assistance product gifted by RACQ to a person either in whole or in part;
- a home assistance product;
- an insurance product underwritten by RACQ Insurance, excluding compulsory third party insurance;
- a life insurance product;
- a non-gifted lifestyle product;
- a consumer loan product; and
- such other products as determined by the RACQ Board from time to time.

The terms and conditions relating to each eligible RACQ product can be found on www.racq.com.au/membership/joining-RACQ and in the RACQ by-laws.

The RACQ Board will, before the Implementation Date, amend the RACQ by-laws to ensure QTMB banking products held by QTMB Members as at the Record Date are eligible RACQ products.

This means that on the Implementation Date all banking products held by QTMB Members are designated to be an eligible RACQ product and consequently, qualifies those QTMB Members for RACQ Membership. Following the Merger, in order to maintain your RACQ Membership, you must continue to hold an eligible RACQ product.

For new customers, after the Implementation Date, all banking products offered by QTMB as at the Implementation Date will be considered to be an eligible RACQ product.

Notices

Each RACQ ordinary voting member is entitled to receive notice of and to attend and vote at all general meetings of RACQ, subject to the restrictions described below.

General meetings and voting

Each RACQ ordinary voting member has one vote at a general meeting of RACQ, provided that all relevant fees in relation to an eligible RACQ product, which entitles the person to be an RACQ ordinary voting member, have been paid in full.

If the votes cast at a general meeting are equal on a proposed resolution, the chairman of the meeting has a casting vote.

The quorum required at a general meeting of RACQ is ten eligible RACQ Members (being an RACQ ordinary voting member, RACQ honorary life member, or any other class of RACQ Member determined by the RACQ Board).

The RACQ Constitution provides that all members voting rights commence three months after first becoming a member. If you are not already an RACQ Member, your voting rights will commence three months after the Implementation Date, and therefore will not commence until after the 2016 RACQ AGM. You will, however, be entitled to attend and otherwise participate at the 2016 RACQ AGM if you are an RACQ Member at that time, and to vote at all subsequent AGMs for so long as you remain an RACQ Member.

Appointment of the RACQ Board

The composition of the RACQ Board is based on 5 regional zones which are determined by post code. Each zone is represented by a fixed number of directors as follows:

South East Zone: 4000 to 4349, 4500 to 4569, 4571 to 4575, 9000 to 9299, 9400 to 9599, and 9700 to 9799. 5 Directors
South West Zone: 4350 to 4499, 2406 and 9880 to 9899. 1 Director
Central Zone: 4570, 4580, 4581, 4600 to 4736, and 9920 to 9939 1 Director
North Zone: 4737 to 4851 and 9940 to 9979 1 Director
Far North Zone: 4852 to 4895 and 9980 to 9999 1 Director

Eligible RACQ Members may nominate persons as a director provided such nomination is completed in accordance with the requirements set by the RACQ Board, the candidate is an eligible RACQ Member and is nominated by not less than 30 eligible RACQ Members. If no more than the required nominations are received to fill the available vacancies, the nominated person is declared to be duly elected.

If more nominations than the available vacancies are received and an election is required, only eligible RACQ Members (which includes an RACQ ordinary voting member) who have a registered address in the relevant zone may cast a vote for a director position representing that zone. However, in order for such a vote to be valid at least 5% of eligible RACQ Members in that zone must vote. If no director is appointed through this process a casual vacancy arises and the RACQ Board may choose to appoint an eligible person to fill that casual vacancy.

In addition to the above, the RACQ Board may also appoint up to 3 directors who do not represent a zone provided that at all times a majority of the RACQ Board is constituted by directors who do represent a zone.

Demutualisation

To approve any demutualisation of RACQ, a special resolution of RACQ Members is required on which at least 15% of eligible RACQ Members vote. The number of RACQ Members following completion of the Merger is anticipated to be approximately 1.6 million members.

The treatment of RACQ Members on a demutualisation will depend on the terms of the proposal. For example, different values may be placed on memberships depending on the eligible RACQ products held and the length of time a person may have been a member.

No distributions

RACQ Members are not entitled to any distributions in the ordinary course of RACQ's activities or on a winding up of RACQ. Any surplus assets on a winding up would be given to an organisation with similar objects to RACQ and which similarly prohibited distributions to its members.

Transfer

RACQ Membership is not transferable (unless the RACQ Board determines otherwise) and is therefore not liquid.

Loyalty Years

After the Implementation Date, RACQ will recognise QTMB Members' years of tenure in equivalent RACQ loyalty years. The RACQ loyalty program entitles RACQ Members to a variety of benefits and discounts based on their membership tenure. If you are already an RACQ Member, RACQ will recognise the longer period of your QTMB Membership or RACQ Membership in RACQ loyalty years[44].

[44] To be eligible for the Roadside Assistance loyalty discount on eligible RACQ Insurance products, a member must be a product holder of Roadside Assistance.

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7. Key Information about the Merger (continued)

7.4 Legacy Shares

General

The Legacy Shares will be issued (fully paid) by Club Finance Holdings on the Implementation Date to those persons who are QTMB Members as at the Record Date, other than to Overseas QTMB Members[45]. The full terms of the Legacy Shares are set out in Annexure B.

Legacy Shares rank equally amongst themselves and in priority to ordinary shares and A class preference shares in Club Finance Holdings for the payment of the Preserved Surplus Amount or redemption amount of $10 (as applicable). The Preserved Surplus Amount is calculated as the amount per Legacy Share which equates to the total equity attributable to QTMB Members as recorded in the audited annual financial statements for QTMB as at 30 June 2016 divided by the number of shares on issue in QTMB as at the Implementation Date. The equity amount per QTMB Member as at 30 June 2015 based on the FY15 financial reports was $1,865. The amount of the equity per QTMB Member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but at this stage it is expected to increase from the previous year in line with increases in eligible regulatory capital and the capital ratio set out in Section 4.5.

No entitlement to notice or to attend and speak except in specific circumstances

Except where a holder is entitled to vote at a general meeting of Club Finance Holdings (see below), holders of Legacy Shares have no right to notices of general meetings of Club Finance Holdings or to attend and speak at those meetings.

Voting

As holders of Legacy Shares, QTMB Members will have no entitlement to vote at any general meeting of Club Finance Holdings except:

- on a proposal that affects rights or privileges attaching to the Legacy Shares;
- on a resolution to approve the terms of a buy-back agreement of Legacy Shares; or
- during the winding up of Club Finance Holdings until payment is made to them of the Preserved Surplus Amount or their Legacy Share is otherwise redeemed.

Entitlement to Preserved Surplus Amount

A holder of a Legacy Share has an entitlement to receive in cash a payment of the Preserved Surplus Amount upon the earlier to occur of:

- a disposal of QTMB or a substantial part of QTMB's business (excluding certain merger transactions with another Australian mutual ADI or an acquisition of up to a 50% interest by certain equivalent motoring bodies in other states of Australia);
- Club Finance Holdings or QTMB is insolvent;
- the winding up of Club Finance Holdings or QTMB; and
- a demutualisation of RACQ (excluding a merger with certain equivalent motoring bodies in other states of Australia).

Redemption

Subject to the Corporations Act, Club Finance Holdings:

- may redeem a Legacy Share for $10 if:
  - the holder of that share does not hold, and has not in the previous three months held, any banking or finance product provided, sold or marketed by QTMB or by any other company within the RACQ Group; or
  - the Preserved Surplus Amount has been paid to the holder of that share; and
- must redeem each Legacy Share not previously redeemed on or before the seventh anniversary of the issue date for $10, within three months after the seventh anniversary of the Issue Date.

A deposit account of a holder will not be considered to be held for the purposes of redemption, if the holder has been given 28 days' notice that the directors of QTMB consider the account to be dormant (i.e. no transaction has been initiated for at least 12 months) and the holder has not elected to retain the deposit account.

Dividends

Holders of Legacy Shares have no right or entitlement to dividends.

Transfer

A Legacy Share is not transferable and is therefore not liquid. Legacy Shares will not be listed on any recognised securities exchange.

Variation of rights

The rights and restrictions attaching to Legacy Shares may not be varied or cancelled unless 75% of votes that may be cast in respect of Legacy Shares consent to the variation of cancellation (Class Consent).

Further Share Issues

Club Finance Holdings may not issue, without Class Consent, any further Legacy Shares or other preference shares which rank in priority to the Legacy Shares in respect of any amount payable until all of the Legacy Shares have been redeemed.

7.5 Overseas QTMB Members

QTMB Members with a registered address outside of Australia will not receive a Legacy Share but will instead receive $10 on the Implementation Date and similar contractual rights to the Legacy Share rights. This is because issuing a share to a person in some overseas countries may involve compliance with laws relating to securities in those countries and the number of Overseas QTMB Members involved does not justify the significant cost and risk involved in complying with those laws.

Club Finance Holdings has entered into a deed poll in favour of Overseas QTMB Members to pay to those members the Preserved Surplus Amount if the holders of Legacy Shares are entitled to be paid the Preserved Surplus Amount, as described in Section 7.4.

[45] See Section 7.5

Like a Legacy Shareholder, the right of an Overseas QTMB Member to be paid the Preserved Surplus Amount expires:

- if that member does not hold, and has not in the previous three months held, any banking or finance product provided, sold or marketed by QTMB or by any other company within the RACQ Group; or
- if the Preserved Surplus Amount has been paid to that member; or
- on the seventh anniversary of Implementation Date.

Club Finance Holdings will pay $10 to each Overseas QTMB Member on the Implementation Date.

The deed poll may be relied upon by any Overseas QTMB Member despite the fact that they are not a party to it. Each Overseas QTMB Member appoints QTMB and each of its directors and secretaries as its agent to enforce their rights under the deed poll against Club Finance Holdings.

The deed poll is governed by the laws of Queensland.

7.6 Change in member rights

Following the Merger, each QTMB Member will be a member of RACQ and will no longer be a member of QTMB. There are certain rights which QTMB Members currently have which will change as a result of the Merger.

Right of member	QTMB Member	RACQ Membership	Legacy Share[46]
Ability to share in the reserves and profits	Yes	No. RACQ Members do not share in surplus assets of RACQ on a winding up. RACQ's surplus assets would be given to an organisation with similar objects to RACQ and which similarly prohibited distributions to its members.	QTMB Members' existing rights to current QTMB's reserves on a winding up will be preserved for a period of seven years from the Implementation Date.
Share in reserves on a demutualisation	Yes. On a demutualisation which involves distribution of QTMB's reserves, QTMB Members of more than 12 months standing share in that distribution.	The treatment of RACQ Members on a demutualisation will depend on the terms of the proposal (which requires member approval). For example, different values may be placed on memberships depending on the eligible RACQ products held and the length of time a person may have been a member;	Yes. QTMB Members' existing rights to QTMB's reserves on the demutualisation of RACQ will be preserved for a period of seven years from the Implementation Date.
Ability to nominate directors	Yes. But only if 6 or more eligible QTMB Members nominate a person for election as a Director.	Yes. But only if 30 or more eligible RACQ Members nominate a person for election as an RACQ director. See Section 7.3 for further information.	No. The Board of Club Finance Holdings can appoint individuals to be directors or, for so long as RACQ is the ultimate parent company, RACQ may by notice in writing appoint a person to be a director.
Ability to vote on appointment of directors	Yes	Yes. But RACQ Members may only vote if an election for RACQ directors is required within their regional zone and the vote will only be valid if at least 5% of RACQ Members in that zone vote. See Section 7.3 for further information.	No. The shareholder of Club Finance Holdings (RACQ Investments No. 2 Pty Ltd, a wholly owned subsidiary of RACQ) appoints the directors of Club Finance Holdings.

The Directors consider that the benefits of the Merger outweigh any disadvantage of the change of rights detailed above. See Section 1.2 for further information.

46 For Overseas QTMB Members see Sections 1.2(h) and 7.5.

7. Key Information about the Merger (continued)

7.7 First and Second Court Hearings

If the Merger Resolution is passed, QTMB will apply to the Court at the First Court Hearing for an order to convene a meeting of QTMB Members to approve the Scheme. This is one of the Member Meetings.

If the Merger Resolution is passed and the resolutions are approved by QTMB Members at the Member Meetings, and all other conditions to the Merger (other than approval of the Scheme by the Court) and any other conditions to be imposed by the Court under section 411(6) of the Corporations Act have been satisfied or waived (as applicable), QTMB will apply to the Court for orders approving the Scheme following the Scheme Meeting.

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

Information on the expected date of the Second Court Hearing and details of this procedure will be included with the Notices of the Member Meetings and will be notified on QTMB's website, mutualstrength.qtmb.com.au.

7.8 Effective Date

If the Court approves the Scheme, QTMB will lodge with ASIC an office copy of the Court order approving the Scheme. The Merger comes into effect on the date on which QTMB lodges the Court order approving the Scheme with ASIC. This date is referred to in this document as the Effective Date. The Effective Date is currently expected to be 10 November 2016.

7.9 Warranty by QTMB Members about their QTMB Shares

Under the Merger each QTMB Member, including those who vote against the Merger Resolution or the resolutions at the Member Meetings and those who do not vote in the Ballot or at the Member Meetings, will be deemed to have warranted to RACQ in its own right and to have authorised QTMB to warrant to RACQ on their behalf that their QTMB Share (including any rights and entitlements attaching to their QTMB Share) which is transferred to the RACQ Group under the Merger will be, at the date it is transferred, fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind and that they have full power and capacity to sell and to transfer their QTMB Share (including any rights and entitlement attaching to the QTMB Share) to the RACQ Group.

7.10 Effect of the Merger on creditors

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

7.11 Stamp duty

No stamp duty will be payable by any QTMB Member on the disposal of QTMB Shares to RACQ. RACQ, as the acquirer of those shares will be the party who will be liable for any stamp duty that is payable in respect of the Scheme.

7.12 Key terms of the Merger Implementation Agreement

Under the Merger Implementation Agreement, QTMB and RACQ agree to implement the merger transaction.

QTMB must put to its members the Merger Resolution, Constitution Resolution and the Scheme Resolution to approve a Scheme under which:

- a subsidiary of RACQ (Club Finance Holdings) will acquire all of the QTMB Shares; and
- each QTMB Member will be issued a Legacy Share in Club Finance Holdings.

If you are a QTMB Member with a registered address outside of Australia you will not receive a Legacy Share but you will receive $10 on the Implementation Date and similar contractual rights through a deed poll.

(a) Conditions precedent

Regulatory Approvals

- Approval of the Commonwealth Treasurer under the FSSA and section 63 of the Banking Act.
- Consent of APRA to use "bank" in the new name under section 66 of the Banking Act.
- Any necessary ASIC approval or approval of another Regulatory Authority.
- No adverse regulatory orders.

Approvals and consents

- Approval by QTMB Members of the Merger Resolution in the Ballot.
- Approval by QTMB Members of the Constitution Resolution and the Scheme Resolution at the Member Meetings.
- Approval of the Scheme by the Court.
- Any necessary or desirable third party consents.

Independent Expert's Report

The Independent Expert issues a report which concludes that the Merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB, before the date on which the Scheme Booklet is lodged with ASIC.[47]

[47] QTMB has waived this Condition Precedent on condition that Grant Samuel does not amend or withdraw the opinion given in the Independent Expert's Report.

No QTMB or RACQ Prescribed Event

An RACQ Prescribed Event is the happening of one of the following events in respect of the RACQ Group without QTMB's approval: changes to its constitution, material acquisitions or disposals of assets, encumbering assets and insolvency.

A QTMB Prescribed Event includes the preceding events in respect of the QTMB Group without RACQ's approval and also includes increases in remuneration, changes in capital structure and entering material contracts.

No QTMB or RACQ Material Adverse Changes

Material adverse change events for the parties are events not disclosed and which would have resulted in the value of consolidated net assets for FY15 being reduced by at least 2.5% or the value of NPAT for FY15 being reduced by at least $500,000 (in the case of QTMB) or $10m (in the case of RACQ).

They do not include matters fairly disclosed before the date of the Merger Implementation Agreement or arising from changes in economic, environmental or business conditions in Australia, any change in taxation, interest rates or general economic conditions, any change in accounting policy required by law or changes from the merger transaction.

Status of Merger Implementation Agreement and Deed Poll

- The Merger Implementation Agreement has not been terminated.
- RACQ has signed the Deed Poll relating to implementation of the Scheme.
- Representations and warranties given by QTMB and RACQ remain true and correct.

Change of control

As a result of the acquisition of QTMB Shares by the RACQ Group, no person exercises rights under any agreement or other instrument which results, or could result, to an extent which is material, in any monies borrowed by QTMB being or becoming repayable, any such agreement or other instrument being terminated or modified, an interest in any firm, joint venture, trust, corporation or other entity being terminated or modified or the business of QTMB with any other person being adversely affected.

Due diligence disclosure

- No material QTMB information becomes or is discovered to be misleading or deceptive, including by omission, in any material respect.
- No material RACQ information becomes or is discovered to be misleading or deceptive, including by omission, in any material respect.

(b) Failure of condition

If a condition fails or the Scheme is not Effective by 31 March 2017, the parties must consult on alternative means to effect the Merger and an extension of time. If agreement cannot be reached in 5 business days, the party with the benefit of the condition may elect to waive the condition or terminate the Merger Implementation Agreement.

(c) Co-operation and timing

- General obligations on the parties to co-operate to implement the Scheme.
- Parties to form a transaction implementation committee to deal with matters arising in the implementation of the Scheme.
- Each party to provide access to officers and information to implement the Scheme.

(d) Implementation obligations - QTMB

- Obligations to prepare a Disclosure Document and Scheme Booklet that complies with regulatory requirements and to ensure that all information is not misleading or deceptive, and to take other necessary steps to implement the Scheme and obtain the Merger approval.
- QTMB to procure Directors to recommend a vote in favour of the Merger, and to vote as members in favour, subject to no Superior Proposal and the Independent Expert concluding the merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB.

(e) Implementation obligations - RACQ

- Obligations to provide RACQ information for the Disclosure Document and Scheme Booklet and the Independent Expert and to ensure that all information is not misleading or deceptive.
- The RACQ Board will, before the Implementation Date, amend its by-laws to ensure that QTMB's banking products are eligible RACQ products.
- Sign the Deed Poll.
- Procure the issue by Club Finance Holdings of a Legacy Share to each QTMB Member (who is not an Overseas QTMB Member) on the Implementation Date and entry by it into the deed poll for Overseas QTMB Members.
- Ensure that RACQ Membership will rank equally with all other existing RACQ ordinary voting members.
- Recognise QTMB Members' years of tenure in equivalent RACQ loyalty years. If a QTMB Member is already an RACQ Member, recognise the longer period of QTMB Membership or RACQ Membership in RACQ loyalty years.
- Take other necessary steps to implement the Scheme and assist in obtaining approval of the Merger Resolution.

7. Key Information about the Merger (continued)

(f) Profile of Merged Group

- After the Second Court Date, QTMB to cause the appointment of each incoming director nominated by RACQ.
- RACQ's current intention is to re-brand QTMB branches and products to reflect QTMB's merger with RACQ and merge the product suites of QTMB and RACQ over time, however, RACQ will not change the banking arrangements and products of existing QTMB Members unless requested by a QTMB Member, in response to changes in the official interest rate by the RBA or in line with the loan agreement the QTMB Member has in place with QTMB.

(g) Conduct of QTMB business before implementation

- QTMB to conduct business in the ordinary course, preserve goodwill, maintain assets at normal levels and comply with laws and business contracts.
- QTMB to consult with RACQ in respect of specific business matters.
- QTMB to provide RACQ with copies of notices of meetings, board minutes, board papers, reports, accounts, programs, budgets and like documents, subject to confidentiality obligations to third parties.

(h) Deal protection measures

- QTMB represents and warrants it is not in any discussions with another party on a Competing Transaction.
- No shop - QTMB not to solicit, invite, encourage or initiate any enquiries, negotiations or discussions with a view to obtaining any offer, proposal or expression of interest from any person in relation to a Competing Transaction.
- No talk / no due diligence - QTMB not to participate in negotiations or discussions with any person regarding a Competing Transaction or allow due diligence investigations, subject to the fiduciary exception outlined below.
- These provisions apply until the End Date or until the agreement is terminated.

(i) Fiduciary exception

QTMB may take action with respect to a bona fide Competing Transaction (which was not solicited, invited, encouraged or initiated by it) provided that the QTMB Board has determined, in good faith and acting reasonably, that after consultation with its financial advisors, the Competing Transaction could reasonably be considered to become a Superior Proposal and, after receiving written legal advice from Queen's Counsel or Senior Counsel, that failing to respond to the Competing Transaction would be reasonably likely to constitute a breach of the QTMB Board's fiduciary or statutory obligations.

(j) Matching right

- If QTMB receives a proposal for a Competing Transaction which it reasonably believes to be a Superior Proposal, it must allow RACQ 10 business days to provide a matching or superior proposal.
- The QTMB Board must consider any matching offer and if it determines that it would provide an outcome that is more favourable to QTMB Members than the relevant Competing Transaction, QTMB and RACQ must use their best endeavours to implement the matching offer.

(k) Reimbursement Amount of $1.5 million - QTMB pays to RACQ if

- QTMB enters into a Competing Transaction.
- The QTMB Directors change their recommendation other than because of an adverse opinion from the Independent Expert, failure of a regulatory condition, the Merger Resolution, Constitution Resolution or Scheme Resolution not being passed or termination of the Merger Implementation Agreement because of a breach by RACQ.
- The Merger Implementation Agreement is terminated because of a material breach by QTMB.
- A QTMB Prescribed Event or QTMB Material Adverse Change that was within the control of QTMB occurs.
- A breach by QTMB of the deal protection or matching right provisions.

(l) Reimbursement Amount of $1.5 million - RACQ pays to QTMB if

- The Merger Implementation Agreement is terminated because of a material breach by RACQ.
- An RACQ Prescribed Event or RACQ Material Adverse Change that was within the control of RACQ occurs.

(m) QTMB warranties

QTMB gives a number of representations and warranties including that it has corporate power to sign the agreement and due execution, accuracy of information, adequacy of due diligence disclosure, disclosure information has been prepared in good faith and collated with reasonable care and skill, forward looking statements are based on reasonable assumptions, opinions are held on reasonable grounds, compliance with laws, capital structure, solvency and no material changes to employment contracts.

(n) RACQ warranties

RACQ gives a number of representations and warranties including that it has corporate power to sign the agreement and due execution, accuracy of information, adequacy of disclosure, disclosure information has been prepared in good faith and collated with reasonable care and skill, forward looking statements are based on reasonable assumptions, opinions are held on reasonable grounds, compliance with laws and solvency.

(o) Termination by either party if

- The Scheme has not become Effective on or before the End Date.
- The Merger Resolution, Constitution Resolution or Scheme Resolution are not approved by the requisite majorities of QTMB Members.

- A court or other Regulatory Authority permanently restrains or prohibits the Merger.
- The Court does not approve the Scheme.
- The Independent Expert opines that the Merger is not in the best interests of QTMB Members.

(p) Termination by one party

- At any time before 8.00am on the Second Court Date:
  - by RACQ if the QTMB Board changes its recommendation (subject to certain exceptions); or
  - by either RACQ or QTMB if the other is in material breach of the Merger Implementation Agreement (subject to a remedy period).
- If the other party becomes insolvent.

(q) Liability limitations

- Liability of each party under the Merger Implementation Agreement is limited to $1.5m.
- Each party releases the other's officers, employees and advisers from liability for breach of warranty or false and misleading statements in the absence of wilful misconduct or fraud.

7.13 Deed Poll

Under the terms of the Deed Poll, RACQ agrees in favour of QTMB Members to perform its obligations to procure the issue of a Legacy Share by Club Finance Holdings and entry by it into the deed poll for Overseas QTMB Members under the Merger Implementation Agreement and comply with its other obligations under the Merger (as summarised under Section 7.12).

The Deed Poll may be relied upon by any QTMB Member, despite the fact that they are not a party to it, and each QTMB Member appoints QTMB and each of its directors and secretaries as its agent to enforce their rights under the Deed Poll against RACQ.

The Deed Poll is governed by the laws of Queensland.

7.14 Copy of Register

Under section 173 of the Corporations Act, any person has a right to inspect, and to ask for a copy of, the Register which contains details of the name and address of each QTMB Member. An application made by a person for a copy of the Register must state the purpose for which the person is requesting a copy of the Register. A person may not use any information obtained from the Register for a prescribed purpose. QTMB may, before allowing a person to inspect or obtain a copy of the Register, require the person to agree in writing to only divulge the information obtained from the Register to specified persons or to use the information obtained for a specified purpose. For further information, please contact the QTMB Member Information Line: Australia 13 29 30 or outside Australia +61 7 3842 6222.

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8 Additional information and Directors' Statement

8.1 Directors' recommendation

The Directors unanimously recommend that you vote in favour of the Merger Resolution in the Ballot and approve the Merger in the absence of a Superior Proposal. The Directors unanimously believe that, for the reasons set out in Section 1, the Merger is in the best interests of QTMB Members.

Each of the Directors intends to vote in favour of the Merger Resolution in the Ballot and approve the Merger.

The Directors believe that the reasons for QTMB Members to vote in favour of the Merger outweigh the reasons to vote against the Merger. These reasons and other relevant considerations are set out in Section 1. You should also read the Independent Expert's Report which is set out in full in Annexure A.

8.2 Intentions of Directors concerning the business of QTMB

If the Merger is implemented, the existing Directors will continue as directors of QTMB.

8.3 Number of QTMB Members

As at 1 August 2016, QTMB has 68,233 members and each QTMB Member is entitled to hold one QTMB Share.

8.4 Agreements or arrangements with Directors

(a) Remuneration

The QTMB Constitution provides that the remuneration of Directors is determined by the QTMB Members in a general meeting. The QTMB Board may determine the allocation of the aggregate amount of remuneration among the Directors if such apportionment is not determined by the QTMB Members in the general meeting.

As at the date of this document, the maximum aggregate remuneration which may be paid by QTMB to its Directors is $426,956 per year.

The Directors are also entitled to all reasonable travel, accommodation, education and other expenses incurred in connection with the business of QTMB.

QTMB also pays insurance premiums for the Directors for directors' liability insurance, travel insurance and personal accident insurance.

(b) Agreements or arrangements

There are no agreements or arrangements made between any Director and any other person, including RACQ, in connection with or conditional upon the outcome of the Merger.

8.5 Payments or other benefits to Directors and QTMB executive officers in connection with the Merger

Except as otherwise set out in this Section 8, it is not proposed that any payment or other benefit will be made or given to any Director, secretary or executive officer of QTMB, or any body corporate related to QTMB, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as Director, secretary or executive officer of QTMB or a body corporate connected with QTMB.

Except as otherwise set out in this Section 8, no Director, nor any associate of a Director will receive any pay, other valuable consideration or any other benefit in connection with the Merger.

QTMB intends to take out a Directors and Officers Liability Insurance run-off policy, commencing from the date of the Merger and expiring seven years later. The run-off policy is intended to indemnify any Director against liabilities incurred by that Director in connection with the proposed Merger and the Director's involvement in the process, as well as legal costs reasonably incurred in defending an action for any such liability. The run-off policy will provide a maximum aggregate liability cover of $15 million.

8.6 Interests of Directors in contracts entered into by RACQ

Except as otherwise set out in this Section 8, no Director has any interest in a contract entered into by any member of the RACQ Group.

Each Director is a member of QTMB and holds a QTMB Share. If the Merger is approved, each Director, as a QTMB Member, will receive a Legacy Share and will be eligible to be an RACQ Member.

The following Directors hold an RACQ Membership as a result of holding an eligible RACQ product:

- Peter Whitelaw
- Helen Coyer
- Tony McGruther
- John Fisher-Stamp
- Nathan King
- Adam Allan

8.7 QTMB Senior Management Remuneration Changes in connection with the Merger

Senior Management

The current Chief Financial Officer and Chief Risk Officer of QTMB will each be entitled to be paid an at risk bonus if they remain in the employment of the RACQ Group on 30 June 2017 and meet certain performance, conduct and integration targets. The bonus that may be paid to the Chief Financial Officer and Chief Risk Officer, in these circumstances, will not exceed $65,000 each.

Existing remuneration and incentive arrangements, targets and payment hurdles will remain unchanged following the Implementation Date. These will be subject to normal ongoing business reviews in line with other RACQ Group employees.

Chief Executive Officer

The CEO of QTMB is on a fixed term contract to 17 May 2017. The current employment arrangement with the CEO of QTMB will continue unchanged through to 17 May 2017. Any renewal and review of these arrangements will be considered by the QTMB and RACQ Board at a suitable time prior to the expiry date.

The current remuneration of the CEO also includes a three-year Long Term Incentive (LTI) that becomes payable to the CEO after 30 June 2017 and is linked to achieving certain strategic objectives. The Merger, however, creates an early payment event for the LTI. If the Merger is implemented, the CEO becomes entitled to a partial LTI payment based on the elapsed time in the LTI three year period. Based on the expected date of completion of the Merger, the CEO would become entitled to an LTI payment of approximately $175,000.

Voluntary Redundancy

Mr Les Steinke, the Chief Operating Officer of QTMB, has elected to take a voluntary redundancy in September 2016. In accordance with QTMB's current redundancy policy, Mr Steinke will receive his severance entitlement amounting to $187,385.

8.8 Consents and disclaimers

(a) Consent to be named

Clayton Utz has given and has not, before the time of despatch of this document, withdrawn its written consent to be named as legal adviser to QTMB, in this document in the form and context in which it is named.

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

Grant Samuel has given and has not, before the time of despatch of this document, withdrawn its written consent to be named as the Independent Expert in this document and to the inclusion of the Independent Expert's Report set out in Annexure A and other statements in this document said to be based on statements made by Grant Samuel, in each case in the form and context in which they appear in this document.

(c) Disclaimers of responsibility

Each person named in Sections 8.8(a) and 8.8(b):

- does not make, or purport to make, any statement in this document or any statement on which a statement in this document is based other than, in the case of Grant Samuel, a statement included in this document with the consent of that party; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this document, other than a reference to its name and, in the case of Grant Samuel, any statement or report which has been included in this document with the consent of that party.

8.9 Independent Expert

Grant Samuel has prepared the Independent Expert's Report set out in Annexure A setting out whether, in its opinion, the Merger is in the best interests of QTMB Members and that the benefits being provided to QTMB Members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB.

Grant Samuel will be paid a fee of approximately $275,000 (excluding GST) in relation to the preparation of its report.

8.10 RACQ consent

RACQ has given and has not, before the time of despatch of this document, withdrawn its written consent to the inclusion of the statements set out in the RACQ Chairman's Letter and Sections 5 and 6 in the form and context in which those statements appear.

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

Except as set out in this document, there is no other information material to the making of a decision in relation to the Merger Resolution, being information that is within the knowledge of any Director which has not previously been disclosed to, or made available to, QTMB Members.

The following documents are available for QTMB Members to view at mutualstrength.qtmb.com.au:

- QTMB Constitution
- Merger Implementation Agreement
- the proposed Scheme of Arrangement and Deed Poll
- the proposed deed poll in favour of Overseas QTMB Members.
- Club Finance Holdings Constitution.

8.12 Supplementary information

QTMB will issue a supplementary document to this document if it becomes aware of any of the following between the date of despatch of this document and the close of the Ballot:

(a) a material statement in this document is false or misleading;

(b) a material omission from this document;

(c) a significant change affecting a matter included in this document; or

(d) a significant new matter has arisen and it would have been required to be included in this document if it had arisen before the date of despatch of this document.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, QTMB may circulate and publish any supplementary document by:

(a) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia; or

(b) posting the supplementary document on QTMB's website, mutualstrength.qtmb.com.au.

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9 Taxation implications

9.1 Introduction

The following is an outline of the Australian tax consequences that will generally apply for QTMB Members who dispose of their QTMB Shares under the Scheme. It does not take into account the specific circumstances of any particular QTMB Member.

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

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

You are advised to consult your own independent tax adviser regarding the consequences of acquiring, holding or disposing of your QTMB Share in light of the Tax Law and your particular investment circumstances.

9.2 Capital Gains Tax (CGT) implications

When a QTMB Member disposes of their QTMB Share under the Scheme a CGT Event will occur on the Implementation Date. The QTMB Member will be treated as having acquired their QTMB Share for $10 (being cost of QTMB Membership) and as having disposed of their QTMB Share in exchange for a Legacy Share. A CGT gain would be realised if the Legacy Share has a value in excess of $10 and no scrip for scrip relief were available.

It is anticipated that a Class Ruling will issue recognising that QTMB Members who are neither "non residents" nor "temporary residents" of Australia will be eligible for scrip for scrip rollover relief under sec 124-780 of the *Income Tax Assessment Act* 1997 (Cth).

Where scrip for scrip rollover relief is available an eligible QTMB Member who chooses such rollover will be entitled to disregard any CGT gain in respect of the exchange, and the Legacy Share (acquired upon the exchange) will be treated as having a cost base of $10.

There are no CGT or income tax consequences of QTMB Members becoming RACQ Members as a result of the Merger.

9.3 Income tax implications

QTMB Members will not realise any income on ordinary concepts from the disposal of their QTMB Share, assuming, as will likely be the case, that the membership interest was not acquired as any form of trading stock or profit making scheme.

9.4 Stamp duty

No stamp duty will be payable by any QTMB Member on the disposal of QTMB Shares to RACQ. RACQ, as the acquirer of those shares will be the party who will be liable for any stamp duty that is payable in respect of the Scheme.

9.5 Goods and Services Tax (GST)

You will not be liable to pay GST on any Legacy Share you receive for your QTMB Share.

10 Defined terms

In this document:

$ means Australian Dollars.

ACCC means the Australian Competition and Consumer Commission.

ADI means an authorised deposit-taking institution under the Banking Act.

APRA means the Australian Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in section 12(2) of the Corporations Act.

Ballot means the ballot to be conducted by QTMB to approve the Merger Resolution.

Ballot Paper means the hard copy ballot paper and other materials (including the declaration envelope) enclosed with this document and which may be used to vote in the Ballot.

Banking Act means the Banking Act 1959 (Cth).

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in Queensland.

CGT means capital gains tax.

Club Finance Holdings means Club Finance Holdings Limited ACN 612 096 787, a subsidiary in the RACQ Group.

Commonwealth Treasurer or **Treasurer** means the Treasurer of the Commonwealth of Australia.

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 (other than the Merger) described in paragraphs (a) to (f) below arising after the date of the Merger Implementation Agreement:

(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 QTMB;

(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 QTMB;

(c) a third party (either alone or with its associates) acquiring Control of, or merging or amalgamating with QTMB, including by way of takeover bid, scheme of arrangement or capital reduction or contractual arrangement;

(d) QTMB implementing any reorganisation of capital or dissolution (except as previously announced or disclosed to RACQ 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 QTMB Shares;

(f) a third party entering into or completing a transaction or arrangement, or QTMB otherwise seeking to implement a transaction or arrangement, which would result in the demutualisation of QTMB as provided for in the QTMB Constitution or under Part 5 of Schedule 4 of the Corporations Act; 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 summarised in Section 7.12 and set out in full in the Merger Implementation Agreement (a copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au).

Constitution Resolution means a resolution to approve certain changes to the QTMB Constitution to facilitate the Merger.

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the Corporations Act 2001 (Cth).

Counsel means counsel engaged by QTMB in respect of the implementation of the Scheme.

Court means the Supreme Court of Queensland or such other court as is agreed.

Deed Poll means a deed poll executed by RACQ in favour of QTMB Members.

Directors means the directors of QTMB whose names are set out in Section 4.3.

Effective means, when used in relation to the Scheme, the order of the Court made under section 411(4)(b) in relation to the Scheme coming into effect pursuant to section 411(10) of the Corporations Act.

Effective Date means the date on which the Merger becomes Effective.

End Date means 31 March 2017.

First Court Hearing means the hearing of an application made to the Court for an order pursuant to section 411(1) of the Corporations Act to convene a meeting of QTMB Members to approve the Scheme.

FSSA means the Financial Sector (Shareholdings) Act 1998 (Cth).

FY means a financial year ending 30 June.

Grant Samuel or **Independent Expert** means Grant Samuel & Associates Pty Limited ACN 050 036 372.

GST means goods and services tax applicable in Australia.

Implementation Date means the fifth Business Day following the Record Date or such other date agreed in writing by QTMB and RACQ.

Independent Expert's Report means the report from the Independent Expert in respect of the Merger, a copy of which is set out in Annexure A.

10. Defined terms (continued)

Insolvent has the meaning given to that term in the Legacy Share Terms.

Legacy Share means a redeemable preference share to be issued by Club Finance Holdings on the Legacy Share Terms.

Legacy Share Terms means the terms of issue of the Legacy Shares which are annexed at Annexure B.

Member Meetings means the Special General Meeting and the Scheme Meeting.

Merger means the acquisition of QTMB by RACQ through the implementation of the Scheme.

Merger Implementation Agreement means the merger implementation agreement entered into between QTMB and RACQ on 31 March 2016 and amended by way of deeds of amendment and restatement dated 2 June 2016 and 3 August 2016. A copy of the full agreement can be accessed on QTMB's website, mutualstrength.qtmb.com.au.

Merger Resolution means a resolution to approve the Merger by a Ballot in accordance with the QTMB Constitution to the extent that it constitutes a demutualisation of QTMB from a mutual structure to a non-mutual public company owned by a single shareholder, which is set out in the Ballot Paper.

NPAT means net profit after tax.

Overseas QTMB Member means a QTMB Member on the Record Date with a registered address outside of Australia.

Preserved Surplus Amount means the amount which equates to the total equity attributable to QTMB Members as recorded in the audited annual financial statements for QTMB as at 30 June 2016 divided by the number of shares on issue in QTMB as at the Implementation Date.

QTMB or **Company** means QT Mutual Bank Limited ACN 087 651 054.

QTMB Board means the board of directors of QTMB.

QTMB Constitution means the constitution of QTMB.

QTMB Group means QTMB and its Subsidiaries.

QTMB Member means each person who is in the Register as the holder of QTMB Shares.

QTMB Share means an issued fully paid ordinary shares in the capital of QTMB.

RACQ means The Royal Automobile Club of Queensland Limited ACN 009 660 575.

RACQ Board means the board of directors of RACQ.

RACQ Business Class Member means a body corporate which holds an eligible RACQ product (as set out in Section 7.3) and has not been suspended or expelled from membership.

RACQ Constitution means the constitution of RACQ.

RACQ Group means RACQ and its Subsidiaries.

RACQ Insurance means RACQ Insurance Limited ACN 009 704 152, a wholly owned subsidiary of the RACQ Group.

RACQ Member means a holder of an RACQ Membership.

RACQ Membership means ordinary voting membership of RACQ.

Record Date means 5.00 pm on the date after the Effective Date which is set by QTMB for determining eligibility of QTMB Members to participate in the Scheme.

Register means the share register of QTMB kept pursuant to the Corporations Act.

Regulatory Authority includes:

(a) APRA, 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.

Reimbursement Amount means $1.5 million.

Relevant Interest has the same meaning as given by section 608 and 609 of the Corporations Act.

Returning Officer means the returning officer appointed by QTMB to administer the Ballot.

Scheme or **Scheme of Arrangement** means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act proposed between QTMB and QTMB Members together with any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by QTMB and RACQ.

Scheme Booklet means the explanatory statement to be provided to QTMB Members with the Notices for the Member Meetings in accordance with the Corporations Act.

Scheme Meeting means the meeting of QTMB Members convened by the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act. It includes any adjournment of that meeting.

Scheme Resolution means the resolution to approve the terms of the Scheme at the Scheme Meeting.

Second Court Date means the first day on which an application is made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned or appealed application is heard.

Second Court Hearing means the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Special General Meeting means the extraordinary general meeting of QTMB at which QTMB Members will vote on the Constitution Resolution.

Subsidiary has the meaning given to that term in the Corporations Act.

Superior Proposal means a bona fide Competing Transaction which the QTMB 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 QTMB Members than the Scheme, taking into account all terms and conditions of the Competing Transaction.

Tax means any tax, levy, excise, duty, charge, surcharge, contribution, withholding tax (including royalty withholding tax), impost or withholding obligation of whatever nature, whether direct or indirect, (including any tax payable under a country's foreign source income attribution or anti-tax-deferral rules) by whatever method collected or recovered, together with any fees, penalties, fines, interest or statutory charges in any country or jurisdiction but excluding any stamp duty payable on any transfer of the QTMB Shares.

Annexure A - Independent Expert's Report

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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3 August 2016

The Directors
QT Mutual Bank Limited
454 St Paul's Terrace
Fortitude Valley Qld 4006

Dear Directors

Merger with The Royal Automobile Club of Queensland Limited

1 Introduction

On 18 April 2016, QT Mutual Bank Limited ("QTMB") announced a proposal to merge with The Royal Automobile Club of Queensland Limited ("RACQ").

QTMB and RACQ have entered into a Merger Implementation Agreement ("MIA") under which QTMB will merge with RACQ by way of a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") (the "Scheme"). Under the Scheme, all of the shares in QTMB will be acquired by a subsidiary of RACQ, Club Finance Holdings Limited ("Club Finance Holdings"), and each QTMB member will receive a Legacy Share. Legacy Shares are redeemable preference shares in Club Finance Holdings with a preferred right to:

- a redemption amount (of $10 per Legacy Share)[1]; and
- the Preserved Surplus Amount[2] if a trigger event occurs within seven years of the Scheme being implemented. The trigger events are the disposal of QTMB or a substantial part of QTMB's business, insolvency or winding up of QTMB or Club Finance Holdings, or demutualisation of RACQ.

Legacy Shares have no entitlement to receive dividends and generally have no right to vote.

QTMB members with a registered address outside of Australia ("overseas QTMB members") will not be eligible to receive a Legacy Share. As part of the Merger, Club Finance Holdings has entered into a deed poll in favour of overseas QTMB members so that they will receive $10 on implementation of the Merger and similar contractual rights to holders of Legacy Shares.

In addition, prior to implementation of the Scheme, the RACQ Board will amend RACQ's by-laws to ensure that QTMB's banking products are eligible RACQ products. As a result of this amendment to RACQ's by-laws, on implementation of the Scheme, each QTMB member (who is not already an ordinary voting member of RACQ) will become an ordinary voting member of RACQ. These RACQ memberships will recognise each QTMB member's years of tenure in equivalent RACQ loyalty years.

1 Club Finance Holdings may redeem a Legacy Share if the holder has not held a banking or finance product provided by QTMB or any Club Finance Holdings company in the previous three months or if the Preserved Surplus Amount has been paid. Otherwise the Legacy Share must be redeemed within three months after the seventh anniversary of its issue.

2 The Preserved Surplus Amount will be calculated as the equity attributable to QTMB members as at 30 June 2016 divided by the number of issued QTMB shares on the date the Scheme is implemented. Based on the equity attributable to QTMB members of $128.1 million as at 30 June 2015 and 68,689 issued QTMB shares as at 30 June 2015, the Preserved Surplus Amount would have been $1,865 per QTMB member.

Where a QTMB member who is also an RACQ member has a longer tenure as a QTMB member, their existing RACQ loyalty years will be adjusted to reflect the longer tenure.

To facilitate the Scheme, QTMB will:

- first conduct a postal ballot ("Ballot") through which QTMB members will vote to approve the merger of RACQ and QTMB under Appendix 5 of the QTMB Constitution (the "Merger Resolution"). The Ballot will be open from 20 August to 16 September 2016; and
- if the Merger Resolution is passed, hold a special general meeting immediately prior to the Scheme meeting, at which QTMB members will vote to approve changes to the QTMB Constitution, including the ability to transfer QTMB shares under the Scheme and the ability for non-members to join the QTMB Board (the "Constitution Resolution"). The special general meeting and the Scheme meeting are expected to be held on 2 November 2016.

The Merger Resolution, the Constitution Resolution and the Scheme are inter-conditional (and together are referred to as the "Merger"). As a result, the Merger will only be implemented if each of the Merger Resolution, the Constitution Resolution and the Scheme are approved.

Under the Merger it is intended that:

- the *QTMB* brand will initially be retained although branches and products will, over time, be transitioned to the *RACQ* brand;
- there will be no change to the banking arrangements and products of existing QTMB members immediately following the Merger;
- the seven current directors of QTMB will remain on the QTMB Board with the addition of up to three RACQ directors. The current chairman of QTMB will remain as chairman of QTMB;
- QTMB Chief Executive Officer ("CEO"), Stephen Targett, will remain CEO of QTMB and will continue to report to the QTMB chairman. Mr Targett will also become a member of the RACQ group executive team and report to the RACQ group CEO;
- for the first three years following implementation of the Merger, QTMB will not contribute its net financial surplus to the RACQ group. As a result, all of its profits (in excess of those required to meet prudential capital requirements) will be available for reinvestment in the QTMB banking business. In addition, RACQ intends (subject to the requirement to always act in the best interests of the members as a whole) to provide additional capital to QTMB to allow it to execute its agreed growth strategy, invest in capability programs and maintain its capital adequacy within appropriate ranges;
- there will be no forced redundancies of staff from QTMB or RACQ directly as a result of the Merger;
- QTMB branches will be retained for the immediate foreseeable future except in locations where there is duplication, in which case a QTMB and an RACQ branch may be merged; and
- the merged entity will retain its headquarters in Queensland.

The QTMB Board has formed the view that the Merger is in the best interests of QTMB members and that the advantages of the Merger to members outweigh the disadvantages. The Board has unanimously recommended that QTMB members vote in favour of the Merger in the absence of a superior proposal.

The directors of QTMB have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Merger is in the best interests of QTMB members and the benefits being provided to QTMB members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB.

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A copy of the independent expert's report (including this letter) will accompany the Disclosure Documents in relation to the Merger Resolution ("Disclosure Documents") to be sent to members by QTMB. The Notices of Meeting and Explanatory Memorandum in relation to the Constitution Resolution and the Scheme ("Scheme Booklet") will be sent to QTMB members after the Merger Resolution is passed. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

In Grant Samuel's opinion, the advantages of the Merger outweigh the disadvantages and QTMB members are likely to be better off if the Merger proceeds. Accordingly, in the absence of a superior proposal:

- **the Merger is in the best interests of QTMB members; and**
- **the benefits being provided to QTMB members are reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. As QTMB members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to members are "fair".**

3 Key Conclusions

- **QTMB is facing a challenging external environment**

  The Australian banking sector is dominated by the major banks, which have an estimated 80% market share. As at 31 December 2015, there were 90 mutual ADIs (including mutual banks, credit unions and building societies) which collectively had a market share of around 3%.

  Market conditions are extremely competitive, driven by the significant number of new entrants to the market and an extended period of low loan growth and low interest rates which has put pressure on net interest margins. The consequent challenges for smaller mutual ADIs, such as QTMB, are exacerbated by:

  - increasing regulation and its impact on lending growth, capital requirements and compliance costs; and
  - the requirement to make ongoing investments in technology and innovation to keep up with the digital transformation of the banking sector.

  In addition to a difficult external environment, mutual ADIs, including QTMB, are dealing with a declining and ageing member base, a high cost base (reflecting their sub-scale operations) and deteriorating profitability. As a result, it is increasingly difficult for mutual ADIs to provide a relevant proposition to members. While members of mutual ADIs consistently report high levels of member satisfaction, indicating that there is a role for mutual ADIs in the Australian banking sector, scale is critical for mutual ADIs to remain relevant and competitive over the long term.

- **While QTMB's business should be sustainable in the medium term, it will face increasing pressures on a stand-alone basis**

  QTMB's banking business should be sustainable, at least for the medium term, largely because it has accumulated considerable surplus capital over the past 50 years. However, it is facing increasing challenges and pressures on a stand-alone basis.

  In particular, QTMB's lack of scale has meant that it has been difficult to justify the significant capital expenditure required to develop acceptable digital capabilities. QTMB has not been able to develop the digital distribution channels that are particularly relevant for, and necessary to attract, younger members. QTMB's lack of scale has also limited its ability to provide essential banking services such as credit cards. While QTMB does provide a QTMB branded credit card, the card is issued by Citigroup and is not integrated with QTMB's other banking products and services. Limitations in QTMB's digital capabilities and product suite make it more difficult to attract new customers, reinforcing its low growth dynamic and the high cost base consequence of its modest scale.

- **The QTMB Board has recognised QTMB's position and has undertaken a process to consider alternatives**

  The QTMB Board has recognised that the status quo is not sustainable in the long term. It is clear that QTMB needs to increase its size and profitability so that it can generate the funds required to invest in enhancing its capabilities to enable it to maintain a relevant member proposition.

  In recent years, the QTMB Board has considered a number of alternatives to address QTMB's lack of scale. The underlying premise in considering alternatives has been the QTMB Board's view that maintaining a member ownership structure for QTMB, aligned to the principles of mutuality, is in the best interests of QTMB members. QTMB has had formal or informal discussions with other mutual ADIs that could potentially have been suitable merger partners. For various reasons, these discussions have not culminated in a proposal capable of being put to QTMB members.

- **A merger with RACQ is a compelling proposition**

  If the Merger is implemented, QTMB will become an integral part of a stronger, larger and more diversified financial services business.

  The Merger will provide QTMB with the resources necessary to improve its banking proposition to existing members and to attract new members (particularly younger members):

  - RACQ intends to provide additional capital to QTMB (from its member reserves of more than $410 million) to execute QTMB's agreed growth strategy and to improve its products and its digital capability; and
  - QTMB will be able to leverage RACQ's significant experience in technology projects, including its recent experience upgrading its own digital capability.

  The strength of the *RACQ* brand throughout Queensland, combined with the ability to offer banking products to 1.5 million RACQ members, provides a unique opportunity to significantly grow the banking business, create the scale required to operate more efficiently and generate surpluses that can be reinvested for the benefit of members.

  The Merger may also provide opportunities for future inorganic growth through the potential for mergers with other mutual ADIs and, possibly, through the marketing of banking products and services to other like-minded mutual organisations throughout Australia.

  Importantly, as RACQ has no existing banking operations, there will be minimal organisational issues in terms of the impact on staff, management and the Board.

  The Merger will also continue QTMB's long history of community support to the education sector, through RACQ's substantial existing commitment (road safety and driver education programs aimed at primary and secondary school children) as well as its intention to continue to support key QTMB sponsorships.

- **The Merger provides benefits for QTMB members both as banking customers and as RACQ members**

  Immediately following the Merger, there will be no change to the banking arrangements and products of existing QTMB members[3]. The Merger will enable QTMB to maintain competitively priced banking products for members and, as scale increases, to be more competitive on pricing. Over time, QTMB members will benefit from an improved suite of banking products, including an integrated credit card offering.

  Services will also be enhanced, particularly in terms of improved distribution. Following the merger, QTMB is expected to be able to offer longer contact centre opening hours, access to a more extensive branch network and a stronger digital offering, including a new mobile application, greater internet banking functionality and enhanced platforms that will allow QTMB members to apply for banking products online.

  As members of RACQ, QTMB members will be customers of a more robust banking business while remaining members of a Queensland-based mutual committed to community involvement and service to members. QTMB members will receive recognition of their QTMB years of tenure in equivalent RACQ loyalty years (entitling them to discounted rates on roadside assistance and home and car insurance) and for those who are not already RACQ members, access to savings and discounts on a wide range of products and services. These member benefits are collectively material. In the year ended 30 June 2015, RACQ returned more than $100 million in benefits to RACQ members in the form of savings and discounts[4].

- **The Merger does involve some disadvantages and risks. However, in Grant Samuel's opinion, they are outweighed by the benefits of the Merger**

  By voting in favour of the Merger, QTMB members will forego the opportunity to benefit from an alternative proposal, such as a demutualisation (accompanied by a sale of the company to a third party or a sharemarket listing) or a voluntary winding up, that could crystallise value for QTMB members.

  However, a demutualisation would only be possible if the QTMB Board was to make the decision to put a demutualisation or similar transaction to QTMB members for their approval. This is not consistent with the current views of the QTMB Board:

  - the Board strongly believes that a business model underpinned by the principles of mutuality provides the basis for a superior bank offering to members; and
  - a demutualisation would only reward current members and would ignore the past members who have contributed over the course of many years to the accumulation of reserves.

  Based on precedent transactions, the value realised through a demutualisation and sale could be in the order of $2,200-2,700 per member (but would be less if QTMB demutualised and listed). This amount is substantially less than the amount received by each member in the most recent demutualisation of a mutual ADI (Your Credit Union). Moreover, access to this value could come at a cost to QTMB members, particularly through the loss of the advantages of being part of a mutual organisation that is operated for the benefit of members and not to generate a return for shareholders/owners.

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3 Other than at the request of a QTMB member, in response to changes in the official interest rate set by the Reserve Bank of Australia or in line with the terms of any existing loan agreement.

4 All RACQ personal members are entitled to membership benefits. Personal members are holders of any RACQ product except business members and holders of only compulsory third party insurance or travel insurance. Membership benefits include the ability to earn loyalty tenure, which entitles members with more than five years membership to discounts on roadside assistance fees and members who hold a roadside assistance product to discounts on motor vehicle and home insurance premiums based on the number of years of membership.

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A voluntary winding up of QTMB would require 5% of QTMB members to requisition a meeting and 75% of members who vote to approve the winding up. It is unclear why QTMB members would seek to voluntarily wind up QTMB as the amount received by members would be less than that received under a demutualisation and sale and a winding up would result in QTMB members giving up all of the benefits of the mutual banking arrangements between QTMB and its members (which is the very reason that they are members of QTMB in the first place).

There will also be changes to the rights of members, particularly the right to participate in QTMB's reserves on a winding up or demutualisation. The entitlement to participate in QTMB's reserves is a contingent right (i.e. it is only of value in the event that QTMB is wound up or demutualises, both of which are considered unlikely). In any event, to the extent that these changes are considered a disadvantage, the Legacy Shares issued to QTMB members will preserve these rights for a period of seven years following the Merger.

Director nomination and voting rights as an RACQ member are different to those as a QTMB member. However, the changes largely reflect the size of RACQ compared to QTMB and are not considered to be material in the context of the Merger.

The main risks of the Merger are implementation risks. There will be integration risks, although the risks will be lower than in a merger with another ADI as there will be no requirement to integrate banking platforms. While the development and launch of a new digital platform will involve execution risk, the risk will be less than if QTMB was to undertake the project as a stand-alone entity and will benefit from access to an RACQ management team experienced in delivering technology projects.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual QTMB members. Accordingly, before acting in relation to the Merger, members should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Members should read the Disclosure Documents and, when available, the Scheme Booklet issued by QTMB in relation to the Merger.

Grant Samuel has not been engaged to provide a recommendation to members in relation to the Merger, the responsibility for which lies with the directors of QTMB. In any event, the decision whether to vote for or against the Merger is a matter for individual members based on their personal circumstances and the nature of their relationship with QTMB, including the products and services they use and the importance they place on these products and services as well as their expectations of the benefits of holding a Legacy Share and being a member of RACQ. Members who are in doubt as to the action they should take in relation to the Merger should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

Financial Services Guide
and
Independent Expert's Report
in relation to a merger with
The Royal Automobile Club of Queensland Limited

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

3 August 2016

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for QT Mutual Bank Limited in relation to its merger with The Royal Automobile Club of Queensland Limited ("the QTMB Report"), Grant Samuel will receive a fixed fee of approximately $275,000, plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the QTMB Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the QTMB Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the QTMB Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with QTMB or RACQ or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger and the benefits being provided to QTMB members.*
>
> *Grant Samuel had no part in the formulation of the Merger. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of approximately $275,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Merger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the QTMB Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the QTMB Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL

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1 Details of the Merger

On 18 April 2016, QT Mutual Bank Limited ("QTMB") announced a proposal to merge with The Royal Automobile Club of Queensland Limited ("RACQ").

QTMB and RACQ have entered into a Merger Implementation Agreement ("MIA") under which QTMB will merge with RACQ by way of a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") (the "Scheme"). Under the Scheme, all of the shares in QTMB will be acquired by a subsidiary of RACQ, Club Finance Holdings Limited ("Club Finance Holdings"), and each QTMB member will receive a Legacy Share. Legacy Shares are redeemable preference shares in Club Finance Holdings with a preferred right to:

- a redemption amount[1] (of $10 per Legacy Share); and
- a cash distribution of an amount per Legacy Share equivalent to the equity attributable to QTMB members as at 30 June 2016 divided by the number of issued QTMB shares on the date the Scheme is implemented (the "Preserved Surplus Amount"), if a trigger event occurs within seven years of the Scheme being implemented. The trigger events are the:
  - disposal of QTMB or a substantial part of QTMB's business[2];
  - insolvency of QTMB or Club Finance Holdings;
  - winding up of QTMB or Club Finance Holdings; or
  - demutualisation of RACQ.

Legacy Shares have no right to notices of general meetings of Club Finance Holdings or to attend and speak at those meetings, no right to receive accounts and reports of Club Finance Holdings, no entitlement to receive dividends and generally no right to vote[3].

QTMB members with a registered address outside of Australia ("overseas QTMB members") will not be eligible to receive a Legacy Share. As part of the Merger, Club Finance Holdings has entered into a deed poll in favour of overseas QTMB members so that they will receive $10 on implementation of the Merger and similar contractual rights to holders of Legacy Shares.

In addition, prior to implementation of the Scheme, the RACQ Board will amend RACQ's by-laws to ensure that QTMB's banking products are eligible RACQ products. As a result of this amendment to RACQ's by-laws, on implementation of the Scheme, each QTMB member (who is not already an ordinary voting member of RACQ) will become an ordinary voting member of RACQ. These RACQ memberships will:

- rank equally with all other existing RACQ ordinary voting members; and
- recognise each QTMB member's years of tenure in equivalent RACQ loyalty years. Where a QTMB member who is also an RACQ member has a longer tenure as a QTMB member, their existing RACQ loyalty years will be adjusted to reflect the longer tenure.

---

1 Club Finance Holdings may redeem a Legacy Share if the holder has not held a banking or finance product provided by QTMB or any Club Finance Holdings company in the previous three months or if the Preserved Surplus Amount has been paid. Otherwise, the Legacy Share must be redeemed within three months after the seventh anniversary of its issue.

2 Including the acquisition by a third party of 25% or more of the voting or non-voting shares in QTMB or Club Finance Holdings, but excluding the acquisition of up to 50% of the voting or non-voting shares in Club Finance Holdings by another Australian mutual entity aligned with the business or objects of RACQ (i.e. other State and Territory mutual motoring associations).

3 Other than on a proposal that affects the rights or privileges attaching to Legacy Shares, on a resolution to approve the buy-back of Legacy Shares or during the wind up of Club Finance Holdings (until the Preserved Surplus Amount is paid or the Legacy Shares are otherwise redeemed).

To facilitate the Scheme, QTMB will:

- first conduct a postal ballot ("Ballot") through which QTMB members will vote to approve the merger of RACQ and QTMB under Appendix 5 of the QTMB Constitution (the "Merger Resolution"). The Ballot will be open from 20 August to 16 September 2016; and
- if the Merger Resolution is passed, hold a special general meeting immediately prior to the Scheme meeting, at which QTMB members will vote to approve changes to the QTMB Constitution, including the ability to transfer QTMB shares under the Scheme and the ability for non-members to join the QTMB Board (the "Constitution Resolution"). The special general meeting and the Scheme meeting are expected to be held on 2 November 2016.

The Merger Resolution, the Constitution Resolution and the Scheme are inter-conditional (and together are referred to as the "Merger"). As a result, the Merger will only be implemented if each of the Merger Resolution, the Constitution Resolution and the Scheme are approved.

Under the Merger it is intended that:

- the *QTMB* brand will initially be retained although branches and products will, over time, be transitioned to the *RACQ* brand;
- there will be no change to the banking arrangements and products of existing QTMB members immediately following the Merger unless requested by the QTMB member, in response to changes in the official interest rate set by the Reserve Bank of Australia ("RBA") or in line with the loan agreement the QTMB member has in place with QTMB;
- the seven current directors of QTMB will remain on the QTMB Board with the addition of up to three RACQ directors (including the RACQ group CEO). The current chairman of QTMB will remain as chairman of QTMB;
- QTMB Chief Executive Officer ("CEO"), Stephen Targett, will remain CEO of QTMB and will continue to report to the QTMB chairman. Mr Targett will also become a member of the RACQ group executive team and report to the RACQ group CEO;
- for the first three years following implementation of the Merger, QTMB will not contribute its net financial surplus to the RACQ group. As a result, all of its profits (in excess of those required to meet prudential capital requirements) will be available for reinvestment in the QTMB banking business. In addition, RACQ intends (subject to the requirement to always act in the best interests of the members as a whole) to provide additional capital to QTMB to execute its agreed growth strategy and capability programs and to maintain its capital adequacy within appropriate ranges;
- there will be no forced redundancies of staff from QTMB or RACQ directly as a result of the Merger;
- QTMB branches will be retained for the immediate foreseeable future except in locations where there is duplication, in which case a QTMB and an RACQ branch may be merged; and
- the merged entity will retain its headquarters in Queensland.

Other elements of the Merger include:

- QTMB and RACQ have agreed to certain exclusivity restrictions for a period of up to 12 months from the date of the MIA (the "exclusivity period") including no-shop, no-talk and no due diligence provisions. The no-talk and no due diligence provisions do not apply to the extent that they restrict QTMB or the QTMB Board from taking or refusing to take any action with respect to a bona fide competing transaction provided that the QTMB Board has determined, in good faith and acting reasonably, that the competing transaction could reasonably be considered to become a superior proposal and that failing to respond to such a bona fide competing transaction would be reasonably likely to constitute a breach of the QTMB Board's fiduciary or statutory obligations;
- during the exclusivity period, QTMB must inform RACQ of any unsolicited approach with respect to any competing transaction. Prior to entering into, or recommending, any competing transaction

that the QTMB Board determines in good faith would be, or would be likely to be, a superior proposal, QTMB must provide RACQ with the material terms and conditions of the competing transaction and give RACQ the opportunity to provide a matching or superior offer to the terms of the competing transaction. If the QTMB Board, acting in good faith, determines that the matching offer would provide an outcome that is more favourable to QTMB members than the competing transaction, QTMB and RACQ must use their best endeavours to implement the matching offer;

- QTMB must pay RACQ a reimbursement fee of $1.5 million if the Merger does not proceed because:
  - within 12 months of the date of the MIA, QTMB enters into an agreement to undertake a competing transaction, a QTMB director recommends a competing transaction or the QTMB Board announces that a competing transaction is a superior proposal;
  - any QTMB director fails to recommend or changes their recommendation of the Merger (except if the change in recommendation follows receipt of an adverse opinion from the independent expert, there is failure of certain conditions precedent or QTMB terminates the MIA as a result of a material breach by RACQ);
  - RACQ terminates the MIA as a result of a material breach by QTMB;
  - a QTMB prescribed event or a QTMB material adverse change (as defined in the MIA) occurs that was within the control of QTMB and which QTMB fails to rectify; or
  - QTMB breaches the exclusivity provisions of the MIA and does not cease the conduct following written notice from RACQ.

  The reimbursement fee is not payable by QTMB if the Merger does not proceed because QTMB member approval of the Merger is not obtained; and
- RACQ must pay QTMB a reimbursement fee of $1.5 million if the Merger does not proceed because:
  - QTMB terminates the MIA as a result of a material breach by RACQ; or
  - an RACQ prescribed event or an RACQ material adverse change (as defined in the MIA) occurs that was within the control of RACQ and which RACQ fails to rectify.

The Merger is subject to a number of conditions that are set out in the Disclosure Documents. In summary, the key conditions include:

- receipt of all regulatory approvals, including from the Treasurer of the Commonwealth of Australia ("Treasurer") under the Financial Sector (Shareholdings) Act 1998 (Cth) and Section 63 of the Banking Act 1959 (Cth) ("Banking Act"), the Australian Prudential Regulation Authority ("APRA") under Section 66 of the Banking Act and the Australian Securities & Investments Commission ("ASIC"); and
- approval by QTMB members of the Merger Resolution by the necessary majorities;
- approval by QTMB members of the Constitution Resolution and the Scheme by the necessary majorities;
- Supreme Court of Queensland approval of the Scheme;
- obtaining any necessary or desirable third party consents; and
- an independent expert issuing a report which concludes that the Merger is in the best interests of QTMB members and that the benefits being provided to QTMB members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB.

The QTMB Board has formed the view that the Merger is in the best interests of QTMB members and that the advantages of the Merger to members outweigh the disadvantages. The Board has unanimously recommended that QTMB members vote in favour of the Merger in the absence of a superior proposal.

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2 Scope of the Report

2.1 Purpose of the Report

The Merger is subject to the approval of QTMB members in accordance with:

- Clause A5-4 of the QTMB Constitution ("Clause A5-4");
- Clause 1.6 of the QTMB Constitution ("Clause 1.6"); and
- Section 411 of the Corporations Act ("Section 411").

The Merger Resolution is required under Division 19 of, and Appendix 5 to, the QTMB Constitution. Under Clause A5-4, at least 25% of each class of QTMB members must vote on certain proposed transactions (including any proposal to demutualise) and at least 75% of each class of QTMB members who vote must approve the proposed transaction. The vote is required to be conducted through a postal ballot, although QTMB has obtained a notice from ASIC, the effect of which is to permit the Ballot to be conducted electronically through an online voting option, as well as by post.

Clause A5-5 of the QTMB Constitution sets out the information to be sent to members in relation to certain proposed transactions and requires, inter alia, that an independent expert's report be prepared in relation to the proposed transaction. Clause A5-8 of the QTMB Constitution requires that the independent expert's report set out, if relevant, whether, in the independent expert's opinion:

- the proposed transaction is in the best interests of the members; and
- the benefits being provided to the members are fair and reasonable, having regard to any:
  - loss of rights; and
  - change as to voting rights and rights to participate in the reserves and profits of QTMB,

and give reasons for those opinions.

The Constitution Resolution is required under Division 1 of the QTMB Constitution. Under Clause 1.6, QTMB may modify its constitution by special resolution. A special resolution is passed by a majority of not less than 75% of QTMB members present and voting (either in person or by proxy) at the meeting. Clause 1.6 does not require an independent expert's report to be prepared.

The Scheme is to be implemented by a scheme of arrangement under Section 411 between QTMB and its members. Under Section 411 the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of members present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by QTMB members, the Scheme will then be subject to approval by the Supreme Court of Queensland.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to members in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of members subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act, the directors of QTMB have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Scheme, as part of the Merger, is in the best interests of QTMB members and to state reasons for that opinion.

A copy of the report will accompany the Disclosure Documents in relation to the Merger Resolution ("Disclosure Documents") to be sent to members by QTMB. The Notices of Meeting and Explanatory Memorandum in relation to the Constitution Resolution and the Scheme ("Scheme Booklet") will be sent to QTMB members after the Merger Resolution is passed.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual QTMB members. Accordingly, before acting in relation to the Merger, members should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Members should read the Disclosure Documents and, when available, the Scheme Booklet issued by QTMB in relation to the Merger.

Voting for or against the Merger is a matter for individual members based on their personal circumstances and the nature of their relationship with QTMB, including the products and services they use and the importance they place on these products and services as well as their expectations of the benefits of holding a Legacy Share and being a member of RACQ. Members who are in doubt as to the action they should take in relation to the Merger should consult their own professional adviser.

2.2 Basis of Evaluation

Overall Approach

The Merger Resolution, the Constitution Resolution and the Scheme are inter-conditional. The Constitution Resolution and the Scheme will not proceed unless the Merger Resolution is approved by the necessary majority of QTMB members and the Merger Resolution will not take effect unless each of the Constitution Resolution and the Scheme are approved by the necessary majority of QTMB members. Essentially, QTMB is required to demutualise to facilitate the merger with RACQ. It is a step in the merger process, not the end result (in contrast to most demutualisations). As a result, in Grant Samuel's view, it is appropriate to consider the Merger Resolution, the Constitution Resolution and the Scheme together as a single proposal (rather than as three separate proposals).

Regulatory Guidelines

ASIC has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for "control" transactions (essentially, where one party acquires more than 20% of another party) and other transactions. In the context of control transactions (whether by takeover bid, scheme of arrangement, the issue of securities or selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable".

Fairness involves a comparison of full underlying value (including a premium for control) of the target entity and the value of the consideration offered. A "fair" transaction will always be "reasonable" but a "reasonable" transaction will not necessarily be "fair". Reasonableness involves an analysis of other factors that members might consider prior to deciding to vote in favour or against a transaction. This may involve factors such as the likelihood of an alternative offer and alternative transactions that could realise value. A transaction could be considered "reasonable" if there were valid reasons to vote in favour of it notwithstanding that it was not "fair".

Where the transaction involves a scheme of arrangement (under Section 411), the opinion required is whether the transaction is in the "best interests" of members. There is no legal definition of the expression "in the best interests". However, Regulatory Guide 111 provides guidance that control transactions that are "fair and reasonable" or "not fair but reasonable" will be in the best interests of members.

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For most other transactions, including demergers and demutualisations, the expert is to weigh up the advantages and disadvantages of the proposal for members. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the members are likely to be better off if the proposal is implemented than if it is not. In the case of a transaction undertaken by way of scheme of arrangement, this conclusion would result in the scheme being in the best interests of members.

Best Interests Opinion

Regulatory Guide 111 provides specific guidance in relation to demutualisations. Where a demutualisation does not involve one or more of a change in the underlying economic interests of members, a change of control or selective treatment of different members, Regulatory Guide 111.36 states that *"the issue of "value" may be of secondary importance (particularly in demutualisations)"* and *"the expert should provide an opinion as to whether the advantages of the transaction outweigh the disadvantages"*.

However, where a demutualisation involves one or more of a change in the underlying economic interests of members, a change of control or selective treatment of different members, Regulatory Guide 111.40 states that an expert *"might need to consider"* whether using the separate "fair" and "reasonable" tests applicable to control transactions is appropriate. It could be argued that the Merger is a control transaction as QTMB becomes a wholly owned subsidiary of Club Finance Holdings (which is in turn a subsidiary of RACQ). Under this approach, "fair" and "reasonable" would need to be examined separately. Grant Samuel has considered whether using the "fair" and "reasonable" tests applicable to a control transaction is appropriate in the case of the Merger and, for the reasons explained below, has determined that it is not appropriate to adopt this basis.

As a result, Grant Samuel has evaluated the Merger for the purposes of the "best interests" opinion by assessing the overall impact on the members of QTMB and has formed a judgement as to whether the expected benefits outweigh any disadvantages and risks that might result. To the extent possible, Grant Samuel has compared quantifiable benefits with quantifiable disadvantages. However, many of the potential benefits and disadvantages are by their very nature difficult, or even impossible, to quantify or verify. In this context, the overall conclusion as to whether the advantages of the Merger outweigh the disadvantages is to a large extent subjective.

In forming its opinion as to whether the advantages of the Merger outweigh the disadvantages, Grant Samuel has considered the following:

- the business and financial prospects for QTMB as a stand-alone entity and the impact of the Merger on these prospects;
- the effects of the Merger on QTMB members (e.g. products and services offered);
- the current rights of QTMB members and their rights as holders of Legacy Shares and as RACQ members;
- the contingent value attributable to QTMB members and the circumstances in which this value could be accessed;
- the impact of the Merger on the ability of QTMB to enter into alternative transactions that might realise value for QTMB members;
- any other advantages and benefits arising from the Merger; and
- the costs, disadvantages and risks of the Merger.

If the advantages outweigh the disadvantages, the Merger will be in the best interests of members.

Fair and Reasonable Opinion

The "fair and reasonable" opinion in relation to the benefits being provided to QTMB members is a requirement under the QTMB Constitution rather than under the Corporations Act. There is no regulatory requirement for this opinion and no definition of the expression "fair and reasonable" is provided in the QTMB Constitution.

As discussed above, "fair" and "reasonable" are, for regulatory purposes, regarded as two separate tests, where "fairness" involves a comparison of the value of the target company to the value of the consideration offered and "reasonableness" relates to other qualitative factors that members should consider before deciding to vote for or against a transaction. Application of Regulatory Guide 111 requires that this interpretation of "fair and reasonable" applies in QTMB's case notwithstanding any alternative inference from the wording of the QTMB Constitution.

However, as QTMB members are effectively swapping an interest in one mutual (QTMB) for an interest in another mutual (RACQ) rather than exchanging their interest for cash and/or marketable scrip in the acquiring entity (and giving up the benefits of their existing membership[4]), Grant Samuel considers that the application of a "fairness" test is not meaningful and potentially misleading:

- a membership interest in a mutual such as QTMB has no current realisable value (other than repayment of the subscription amount of $10 on ceasing to be a member). Customers must be members and any "value" is attributed to being an active customer. Membership of QTMB can be terminated or redeemed on repayment of the subscription amount of $10 if a member is not an active customer (e.g. if a customer repays their loan in full and requests that their membership be terminated or if a customer has an inactive deposit account). In these circumstances, members are not entitled to any other "value". Past members have no entitlement to any "value", despite contributing to QTMB's profits and reserves while members. Similarly, a membership interest in RACQ has no current realisable value in the conventional sense;

- any underlying "value" within the entity is not able to be accessed by members unless QTMB is wound up (voluntarily or involuntarily) or the QTMB Board takes action to change the status of QTMB (e.g. by way of demutualisation) and the necessary majority of members approve this change. Neither of these actions is currently contemplated. Similar issues apply to RACQ which plans to remain a mutual entity. In this sense, any "value" in either entity is contingent in nature.

  In addition, QTMB members are not giving up contingent value (e.g. for a cash payment) but instead are exchanging the contingent value in QTMB for contingent value in RACQ (albeit that the quantum, basis of distribution and other terms and conditions of these rights may be different).

  The existing rights of QTMB members therefore cannot be "valued" in any meaningful sense (there is no "market value") and cannot be compared directly with the "value" of rights as holders of Legacy Shares and members of RACQ; and

- the real value of membership is in the products, services and other benefits made available to members which will vary from member to member depending on the extent to which members choose to utilise the products and services and take advantage of the benefits offered. This applies to membership of both QTMB and RACQ.

Consequently, in Grant Samuel's view, it is not possible to form a view on whether the benefits being provided to members are "fair" (as that term is defined under ASIC's Regulatory Guides) and, as a result, Grant Samuel has only considered whether the benefits being provided to members are "reasonable". For the purposes of this analysis, Grant Samuel has assessed whether

[4] In these situations, the acquiring entity will typically have a single objective of maximising returns to its shareholders and will have no mandate to provide ongoing benefits to members as customers (or to return value to members as customers).

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the advantages of the benefits being provided to QTMB members outweigh the disadvantages. If the advantages outweigh the disadvantages, the benefits being provided to QTMB members will be "reasonable". This is the same test used in forming a view on whether the Merger is in the best interests of QTMB members and requires that the same factors be addressed.

This approach meets the requirements of QTMB's Constitution, which qualifies the requirement for an opinion on whether the benefits being provided to members are "fair" and "reasonable" with the proviso "if relevant". As it is not possible to value a membership interest in either QTMB or RACQ, it is not relevant to provide an opinion on whether the benefits being provided to members are "fair".

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Disclosure Documents;
- the Merger Implementation Agreement between RACQ and QTMB dated 31 March 2016;
- the Deeds of Amendment and Restatement between RACQ and QTMB dated 2 June 2016 and 3 August 2016;
- annual reports of QTMB for the four years ended 30 June 2015;
- QTMB Constitution;
- annual reports of RACQ for the four years ended 30 June 2015;
- RACQ Constitution;
- press releases and media presentation material by QTMB and RACQ including information available on their websites; and
- recent press articles and other research on QTMB, RACQ and the mutual and Australian banking sectors.

Non Public Information provided by QTMB

- the draft Scheme Booklet dated 1 August 2016;
- management accounts for QTMB for the seven months ended 31 January 2016;
- forecast for the year ending 30 June 2016 prepared by QTMB management;
- due diligence reports on RACQ and the Merger prepared by QTMB's financial, legal and accounting advisers; and
- other confidential documents, board papers, presentations and working papers.

Non Public Information provided by RACQ

- management accounts for RACQ for the six months ended 31 December 2015;
- forecast for the year ending 30 June 2016 prepared by RACQ management; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, representatives of Grant Samuel held discussions with, and obtained information from, senior management of QTMB and its advisers and senior management of RACQ. Grant Samuel was also provided with access to the data rooms provided by QTMB and RACQ.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinions must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinions are based on economic, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinions could be different in these changed circumstances.

This report is also based upon financial and other information provided by QTMB and its advisers and RACQ. Grant Samuel has considered and relied upon this information. QTMB has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Merger is in the best interests of QTMB members and whether the benefits being provided to QTMB members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinions, "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 independent expert. While Grant Samuel has had access to the due diligence reports on RACQ and the Merger prepared by QTMB's financial, accounting and legal advisers, the due diligence reports on QTMB prepared by RACQ's accounting and legal advisers have not been provided to Grant Samuel and Grant Samuel is not in a position, nor is it practicable, to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers.

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

An important part of the information used in forming opinions of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of QTMB or RACQ. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the forecast for QTMB for the year ending 30 June 2016 and the projected performance of QTMB as part of RACQ prepared by QTMB management; and
- the forecast for RACQ for the year ending 30 June 2016 and budgets for RACQ for the years ending 30 June 2017 to 2020 prepared by RACQ management,

together, the "forward looking information".

Grant Samuel has had regard to the forward looking information in undertaking its analysis but has not relied upon it for the purposes of forming its opinions. Given the nature of the transaction, the forward looking information is not the fundamental basis for assessing the Merger. Rather, other factors such as implications for QTMB's business and its members are more important.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by QTMB and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Merger are accurate and complete;
- the information set out in the Disclosure Documents and the Scheme Booklet sent by QTMB to its members is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Merger will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Merger are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Profile of QTMB

3.1 Background

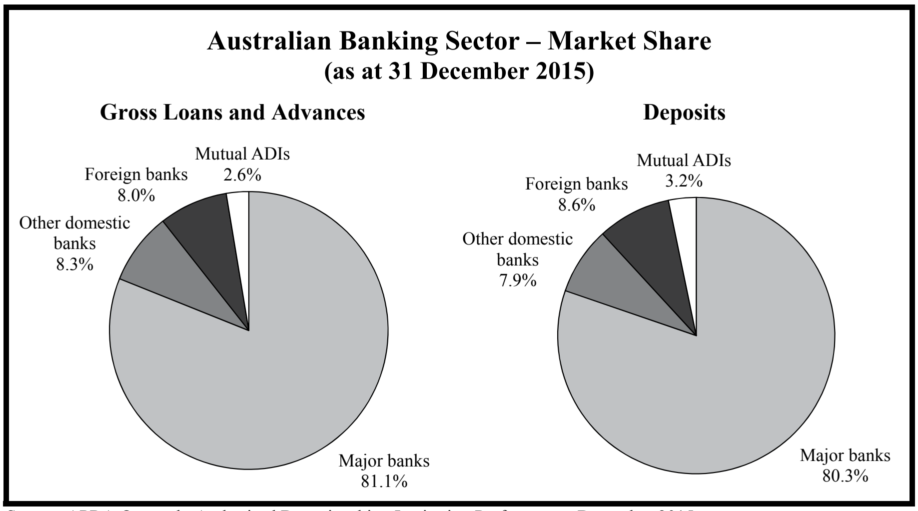
QTMB is an Australian Authorised Deposit-taking Institution ("ADI") regulated by APRA. It was established by a group of teachers in March 1965, as Queensland Teacher's Credit Union, to lend money to other teachers. While the teacher bond was removed in 1985, QTMB has continued to provide retail banking products to the education community in Queensland.

In 2011, QTMB changed its name to QT Mutual Bank on the expectation that this would strengthen its market position and relevance in the Australian banking market. The rebrand included renovations to QTMB's head office, a new branch look and a new website.

QTMB is a member focused mutual banking institution that aims to be the bank of choice for Queensland's education community. It focuses on enhancing the financial wellbeing of members by delivering personalised services.

3.2 Industry Overview

The Australian banking sector is dominated by the major banks[5], which held around 80% of loans and deposits as at 31 December 2015:



Source: APRA Quarterly Authorised Deposit-taking Institution Performance, December 2015

Mutual ADIs collectively represent only around 3% of the Australian banking sector (based on either gross loans and advances or deposits). While mutual ADIs have a larger share of the housing loan market at 4%, this is at the expense of the foreign banks as the major banks' share of the housing loan market is 84%.

The mutual ADI sector comprises 90 entities ranging in size from $850 million to less than $10 million in net assets. The top 10 mutual ADIs represent approximately 60% of the total mutual ADI sector (based on net assets) and have around 2.1 million members[6].

Market conditions in the Australian banking sector are very competitive, driven by:

5 The major banks are Commonwealth Bank of Australia, Westpac Banking Corporation, Australia and New Zealand Banking Group Limited and National Australia Bank Limited.

6 Excluding Heritage Bank Limited which does not disclose its membership.

- the continuing low loan growth and low interest rate environment putting ongoing pressure on net interest margins and cost to income ratios;
- increasing regulation and its impact on lending growth, capital requirements and compliance costs; and
- constant and rapid change and the substantial and ongoing investment required in technology and innovation to keep up with digital transformation.

In this environment, many mutual ADIs are also dealing with:

- stagnant or declining membership and an ageing membership base;
- a predominantly retail deposit funding base and limited access to alternative funding sources;
- increased capital and liquidity requirements from the phased implementation of Basel III over the period from 2013 to 2019 and the associated compliance and administration impact; and
- deteriorating profitability and high cost bases. The average cost to income ratio for mutual ADIs is around 80%, reflecting their commitment to provide a high quality of service to members (e.g. branch structure and staffing levels). The top 10 mutual ADIs are more cost efficient (with cost to income ratios of around 70%) but are still much less efficient than the major banks at around 45%.

This combination of factors creates challenges for mutual ADIs as they seek to deliver a relevant proposition to members. The overriding challenge is to achieve sustainable growth and profitability while continuing to operate as member owned and community based organisations, providing high levels of service to customers.

The disparity between the major banks, other domestic banks and mutual ADIs, as well as the disparity between the largest and other mutual ADIs, for selected key parameters, is illustrated in the table below:

Australian Banking Sector – Key Parameters

2015 Financial Year	Major Banks	Regional Banks[7]	Mutual ADIs		
			Top 10	Balance[8]	Overall
Loan growth	6.7%	6.3%	8.0%	4.8%	6.9%
Net interest margin	2.02%	1.81%	2.09%	2.54%	2.18%
Cost to income ratio	45.1%	55.8%	69.9%	82.0%	80.0%
Cash earnings	\$30.2 billion	\$1.2 billion	\$302.8 million	\$146.3 million	\$449.2 million
Average cash earnings	\$7.6 billion	\$300.9 million	\$30.3 million	\$2.9 million	\$7.5 million
Return on equity	15.0%	9.1%	7.2%	4.4%	5.9%
Loan to deposit ratio	118.5%	143.0%	103.7%	90.6%	99.0%
Capital adequacy ratio	13.4%	13.5%	16.2%	18.2%	17.8%

Source: PwC Major Banks Analysis, November 2015, KPMG Mutuals Industry Review 2015, company annual reports

While consistently high levels of member satisfaction (in excess of 90%) indicate there is a role for mutual ADIs in the Australian banking sector, the table above clearly shows that scale is critical for mutual ADIs to remain sustainable, relevant and competitive over the long term.

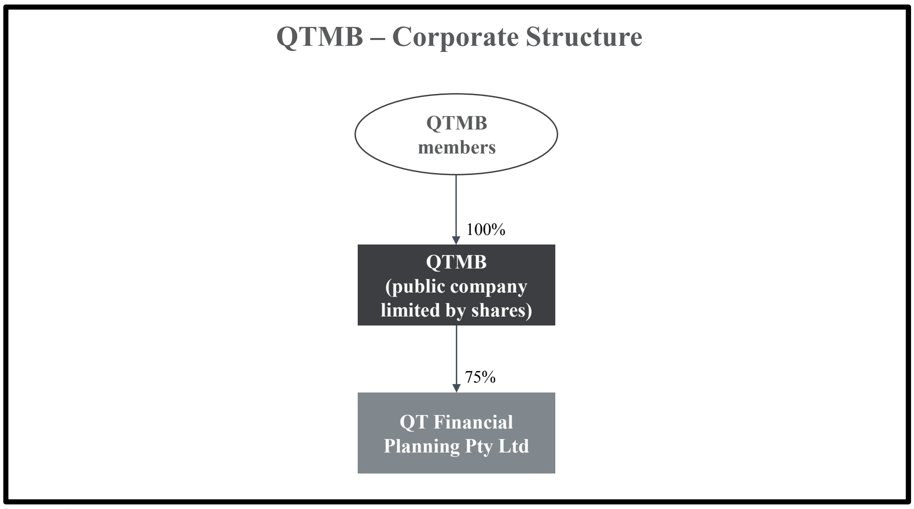
7 The regional banks comprise Suncorp Bank, Bendigo and Adelaide Bank, Bank of Queensland and ME Bank.

8 The KPMG analysis covers the largest 60 out of a total of 92 mutual ADIs (as at 30 June 2015). The balance column above therefore represents the largest 50 of the remaining 82 mutual ADIs.

3.3 Structure and Governance

Structure

QTMB is an Australian public company limited by shares and is owned by its members. QTMB's corporate structure is summarised below:



Source: QTMB

QTMB holds a controlling 75% interest in QT Financial Planning Pty Ltd ("QT Financial Planning"), with the remaining 25% interest owned by SFG Australia Limited (which was acquired by IOOF Holdings Limited in August 2014). SFG provides licensing and compliance services to QT Financial Planning and QT Financial Planning operates as an authorised representative of a subsidiary of SFG. There is a put and call agreement in place between QTMB and SFG in relation to SFG's 25% interest in QT Financial Planning. On the occurrence of certain events, QTMB has the right to call SFG's shares in QT Financial Planning and SFG also has the right to put its shares in QT Financial Planning to QTMB. Exercise of the option by either party would require QTMB to purchase SFG's shares in QT Financial Planning at a fair market value.

Governance

QTMB is overseen by a Board consisting of seven non-executive directors. It has six Board committees in place (covering audit, nominations, governance, strategic initiatives, risk and remuneration) to assist it in carrying out its responsibilities.

Operational management is provided by the CEO and six senior executives responsible for finance, marketing, operations, risk, human resources and sales.

3.4 Membership and Member Rights

Membership

QTMB has an open and voluntary membership within a common bond. The common bond relates to the advancement of education in Queensland (which can be through employment, professional association, community or family). Although QTMB ceased being a bonded credit union in 1985, a significant proportion of members are from the education sector.

Customers (other than wholesale depositors) must be members. QTMB can only issue member shares, which are redeemable preference shares, and can issue only one member share to any person, in return for payment of the subscription price of $10.

Membership has been in steady decline for a number of years, reflecting the ageing demographic of the member base and an inability to attract sufficient numbers of new customers:

QTMB – Membership					
	As at 30 June				As at 1 August
	2012	2013	2014	2015	2016
Opening members	**76,725**	**74,703**	**71,336**	**69,294**	**68,689**
New members	1,632	1,512	1,340	1,448	(456)
Redeemed members	(3,654)	(4,879)	(3,382)	(2,053)	
Closing members	**74,703**	**71,336**	**69,294**	**68,689**	**68,233**
Active members	na[9]	na	59,184	57,209	na
Active members as a percentage of total members	*nc[10]*	*nc*	*85%*	*83%*	*nc*

Source: QTMB

Over the last five years, the decline in membership has averaged 2.3% per year, although the rate of decline has slowed in FY15[11] and over the period from 1 July 2015 to 1 August 2016 to less than 1%. While the number of members who have redeemed their member share (effectively as a result of no longer being a customer) has been declining, the number of new members has not been sufficient to compensate (at 40-70% of redeemed members) and has also generally (other than in FY15) been declining.

Active members are those that are regarded as being "engaged". It excludes business customers and those with no user initiated transactions in the last 180 days, and has only been tracked since June 2014. Active members represent around 80-85% of total members and have also been in gradual decline (both in absolute number and as a percentage of total members) since June 2014.

Member Rights

The rights and obligations of QTMB members, as set out in the QTMB Constitution, are summarised below:

QTMB – Member Rights and Obligations		
Right/Obligation		**Comment**
General	✓	Six members together have the right to nominate a director
Voting	✓	One vote per member (other than a minor) Entitlement to vote by proxy (where vote is by poll)
Dividends	✗	No entitlement to dividends
Redemption	✓	By member on giving notice By QTMB if deposit accounts are dormant[12] or on Board resolution Entitled to repayment of subscription price ($10)
Termination	✓	On redemption, forfeiture or surrender On death, bankruptcy, mental incapacity of member
Transfer	✗	Member shares are not transferable
Participation on winding up	✓	Repayment of subscription price ($10) Equal entitlement to any surplus assets
Participation on demutualisation	✓	Must have been a member for at least one year Entitled to participate in surplus and profits
Quorum for demutualisation	✓	Special resolution (75%) where at least 25% of members vote

Source: QTMB Constitution

[9] na = not available.
[10] nc = not calculated.
[11] FYXX is the financial year end 30 June 20XX.
[12] A deposit account is dormant if the member has not initiated any transactions in relation to the deposit account in the last 12 months.

3.5 Business Operations and Strategy

Business Operations

QTMB provides the following products and services:

- **retail banking** products including loans (home, motor vehicle and personal) and deposit accounts (transactional, savings and investment (cash management and term deposits));
- **financial planning** services through QT Financial Planning. QT Financial Planning has 1,750 clients and $405 million of funds under advice; and
- motor vehicle consultant services (search and price negotiation).

It also has arrangements in place with third parties to provide to its members:

- **foreign currency** products through Western Union Holdings, Inc. and Travelex Limited;
- QTMB **branded credit cards** issued by Citigroup Pty Limited ("Citigroup"). Citigroup's credit criteria apply to any application for a QTMB branded credit card;
- **general insurance** products (home and contents, motor, landlord, boat, caravan and loan protection) and travel insurance products issued by CGU Insurance Limited ("CGU") (part of Insurance Australia Group Limited);
- a **consumer credit insurance** product issued by CGU; and
- **life insurance** products issued by Zurich Australia Limited.

QTMB operates through a distribution network of 14 branches throughout Queensland (10 located in the greater Brisbane area and one in each of Cairns, Townsville, Toowoomba and Southport), a team of four mobile lenders, a contact centre (operating from 8.30am-6.00pm Monday to Friday and 9.00am-2.00pm Saturday) and has an online presence (including internet banking). QTMB members also have access to the rediATM network of over 3,000 ATMs throughout Australia.

QTMB has a history of community support, in particular, commitment to the Queensland education community through its Supporting Communities Program, which includes the Keyway Lifestyle Program, partnerships with education organisations (including the Queensland Teachers' Union and Aspiration for Kids in Sport), sponsorship of annual teacher awards and participation in tradeshows and conferences. It is also active in local schools.

Strategy

In light of declining membership and the continuing low interest rate environment, QTMB changed its strategic direction in FY15 to focus on QTMB's core business of financial services (and improve this business by increasing revenue and generating efficiencies) and refocus on teachers and the education community. Previously, QTMB had attempted to implement a strategy to appeal to a wider market, but this proved to be too challenging.

The key targets of the current three year (FY15 to FY17) strategic plan are to achieve asset growth in excess of system growth, increase penetration of the teacher mortgage market, reduce the cost to income ratio and enhance capabilities (people, processes, products and systems) as well as maintain its BBB+ credit rating.

In FY15, the first year of the strategic plan, QTMB invested significantly in improving its operating model to better serve members, including introducing a mobile lending service, adding pay-and-go technology to Visa debit cards, changing branch and contact centre trading hours and improving online services. It also continued its program of branch refurbishments.

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3.6 Financial Performance

The historical financial performance of QTMB for the four years ended 30 June 2015 is summarised below:

QTMB - Financial Performance ($ millions)				
	Year ended 30 June			
	2012	2013	2014	2015
Net interest income	33.9	33.4	33.6	35.2
Other income	12.3	12.1	12.0	11.9
Net operating income	**46.2**	**45.5**	**45.7**	**47.1**
Operating expenses	(34.9)	(35.4)	(36.5)	(37.8)
Impairment loss	(0.3)	(0.6)	(0.1)	(0.2)
Income tax expense	(3.0)	(2.6)	(2.5)	(2.4)
Underlying profit after income tax expense	**7.9**	**6.9**	**6.6**	**6.7**
Non-recurring items (after tax)	(1.5)	-	(1.1)	-
Non-controlling interests	(0.1)	(0.1)	(0.2)	(0.2)
Reported profit after income tax expense	**6.3**	**6.7**	**5.4**	**6.4**
Statistics				
Net interest margin	*2.84%*	*2.71%*	*2.59%*	*2.55%*
Underlying cost to income ratio	*75.6%*	*77.9%*	*79.9%*	*80.3%*
Impairment loss to loans and advances	*0.03%*	*0.05%*	*0.00%*	*0.02%*
Underlying profit after income tax expense margin	*17.2%*	*15.1%*	*14.6%*	*14.1%*
Underlying return on equity	*7.5%*	*6.1%*	*5.6%*	*5.3%*
Growth in net operating income	*-1.2%*	*-1.6%*	*0.4%*	*3.2%*
Growth in underlying profit after income tax expense	*-10.6%*	*-13.2%*	*-3.4%*	*0.2%*

Source: QTMB Annual Reports and Grant Samuel analysis

The table above shows QTMB's underlying performance, before taking into account non-recurring items. This differs from the presentation of QTMB's financial performance in its annual reports but provides a better indication of QTMB's business performance.

Over the last four years, QTMB has generally reported flat net operating income (with loan growth offset by a declining net interest margin) and declining underlying profit. The uplift in net operating income in FY15 was due to higher net interest income from increased growth in lending and a change in composition of the balance sheet (due to improved liquidity management and favourable movements in the deposit portfolio).

Other income represents approximately 25% of net operating income and has also been declining over the last four years. It is primarily banking and transactional fee income ($4.5 million in FY15), financial planning fees and commissions ($3.8 million in FY15) and insurance commissions ($1.9 million in FY15).

Although QTMB's loan impairment losses are very low, its high, and increasing, cost to income ratio has resulted in a continual decline in underlying profit. Underlying profit was flat in FY15, despite the increase in net operating income, as the cost to income ratio increased to just over 80%.

Non-recurring items were costs associated with launching the *QTMB* brand and investing in technology infrastructure (in FY12) and restructuring costs, including redundancy costs and costs associated with employing a new CEO and other senior executive team members (in FY14).

The decline in underlying profit has resulted in the underlying return on equity falling from 7.5% in FY12 to 5.3% in FY15.

QTMB expects that pressure on its net interest margin will continue as it competes for new loans in a low growth, low interest rate environment.

3.7 Financial Position

The financial position of QTMB as at 30 June 2012 to 2015 is summarised below:

QTMB - Financial Position ($ millions)				
	As at 30 June			
	2012	2013	2014	2015
Cash and financial assets	178.2	202.7	219.6	196.2
Loans and advances	1,004.2	1,049.8	1,094.1	1,178.7
Property, plant and equipment	6.8	5.8	7.1	7.5
Intangible assets	2.3	3.4	3.2	2.7
Other assets	6.1	5.9	5.8	6.1
Total assets	**1,197.6**	**1,267.5**	**1,329.8**	**1,391.1**
Deposits	1,079.7	1,142.4	1,200.1	1,231.8
Borrowings	2.1	2.2	1.2	24.6
Other liabilities	7.0	7.0	6.5	6.4
Total liabilities	**1,088.7**	**1,151.6**	**1,207.9**	**1,262.8**
Net assets	**108.8**	**116.0**	**122.0**	**128.4**
Controlling interest	108.6	115.8	121.7	128.1
Non-controlling interest	0.2	0.2	0.3	0.2
Total equity	**108.8**	**116.0**	**122.0**	**128.4**
Statistics				
Growth in loans and advances	*2.3%*	*4.5%*	*4.2%*	*7.7%*
Growth in total assets	*1.9%*	*5.8%*	*4.9%*	*4.6%*
Growth in deposits	*4.0%*	*5.8%*	*5.1%*	*2.6%*
Loan to deposit ratio	*93.0%*	*91.9%*	*91.2%*	*95.7%*
Growth in net assets	*5.4%*	*6.6%*	*5.1%*	*5.3%*
Capital adequacy ratio	*17.4%*	*18.1%*	*18.5%*	*18.6%*

Source: QTMB Annual Reports and Grant Samuel analysis

As at 30 June 2015, QTMB had total loans and advances of $1.2 billion. Home loans represent over 96% of the total loan portfolio by value. Growth in loans and advances has generally been below Australian banking system growth for housing loans (in the range 4.6-7.3% over the FY12-FY15 period) other than in FY15. FY15 benefited from the revised strategy to refocus on teachers and the education community and a decline in loan repayments.

Retail deposits represent approximately 88% of total funding. In December 2014, as part of a strategy to supplement its existing funding sources (retail deposits and negotiable certificates of deposit) with modest levels of longer term wholesale funding, QTMB raised $20 million of three year floating rate notes by private placement, providing access to diversified tenors and investors and reducing its overall cost of funds. QTMB has a BBB+/A-2 credit rating from Standard & Poor's and an A3 long term issuer and bank deposit rating from Moody's.

The increase in intangible assets in FY13 and property, plant and equipment in FY14 (and to a lesser extent, FY15) reflect QTMB's investment in its banking system and branch network.

Property, plant and equipment includes QTMB's head office which, as at 30 June 2015, had a book value of $3.2 million. QTMB has entered into a contract to sell this property for $25 million, although settlement is not expected to take place until around 31 October 2016.

QTMB is well capitalised with capital adequacy ratios significantly above its internal minimum capital adequacy ratio, which is set at 12%.

4 Profile of RACQ

4.1 Background

RACQ was formed by 18 foundation members in 1905, shortly after the introduction of motor vehicles in Queensland, as an advocate for motorists, representing their interests to all levels of government, industry and the community. Since then, a range of products and services have been developed to protect the interests of members:

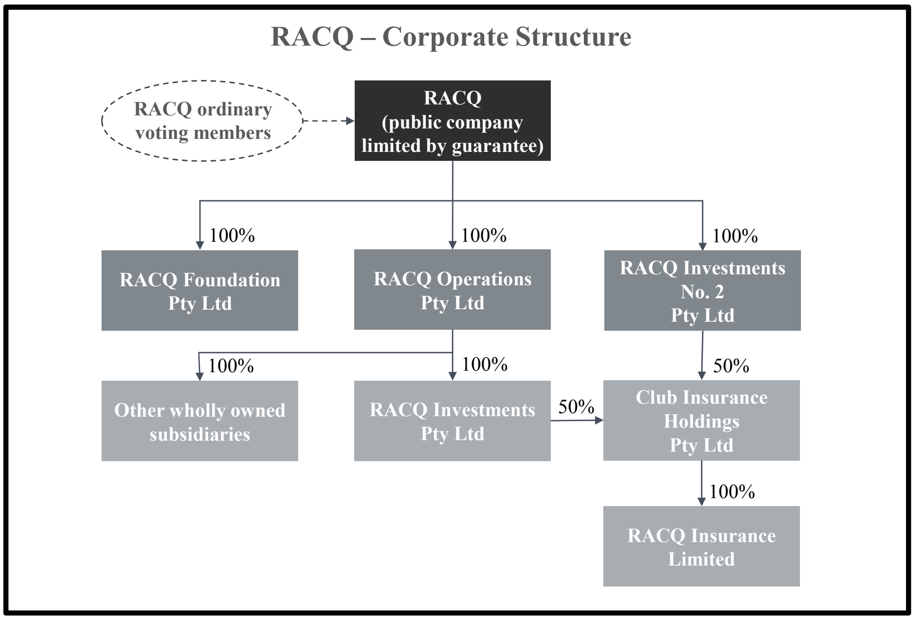
- the commissioning of two mechanics to patrol roads for disabled vehicles in 1925 was the start of RACQ's roadside assistance service;
- travel products and services, such as the provision of maps and road information, were introduced during World War II, initially to assist the armed forces; and
- RACQ Insurance Limited ("RACQ Insurance") was established as a general insurer in 1971. From 1995, it was owned in a 50:50 joint venture with GIO Holdings Pty Ltd ("GIO"). GIO was acquired by AMP Limited in 1999 and then by Suncorp Group Limited ("Suncorp") in 2001. RACQ bought back the 50% interest held by Suncorp in 2010.

RACQ continues to focus on creating products and services that provide benefits to members. Today, RACQ is a well-recognised and respected brand. As well as being the third largest motoring club in Australia, it is Queensland's largest mutual and the largest motor vehicle insurer and second largest home insurer in Queensland, with a strong community focus through its community programs, sponsorships and the RACQ Foundation.

4.2 Structure and Governance

Structure

RACQ's corporate structure is summarised below:



Source: RACQ

18

RACQ is an Australian public company limited by guarantee. It has no share capital or shareholders, but has members who act as guarantors. As guarantors, members provide an undertaking to contribute up to $2 per member in the event that there is a winding up of RACQ.

Each of the companies within the RACQ group is wholly owned (either directly or indirectly). Club Insurance Holdings Pty Ltd and RACQ Insurance are an APRA regulated group.

Governance

RACQ is overseen by a Board consisting of nine non-executive directors. It has four Board committees in place (covering audit, governance and remuneration, investment and risk and compliance) to assist it in carrying out its responsibilities.

Operational management is provided by the RACQ group CEO and a key senior management team with executives responsible for IT, company secretarial, risk, insurance (which has a separate CEO), finance, human resources, operations (which has a separate CEO), advocacy and development.

4.3 Membership and Member Rights

Membership

Historically, the main way to become an RACQ member was to hold an RACQ roadside assistance product. The rate of growth in membership had been declining since 2004, and was negative in the first six months of 2013, consistent with Queensland's ageing population (who no longer drive) and the trend for younger people not to own cars. Membership grew more strongly in FY15 following a relaunch of the Lifestyle product (which also entitled the holder to be a member of RACQ), increasing roadside assistance product sales and higher member retention levels:

RACQ – Membership

	As at 31 December			As at 30 June	
	2011	2012	2013	2014	2015
Membership	1,204,100	1,207,882	1,200,703	1,205,478	1,215,541
Growth in membership	*0.5%*	*0.3%*	*-0.6%*[13]	*0.4%*	*0.8%*

Source: RACQ

The joining fee (paid when roadside assistance was taken out for the first time) was removed from July 2015 for all new members.

From December 2015, RACQ altered its membership structure so that the holder of any eligible product was eligible to become a member. Eligible products include RACQ Roadside Assistance (excluding Fleet), RACQ Insurance (excluding travel insurance and CTP insurance), RACQ Home Assistance, RACQ Personal Loans and Lifestyle[14]. This change resulted in new members who RACQ had previously only had a customer relationship with (primarily insurance customers) and is expected to generate greater growth in membership.

A person can only have one membership of RACQ (regardless of the number of products held).

As at 31 March 2016, RACQ had 1,595,025 members under its new structure (excluding approximately 100,000 relationships with participants in the "free2go" program). RACQ expects membership to grow at more than Queensland population growth of around 2% in FY17.

13 Growth rate is for the six months ended 30 June 2013.

14 Refer to Section 4.4 for descriptions of these products.

Member Rights

RACQ has a number of different types of members, ordinary voting members, ordinary non-voting members, honorary members and honorary life members. The rights and obligations of ordinary voting members are summarised below:

RACQ – Ordinary Voting Member Rights and Obligations

Right/Obligation		Comment
General	✓	Right to receive notice of and attend general meetings At least 30 members together have the right to nominate a director
Voting	✓	One vote per member (provided a member for at least three months) Entitled to vote by proxy (where vote is by poll) Ability to vote by direct vote (where Board determines that direct voting is to apply and where vote is by poll) Members only entitled to vote for directors representing their zone. Valid vote for a director requires at least 5% of members in the relevant zone vote[15]
Dividends	✗	No entitlement to dividends
Redemption	na	No application or membership fees charged
Termination	✓	Cease to be a member if no longer meet qualification requirements (i.e. hold one or more eligible products), resign, die or Board terminates membership
Transfer	✗	Membership is not transferable (unless agreed to by RACQ in writing)
Participation on winding up	✗	Contribution of up to $2 per member[16] No entitlement to any surplus Any surplus on winding up must be given to another entity with similar objects to RACQ and whose constitution prohibits the distribution of its income and property among its members.
Participation on demutualisation	✓	Treatment of members will depend on terms of the proposal e.g. different values may be placed on memberships depending on products held and tenure of membership
Quorum for demutualisation	✓	Special resolution (75%) where at least 15% of members vote

Source: RACQ Constitution

As at 31 March 2016, RACQ had 1,587,256 ordinary voting members, comprising 1,561,469 personal members and 25,787 business members. In comparison to ordinary voting members:

- ordinary non-voting members are entitled to receive notice of, and attend, general meetings but are not entitled to vote or call a general meeting. As at 31 March 2016, RACQ had 1,834 ordinary non-voting members;
- honorary members are not entitled to receive notice of, attend or vote at any general meeting. Honorary membership is granted for a period of 12 months. As at 31 March 2016, RACQ had 5,910 honorary members; and
- honorary life members have the same rights as ordinary voting member but are not required to pay any application or membership fees. As at 31 March 2016, RACQ had 25 honorary life members.

15 Directors of RACQ represent zones. The RACQ Board comprises one director from each of the Central, North, Far North and South West zones and five directors from the South East zone. A director must be a member and must reside in the relevant zone.

16 Member liability applies if RACQ is wound up while a person is a member or within one year after the person ceases to be a member.

4.4 Business Operations and Strategy

Business Operations

RACQ exists to provide services and benefits to its members. Its key measure of success is the level of member satisfaction, which is consistently above 90% on average across most key areas.

RACQ's key products are

- **roadside assistance**, provided to motor vehicle owners through a network of 750 rescue vehicles across Queensland and Australia-wide through affiliated networks. Free or discounted roadside assistance is provided to 16-19 year olds through RACQ's free2go program; and
- **insurance** cover for home and contents, motor vehicles, boats, caravans and pets as well as compulsory third party ("CTP") insurance. RACQ has 17% of the Queensland CTP market. Holders of RACQ CTP insurance who are also personal members are entitled to a $10 rebate on roadside assistance fees. RACQ also distributes life and income protection insurance (issued by AIA Australia Limited) and travel insurance (issued by Great Lakes Australia, part of the Munich Re group).

RACQ also offers travel services through 13 travel agencies throughout Queensland.

More recent products offered by RACQ include:

- **Lifestyle**, relaunched in FY15 for those that do not need roadside assistance or insurance products. Lifestyle costs $26 per year and provides access to membership benefits (refer below for details); and
- **Home Assistance**, introduced in FY16 to provide access to qualified tradespeople and a repair service for a range of household emergencies.

RACQ offers **personal loans** provided by R.A.C.V. Finance Ltd ("RACV Finance"). These personal loans are subject to RACV Finance lending criteria. RACQ operates as an authorised representative of RACV Finance.

Personal members[17] are entitled to the following membership benefits:

- the ability to earn loyalty tenure, entitling members with more than five years membership to discounts on roadside assistance fees and members who hold a roadside assistance product to discounts on motor vehicle and home insurance premiums based on the number of years of continuous membership; and
- other savings and discounts, including discounts at 1,200 partner locations across Australia and more than 150,000 participating partner locations worldwide through the "Show Your Card & Save" program, discounted movie, theme park and other entertainment event tickets, dining rewards, discounted accommodation at selected locations and free and discounted maps and guides. Members are also entitled to discounts on a number of RACQ provided products including vehicle inspections, windscreen repairs and replacements, car batteries and car electrics.

RACQ also provides members with access to a car brokerage service, a network of approved automotive repairers, technical motor vehicle advice, road condition reports, fair fuel price reports, fact sheets on motoring related topics and "The Road Ahead" bi-monthly magazine. Other travel related services include an online trip planner, Aussie Assist (24 hour travel assistance in Australia) and International Referral Assistance (which assists in finding interpreters and medical facilities overseas).

[17] Personal members are holders of any of the products above except holders of only CTP insurance or travel insurance. Personal members also excludes business members.

In addition to these products and services, RACQ continues its advocacy role on behalf of Queenslanders and is heavily involved in the Queensland community through:

- community programs such as Streets Ahead (aimed at developing road awareness in primary school children), Learn2go (an online education resource for learner drivers) and Years Ahead (a free program helping older motorists become more aware of their capabilities);
- sponsorship of:
  - road safety programs (e.g. Queensland Road Safety Awards);
  - driver education programs (e.g. the Prevent Alcohol and Risk-related Trauma in Youth (P.A.R.T.Y.) Program run by the Royal Brisbane and Women's Hospital which aims to educate senior school students to make safer choices on Queensland roads);
  - RACQ members and communities (e.g. naming rights and sponsorship of all four of Queensland's community helicopter rescue services and presenting partner of The Royal Queensland Show for three years commencing in 2016); and
  - sustainable environment events (e.g. the 24 hour endurance cycle race and the RACQ Technology Challenge Maryborough); and
- the RACQ Foundation, which provides funding for community groups affected by natural disasters throughout Queensland. The RACQ Foundation was established following a number of natural disasters in Queensland in 2011 and, since its inception, has distributed over $7 million to over 160 organisations throughout Queensland.

RACQ operates through 98 retail outlets (branches and independent agents) throughout Queensland (with 14 in the greater Brisbane area), a mobile member centre and 24/7 contact centres as well as having a substantial online and digital capability, including interactive websites and mobile applications.

Strategy

RACQ's long term strategy is to become a multi-dimensional membership organisation, offering Queenslanders multiple reasons for joining and multiple ways to benefit from being an RACQ member. As part of this strategy, it aims to develop a banking "pillar" to sit alongside its existing core pillars of roadside assistance and insurance. Over the next five years, this strategy involves:

- strengthening the existing roadside assistance and insurance businesses by investing in creating additional member benefits to differentiate what are becoming commoditised products in mature markets;
- creating new pathways to membership, which has partially been achieved by the change to RACQ's membership structure in December 2015 and will be enhanced by the addition of a banking pillar;
- diversifying into new revenue streams, both within and outside its existing core businesses though:
  - increasing products per member across the existing member base, including through the introduction of new banking pillar products; and
  - penetrating new markets where RACQ has no current engagement; and
- becoming more efficient and effective to enable RACQ to remain competitive and improve the member experience, including through investment in new technologies, applications and systems.

4.5 Financial Performance

Review of RACQ's recent historical performance is complicated by the change to its year end from 31 December to 30 June in 2013. The historical financial performance of RACQ for the two years ended 31 December 2012, the six months ended 30 June 2013 and the two years ended 30 June 2015 is summarised below:

RACQ - Financial Performance ($ millions)					
	Year ended 31 December		Six months ended 30 June 2013	Year ended 30 June	
	2011	2012		2014	2015
Net premium revenue[18]	522.8	557.0	294.4	616.8	627.7
Member revenue	147.4	156.1	80.0	161.4	166.5
Investment income	87.6	69.8	21.4	56.0	57.9
Other income	9.6	11.7	7.4	16.5	19.2
Underlying net income	**767.4**	**794.6**	**403.2**	**850.7**	**871.3**
Net claims incurred[19]	(357.3)	(390.4)	(182.8)	(370.9)	(410.6)
Operating expenses	(289.7)	(292.8)	(154.1)	(311.3)	(339.5)
Underlying EBITDA	**120.4**	**111.4**	**66.3**	**168.5**	**121.2**
Depreciation and amortisation	(30.9)	(29.7)	(20.0)	(51.0)	(51.2)
Other expenses[20]	(2.0)	(1.7)	-	-	(0.1)
Income tax expense	(18.3)	(6.8)	(10.3)	(27.3)	(19.8)
Underlying surplus	**69.2**	**73.3**	**36.0**	**90.2**	**50.2**
Non-recurring items (after tax)	-	2.4	-	-	-
Reported surplus	**69.2**	**75.7**	**36.0**	**90.2**	**50.2**
Insurance surplus	61.7	56.1	26.6	71.1	42.9
Contribution to total underlying surplus	*89%*	*77%*	*74%*	*79%*	*85%*
Statistics					
Operating expense ratio	*37.7%*	*36.8%*	*38.2%*	*36.6%*	*39.0%*
Underlying EBITDA margin	*11.1%*	*12.6%*	*12.4%*	*16.9%*	*10.9%*
Underlying surplus margin	*6.4%*	*8.3%*	*6.8%*	*9.1%*	*4.5%*
Underlying return on equity	*8.4%*	*8.1%*	*nc*	*8.8%*	*4.6%*

Source: RACQ Annual Reports, RACQ Insurance Financial Condition Report and Grant Samuel analysis

The table above shows RACQ's underlying performance, before taking into account non-recurring items. The non-recurring item in 2012 was profit on the sale of investment properties.

To ensure sustainability, RACQ aims to deliver financial results that balance the value provided to members and the community with the need to support growth and ensure ongoing relevance for future generations. In FY15, RACQ returned more than $100 million of value to members in the form of direct savings and benefits, including $66 million in insurance premium discounts.

RACQ's financial performance over the last 4½ years has been consistently strong, despite increasing competition, with the key drivers being:

- the majority of the annual surplus (75-85%) is generated by the insurance business;
- the variability in performance year to year is primarily due to long tail CTP liabilities. In FY15, CTP represented 26% of gross written premium but approximately 90% of outstanding claims liability. In FY14 and FY15, RACQ's financial performance benefited from releases from CTP reserves as a result of a continued decline in claim frequency and the low inflation environment; and

[18] Net premium revenue is insurance premium revenue less outwards reinsurance premium expense.

[19] Net claims incurred is claims expense less reinsurance and other recoveries revenue.

[20] Other expenses are finance expenses in 2011 and 2012 and share of loss from associates in FY15.

- the impact of the low interest rate environment on investment income (as the majority of investments are in fixed interest securities).

Performance in FY14 benefited from dry weather conditions that resulted in reduced roadside incidents and lower insurance claims. In contrast, performance in FY15 was negatively impacted by increased frequency and severity of weather-related insurance losses (three weather related events, a cyclone, a hailstorm and flash flooding combined to make FY15 a record year for insurance claims for RACQ Insurance).

In January 2013, RACQ launched a new information technology ("IT") platform, the Group Enterprise System ("GES"), which had been developed over the 2011-2012 period to provide RACQ with a fully self-contained underwriting, pricing and billing capability for the insurance business, integrated with its membership management applications. The GES was one of RACQ's largest IT projects at cost in excess of $100 million. As a result of this investment, amortisation increased significantly in subsequent reporting periods. RACQ has continued to invest in replacing and upgrading its technology platforms, spending $65 million in FY15 (including a material upgrade of its digital distribution platform) and expects to spend $7 million per year in FY16 and FY17 on technology refresh.

In FY16, RACQ expects to report lower profitability due to the insurance business being impacted by an increase in frequency of large CTP claims and the financial collapse of RACQ's key household claims loss adjusting and rectification outsourced partner, Stream Group Aust. Pty Ltd. These two factors are expected to have a negative impact on FY16 EBITDA, although the underlying trading performance is in line with RACQ's FY16 budget.

4.6 Financial Position

The financial position of RACQ as at 31 December 2011 and 2012 and as at 30 June 2013 to 2015 is summarised below:

RACQ - Financial Position ($ millions)

	As at 31 December		As at 30 June		
	2011	2012	2013	2014	2015
Cash and investments	1,255.4	1,334.2	1,380.3	1,537.4	1,526.6
Reinsurance and other recoveries receivable	215.3	156.4	189.1	170.0	207.3
Deferred acquisition costs	62.5	67.4	33.5	33.8	37.4
Property, plant and equipment	130.1	80.2	78.3	76.7	147.1
Intangible assets	303.4	391.1	383.5	351.8	347.2
Other assets	148.1	164.2	177.2	185.4	212.5
Total assets	**2,114.8**	**2,193.4**	**2,242.0**	**2,355.0**	**2,478.1**
Unearned revenue	364.3	394.2	399.4	410.0	411.7
Outstanding claims liability	799.5	769.5	789.6	793.5	850.1
Other liabilities	89.9	91.1	76.0	81.4	94.9
Total liabilities	**1,253.8**	**1,254.8**	**1,264.9**	**1,284.9**	**1,356.7**
Net assets	**861.0**	**938.6**	**977.1**	**1,070.1**	**1,121.4**
Statistics					
Growth in total assets	*+9.8%*	*+3.7%*	*+2.2%*[21]	*+5.0%*	*+5.2%*
Growth in net assets	*+8.7%*	*+9.0%*	*+4.1%*[21]	*+9.5%*	*+4.8%*
Growth in net tangible assets	*+17.1%*	*-1.8%*	*+8.4%*[21]	*+21.0%*	*+7.8%*
Insurance prescribed capital amount multiple[22]	*2.14x*	*2.29x*	*2.25x*	*2.13x*	*2.18x*

Source: RACQ Annual Reports and Grant Samuel analysis

[21] Growth rate is for the six months ended 30 June 2013.

[22] Referred to as a capital adequacy multiple as at 31 December 2011 and 2012.

RACQ is a strong, well-capitalised business, with net assets in excess of $1.1 billion. It has consistently generated growth in net assets, although the rate of growth declined from around 9% each year to around 5% in FY15, primarily due to an increase in the outstanding claims liability (offset in part by an increase in reinsurance and other recoveries receivable).

The increase in property plant and equipment in FY15 represents the $64.4 million acquisition of 60 Edward Street, Brisbane. RACQ occupies part of this property and rents out the remainder of the building. Intangible assets initially arose from the acquisition of the 50% interest in RACQ Insurance from Suncorp in 2010 and increased in FY12 with the addition of capitalised costs associated with the GES.

RACQ Insurance has a strong capital position with conservative reinsurance and provisioning arrangements compared to industry standards. It has a capital target of 2.0 times the prescribed capital amount ("PCA") and a trading minimum of 1.75 times the PCA, which is the capital injection trigger point. If the PCA multiple exceeds 2.15 times, the PCA management will consider paying a dividend to bring the PCA back within the target range.

In addition to maintaining required regulatory reserves for its insurance business, the RACQ capital management plan includes amounts set aside within member reserves for:

- a prudential reserve, which is a financial buffer for the group, the majority of which is allocated to the insurance business;
- a strategic fund to provide capital for strategic investments and initiatives; and
- a generational capital replacement fund to ensure the maintenance of the group's infrastructure (IT and property).

As at 30 June 2015, member reserves were $410 million, which was in excess of RACQ's target level of member reserves.

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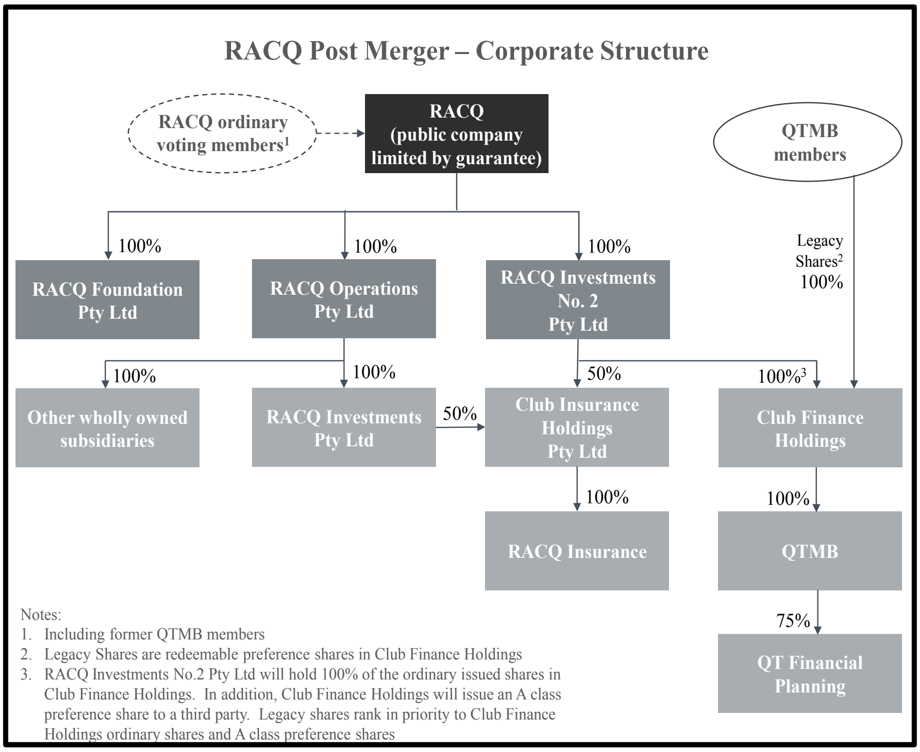
5 Impact of the Merger

5.1 Structure and Governance

Structure

The corporate structure of RACQ if the Merger is implemented is set out below:



Source: RACQ, Disclosure Documents

If the Merger is implemented:

- QTMB will become a wholly owned subsidiary of Club Finance Holdings, which in turn will be a subsidiary of RACQ. Club Finance Holdings is the bank non-operating holding company for the RACQ group;
- QTMB members will hold Legacy Shares (redeemable preference shares in Club Finance Holdings); and
- QTMB members will become RACQ ordinary voting members as a consequence of RACQ's by-laws being amended to include QTMB's banking products as eligible RACQ products.

QTMB members will no longer have a direct interest in QTMB in the form of QTMB member shares but will have an indirect "interest" in QTMB through being an ordinary voting member of RACQ (along with all other ordinary voting members of RACQ). However, as RACQ is a company limited by guarantee with no share capital, RACQ members do not hold member shares.

Governance

There will be no change to the RACQ Board, committees or governance as a result of the Merger.

QTMB's parent company, Club Finance Holdings, will have a Board of six directors appointed by RACQ.

The QTMB Board will initially comprise the current directors of QTMB plus up to three RACQ directors, including the RACQ group CEO. The current chairman of QTMB will remain as chairman of QTMB. The RACQ Board will maintain a governance oversight over QTMB and will appoint directors to QTMB's Board.

5.2 Membership and Member Rights

Membership

Approximately 47% of QTMB members are existing members of RACQ. As a result, if the Merger is implemented, the total number of RACQ ordinary voting members will increase to more than 1.6 million, or one third of Queensland's population.

Member Rights

The rights and obligations of RACQ ordinary voting members are set out in Section 4.3 of this report. In addition to their rights and obligations as RACQ ordinary voting members, QTMB members will be issued with Legacy Shares. The rights and obligations of Legacy Shares are summarised in Section 1 of this report. The combined rights of QTMB members as RACQ ordinary voting members and holders of Legacy Shares are summarised below:

RACQ Ordinary Voting Member and Legacy Shareholder Rights and Obligations				
Right/Obligation		**RACQ Member**		**Legacy Shareholder**
General	✓	Right to receive notice of and attend general meetings At least 30 members together have the right to nominate a director	✗	No right to receive notice of and attend meetings or to receive accounts and reports No right to nominate director
Voting	✓	One vote per member (provided a member for at least three months) Entitled to vote by proxy Ability to vote by direct vote Members only entitled to vote for directors representing their zone. Valid vote for a director requires at least 5% of members in the relevant zone vote	✗	No entitlement to vote other than on a proposal that affects the rights or privileges attaching to shares, on a resolution to approve the buy-back of shares or during the wind up of Club Finance Holdings (until the Preserved Surplus Amount is paid or the shares are otherwise redeemed)
Dividends	✗	No entitlement to dividends	✗	No entitlement to dividends
Redemption	na	No application or membership fees charged	✓	Company may redeem for $10 per share if holder has not held a banking or finance product in the previous three months or if Preserved Surplus Amount has been paid Must be redeemed within three months after seventh anniversary of issue date
Termination	✓	Cease to be a member if no longer meet qualification requirements, resign, die or Board terminates membership	✓	On redemption

RACQ Ordinary Voting Member and Legacy Shareholder Rights and Obligations				
Right/Obligation		**RACQ Member**		**Legacy Shareholder**
Transfer	✗	Membership is not transferable	✗	Shares are not transferable
Participation on winding up	✗	Contribution of up to $2 per member No entitlement to any surplus on winding up of RACQ	✓	***Within seven years of Scheme implementation***, preferred right to Preserved Surplus Amount on winding up of QTMB or Club Finance Holdings
Participation on demutualisation of RACQ	✓	Treatment of members will depend on terms of the proposal e.g. different values may be placed on memberships depending on products held and tenure of membership	✓	***Within seven years of Scheme implementation***, preferred right to Preserved Surplus Amount
Quorum for demutualisation	✓	Special resolution (75%) where at least 15% of members vote	na	
Other participation rights	✗	No other participation rights	✓	***Within seven years of Scheme implementation***, preferred right to Preserved Surplus Amount on sale of QTMB or insolvency of QTMB or Club Finance Holdings

Source: RACQ Constitution, Disclosure Documents

The Preserved Surplus Amount will be calculated as the equity attributable to QTMB members as at 30 June 2016 divided by the number of issued QTMB shares on the Scheme implementation date. Based on the equity attributable to QTMB members of $128.1 million as at 30 June 2015 and 68,689 issued QTMB shares as at 30 June 2015, the Preserved Surplus Amount would have been $1,865 per QTMB member. Equity per QTMB member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but QTMB expects that it will increase in line with expected increases in eligible regulatory capital and the capital adequacy ratio over the 12 month period.

5.3 Business Operations and Strategy

Business Operations

The Merger will enable RACQ to expand the products and services provided to members to include banking products and services. RACQ will continue to offer its existing suite of products and services (set out in Section 4.4 of this report) as well as offer (at least initially), the banking products and services currently provided by QTMB (set out in Section 3.5 of this report). The member offering is summarised in the following chart:

RACQ Post Merger – Business Operations

Assistance	Insurance	Banking
▪ roadside assistance ▪ home assistance	▪ home and contents ▪ motor vehicle ▪ caravan/boat ▪ pet ▪ CTP ▪ life and income protection ▪ travel	▪ transaction and savings accounts ▪ term deposits ▪ home loans ▪ motor vehicle loans ▪ personal loans ▪ credit cards ▪ foreign currency

Membership Benefits

Community Involvement

The Merger will create a member focused Queensland bank with the brand and financial strength of RACQ and the member focused banking experience of QTMB.

If the Merger is implemented:

- there will be no change to the banking arrangements and products of existing QTMB members immediately following the Merger (unless requested by the QTMB member, in response to changes in the official interest rate set by the RBA or in line with the loan agreement the QTMB member has in place with QTMB) although it is expected that the member experience will, in time, be enhanced through an expanded product offering (including an integrated credit card offering), investment in technology and new digital capabilities and access to improved distribution, including additional branches and a 24/7 contact centre;
- RACQ Insurance will seek to replace CGU as the provider of general insurance products to QTMB members following a transition date to be agreed between QTMB and RACQ. From this time, RACQ Insurance would issue new and renewal policies to QTMB members based on RACQ Insurance's assessment of the underwriting risk of the policies on an individual basis. For non-general insurance products (such as consumer credit insurance), QTMB and RACQ currently intend to extend the existing arrangements with CGU;
- as RACQ members, QTMB members will be entitled to membership benefits such as savings and discounts through the "Show Your Card & Save" program, discounted movie and theme park tickets and dining rewards; and
- QTMB members will have their years of tenure recognised in equivalent RACQ loyalty years (or will have their loyalty years increased if they are already an RACQ member but with longer tenure as a QTMB member), entitling them to loyalty benefits such as discounts on a number of RACQ products, including roadside assistance fees and, if they hold a roadside assistance product, motor vehicle and home and contents insurance premiums.

RACQ will also continue its advocacy role and its community involvement through community programs, sponsorships and the RACQ Foundation. RACQ's community involvement includes a significant contribution to the education sector through, for example, the Streets Ahead program and sponsorship of the P.A.R.T.Y. Program.

Strategy

RACQ's strategy is set out in Section 4.4 of this report. The Merger is consistent with RACQ's long term strategy to become a multi-dimensional membership organisation. If the Merger is implemented, a banking "pillar" will be added to RACQ's product and service offering, meeting its strategic objectives to:

- create new pathways to membership; and
- diversify into new revenue streams through penetrating new markets and increasing products per member across the existing member base.

The ability to offer banking products and services will give RACQ more touchpoints with its members and is expected to increase the relevance of RACQ to members, result in greater member engagement and assist in member retention.

The Merger is the first step towards potentially developing a national mutual banking operation. The initial focus will be to grow the banking business organically by offering a competitive suite of banking products and services to 1.5 million Queensland-based RACQ members.

Over the longer term RACQ believes there is the potential for inorganic growth through:

- merging with other mutual ADIs; and
- providing banking products and services to other like-minded mutual organisations,

to provide a genuine competitor to the major banks in the Australian banking sector.

5.4 Financial Impact

Impact on financial performance

If the Merger is implemented, it is expected that cost synergies will be realised in the medium term through the merging of various back office and supporting services across the RACQ group.

In addition, QTMB will retain its surplus[23] (including the benefit of any cost savings and direct financial support) for three years following implementation of the Merger for reinvestment in QTMB and RACQ intends to provide additional capital to QTMB to fund its growth and to develop a stronger digital offering, including new mobile applications, greater internet banking capability and enhanced online origination platforms (across lending, deposits and members).

RACQ is committed to delivering benefits to its members. As a mutual, RACQ's financial objective is to make a sufficient surplus at a group level to ensure its ongoing sustainability and to fund future growth, while returning any potential surplus over and above these amounts to members through product and service benefits.

Impact on financial position

If the Merger is implemented, RACQ is expected to have total assets of approximately $3.9 billion and net assets of approximately $1.2 billion. RACQ will ensure that QTMB maintains its regulatory capital adequacy within appropriate ranges.

[23] In excess of reserves and profits required to meet prudential capital requirements.

6 Evaluation of the Merger

6.1 Summary and Conclusions

QTMB is facing a challenging external environment. Market conditions are extremely competitive, driven by the significant number of new entrants to the market and an extended period of low loan growth and low interest rates. The consequent challenges for smaller mutual ADIs, such as QTMB, are exacerbated by increasing regulation and the requirement to make ongoing investments in technology and innovation to keep up with the digital transformation of the banking sector.

While QTMB's banking business is sustainable in the medium term, it will face increasing pressures on a stand-alone basis. In particular, QTMB's lack of scale and limited resources restricts its ability to invest in providing a relevant and competitive range of products and services to its members, including a digital distribution channel.

The QTMB Board has recognised the position of the business and has, in recent years, considered a number of strategic initiatives to address its lack of scale, including merging with another mutual ADI. Prior to the approach from RACQ in early 2016, the Board had formal or informal discussions with a number of parties. These discussions progressed to varying degrees, but for various reasons did not culminate in a proposal capable of being put to QTMB members.

The Merger with RACQ is a compelling proposition. QTMB will become an integral part of a stronger, larger and more diversified financial services business. The Merger will provide QTMB with resources, in the form of capital and experienced staff, to improve its banking proposition to existing members and to attract new members (particularly younger members). The strength of the *RACQ* brand throughout Queensland, combined with the ability to offer banking products to 1.5 million RACQ members, provides a unique opportunity to significantly grow the banking business, create the scale required to operate more efficiently and generate surpluses that can be reinvested for the benefit of members. The Merger may also provide opportunities for future inorganic growth through the potential for further mergers with other mutual ADIs and, possibly, through the marketing of banking products and services to other like-minded mutual organisations throughout Australia. Importantly, as RACQ has no existing banking operations, there will be minimal organisational issues in terms of the impact on staff, management and the Board. The Merger will also continue QTMB's long history of community support to the education sector.

The Merger has benefits for QTMB members both as banking customers and as members of RACQ. Immediately following the Merger, there will be no change to the banking arrangements and products of existing QTMB members. The Merger will enable QTMB to maintain competitively priced products for members and, as scale increases, to be more competitive on pricing. Over time, QTMB members will benefit from an improved suite of banking products, including an integrated credit card offering. Services will also be enhanced, with longer contact centre opening hours, access to a more extensive branch network and a stronger digital offering. As members of RACQ, QTMB members will be customers of a more robust banking business while remaining members of a Queensland-based mutual committed to community involvement and service to members. QTMB members will receive recognition of their QTMB years of tenure in equivalent RACQ loyalty years (entitling them to discounted rates on roadside assistance and home and motor vehicle insurance) and for those who are not already RACQ members, access to savings and discounts on a wide range of products and services.

There are disadvantages and risks, although most have mitigating factors. By voting in favour of the Merger, QTMB members will forego the opportunity to benefit from an alternative proposal, such as a demutualisation (accompanied by a sale of the company to a third party or a sharemarket listing) or a voluntary winding up, that could crystallise value for QTMB members. However, a demutualisation would only be possible if the QTMB Board was to make the decision to put a demutualisation or similar transaction to QTMB members for their approval. Given the views of the QTMB Board on the benefits of the mutual structure, this appears unlikely. In any event, a demutualisation of QTMB is unlikely to deliver as significant a value to members on an individual basis as the most recent demutualisation of a mutual ADI (Your Credit Union). If QTMB members wanted QTMB to be wound up as an alternative to the Merger, they have had ample opportunity since announcement of the Merger to communicate this to the QTMB Board and this has not been the case. There will also be changes to the rights of members, particularly the right to participate in QTMB's reserves on a winding up or demutualisation. In reality, the entitlement to participate in QTMB's reserves is a contingent right (i.e. it is only of value in the event that QTMB is wound up or demutualises, both of which are considered unlikely). In any event, to the extent that these changes are considered a disadvantage, the Legacy Shares issued to QTMB members will preserve these rights for a period of seven years following the Merger.

The main risks of the Merger are implementation risks. There will be integration risks, although the risk will be lower than in a merger with another ADI as there will be no requirement to integrate banking platforms. While the development and launch of a new digital platform will involve execution risk, the risk will be less than if QTMB was to undertake the project as a stand-alone entity and will benefit from access to an RACQ management team experienced in delivering technology projects.

The Merger is mutually beneficial for QTMB and RACQ. QTMB requires scale and capital to remain relevant and competitive, and adding a banking "pillar" to its business is strategically important for RACQ. This bodes well for the Merger as both parties will be committed to ensuring its success. By acting now, QTMB is also able to have some influence over its future (at the very least through merging with a partner of its choice). As a stand-alone entity, QTMB's ability to influence its future is likely to diminish over time given its position and current market conditions.

In Grant Samuel's opinion, the advantages of the Merger outweigh the disadvantages and QTMB members are likely to be better off if the Merger proceeds. Accordingly, in the absence of a superior proposal:

- the Merger is in the best interests of QTMB members; and
- the benefits being provided to QTMB members are reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. As QTMB members are effectively swapping an interest in one mutual for an interest in another mutual rather than exchanging their interest for cash and/or marketable securities in the acquiring entity, it is not possible to value a membership interest in either QTMB or RACQ and therefore it is not relevant or meaningful to provide an opinion on whether the benefits being provided to members are "fair".

6.2 Background

The Australian banking sector is dominated by the major banks, which have an estimated 80% market share. As at 31 December 2015, there were 90 mutual ADIs (including mutual banks, credit unions and building societies), which collectively had a market share of around 3%.

Market conditions are extremely competitive, driven by the significant number of new entrants to the market and an extended period of low loan growth and low interest rates, which has put pressure on net interest margins and cost to income ratios. The consequent challenges for smaller ADIs, such as QTMB, are exacerbated by increasing regulation and its impact on lending growth, capital requirements and compliance costs and the requirement to make ongoing investments in technology and innovation to keep up with the digital transformation of the banking sector.

In addition to a challenging external environment, mutual ADIs, including QTMB, are dealing with a declining and ageing member base, a high cost base (reflecting their sub-scale operations) and deteriorating profitability. As a result, it is increasingly difficult for mutual ADIs to provide a relevant proposition to members. While members of mutual ADIs consistently report high levels of member satisfaction, indicating that there is a role for mutual ADIs in the Australian banking sector, scale is critical for mutual ADIs to remain relevant and competitive over the long term.

QTMB's banking business should be sustainable at least for the medium term, largely because it has accumulated considerable surplus capital over the past 50 years. However, it is facing increasing challenges and pressures on a stand-alone basis. In particular, QTMB's lack of scale has meant that it has been difficult to justify the significant capital expenditure required to develop acceptable digital capabilities. QTMB has not been able to develop the digital distribution channels that are particularly relevant for, and necessary to attract, younger members. QTMB's lack of scale has also limited its ability to provide essential banking services such as credit cards. While QTMB does provide a QTMB branded credit card, the card is issued by Citigroup and is not integrated with QTMB's other banking products and services. Limitations in QTMB's digital capabilities and product suite make it more difficult to attract new customers, reinforcing its low growth dynamic and the high cost base consequence of its modest scale.

The QTMB Board has recognised that the status quo is not sustainable in the long term. It is clear that QTMB needs to increase its size and profitability so that it can generate the funds required to invest in enhancing its capabilities to enable it to maintain a relevant member proposition.

In recent years, the QTMB Board has considered a number of strategic initiatives to address QTMB's lack of scale. The underlying premise in considering these initiatives has been the QTMB Board's view that maintaining a member ownership structure for QTMB, aligned to the principles of mutuality, is in the best interests of QTMB members. QTMB has had formal or informal discussions with other mutual ADIs that could potentially have been suitable merger partners. For various reasons, these discussions have not culminated in a proposal capable of being put to QTMB members.

The approach from RACQ in early 2016 provided a new option for QTMB, which had not previously considered merging with a mutual that did not have a banking business.

Prior to entering into the MIA, the QTMB Board considered QTMB's market and competitive position as a stand-alone business and the potential alternatives and undertook a due diligence process on RACQ. Based on this process, the Board decided unanimously to recommend the Merger to QTMB members.

6.3 Advantages and Benefits of the Merger

The advantages and benefits of the Merger for QTMB and for QTMB members (both as banking customers and as members of RACQ) are set out below.

6.3.1 Impact on QTMB

While QTMB is performing satisfactorily, its size restricts its ability to invest in the products, services and new technologies required to provide a relevant bank offering to QTMB members and to attract new members.

The Merger will provide QTMB with access to RACQ's scale, brand and resources, which will provide an opportunity to significantly grow the banking business, both organically and inorganically, and to better meet the needs of members. The advantages and benefits of the Merger for QTMB's banking business are discussed in more detail below.

(i) Scale

The Merger will secure a sustainable long term future for QTMB. If the Merger is implemented, QTMB will become part of a stronger, larger and more diversified financial services institution that is more capable of competing in the current market and more resilient to future strategic risks than QTMB as a stand-alone entity.

RACQ's scale will provide a strong organic growth opportunity for QTMB. QTMB will be able to offer banking products and services to 1.5 million RACQ members. RACQ market research has indicated that approximately 35-40% of RACQ members would consider buying, and approximately 2% would definitely buy, a core bank product from RACQ. Penetration of only 5% of RACQ's membership base would more than double QTMB's customer base. By way of comparison, RACQ currently provides insurance products to 43% of its member base following the introduction of insurance products in 1971.

While the Merger is about growth rather than synergies, RACQ does expect, through its scale, to be able to generate cost savings in back office and supporting services in the medium term. These savings will be able to be reinvested for the benefit of all members. Although these savings may not be significant to RACQ, they would be likely to be material for QTMB.

(ii) Brand

The *RACQ* brand is widely recognised and trusted throughout Queensland. It has a long history of sponsorships, advocacy and community support as well as naming rights for Queensland's community helicopter rescue services and, for three years commencing in 2016, will be the presenting partner of the Royal Queensland Show. This exposure results in a very high level of brand awareness for RACQ and its services. The *RACQ* brand is also synonymous with the mutual model, operating for the benefit of members.

The strength of the *RACQ* brand will provide QTMB with growth opportunities through:

- RACQ's continuing support for the mutual model and its commitment to members;
- a significantly stronger brand presence, both geographically (throughout Queensland) and demographically (across all of the population rather than focusing on the education sector), which should improve member retention and encourage new members; and
- the ability to leverage RACQ's marketing and promotional activities. RACQ has an annual marketing budget of $25-30 million compared to QTMB's annual marketing budget of $1.6 million.

(iii) Resources

The Merger will provide QTMB with access to the resources necessary to build new capabilities to improve the proposition to existing members and attract new members (particularly younger demographics). These resources include:

- capital/financial resources. As part of the Merger, RACQ intends to provide additional capital to QTMB to enable QTMB to execute its agreed growth strategy and to improve its products and its digital capability. RACQ had member reserves of $410 million as at 30 June 2015 (in addition to RACQ Insurance's net assets), a portion of which has been set aside for a strategic fund to provide capital for strategic investments and initiatives; and
- experienced staff. RACQ has over 200 IT staff and significant experience in technology projects. QTMB will be able to leverage RACQ's recent experience of upgrading its digital capability and developing and implementing the GES (which involved a capital expenditure in excess of $100 million).

QTMB management has estimated that its digital strategy would require an investment in the range $10-30 million on a stand-alone basis. This would be an expensive and risky undertaking for QTMB. As part of the RACQ group, QTMB should be able to implement the same (or a better) digital strategy at considerably lower cost and with lower risk.

(iv) Future Inorganic Growth

In addition to strong organic growth potential, the Merger may provide opportunities for future inorganic growth through the potential for mergers with other mutual ADIs and, possibly, through the marketing of banking products to other like-minded mutual organisations throughout Australia.

There are approximately 90 mutual ADIs in Australia. The 60 largest mutual ADIs have in excess of 3.6 million members and $75 billion in total lending (as at 30 June 2015). Excluding the 10 largest mutual ADIs, which arguably have sufficient scale to remain independent, the remaining smaller ADIs have around 1.5 million members and $25 billion in total lending.

The membership of, and total lending by, Queensland-based mutual ADIs (which are likely to be the potential candidates for some form of merger with the combined RACQ/QTMB, given their shared Queensland heritage) are set out below:

Queensland-based Mutual ADIs

As at 30 June 2015	Location	Members	Total lending ($ millions)
Top 10			
Credit Union Australia	East Coast of Australia	431,778	10,389.5
Heritage Bank	South East Queensland	na	6,800.9
Other			
Queensland Country Credit Union[24]	Regional Queensland	49,618	979.0
Queensland Police Credit Union	Brisbane	25,866	548.2
Summerland Credit Union	Northern New South Wales	25,643	460.8
Queenslanders Credit Union	South East Queensland	17,984	253.2
ECU Credit Union[24]	Queensland	11,580	255.8
The Capricornian	Central Queensland Coast	11,243	230.4
Warwick Credit Union	South East Queensland	10,000	200.8
Total		**151,934**	**2,928.2**

Source: KPMG Mutuals Industry Review 2015, company annual reports

There is clearly the opportunity for QTMB to significantly increase the scale of its banking business through merging with other Queensland-based mutual ADIs. Mutual ADIs (other than Credit Union Australia Limited ("CUA") and Heritage Bank Limited ("Heritage Bank")) had more than 150,000 members and $2.9 billion in total lending as at 30 June 2015. However, there may be some impediments that could prevent or delay such mergers:

- there will be a minimum size below which a merger is not practicable as the costs of merging will outweigh the benefits; and
- any merger could only proceed on a co-operative "agreed" basis (i.e. it is not possible for a "hostile" merger to succeed). These mutual ADIs may not be responsive to a merger proposal from RACQ/QTMB in the short to medium term, although this position could change if their performance deteriorates and/or there is positive feedback about the Merger.

24 On 18 May 2016, Queensland Country Credit Union and ECU Credit Union announced an intention to merge. The merger is not expected to be completed until the first quarter of 2017.

(v) Minimal Organisational Issues

As the rationale for the Merger is based on growth (in members and therefore revenue) rather than synergies, it has minimal impact on QTMB's organisational structure. In particular:

- there will be no forced redundancies of staff from QTMB directly as a result of the Merger:
  - the branch structure, and therefore QTMB branch staff, will be retained. Even in locations where branches are duplicated and may be merged (there are 2-8 branches that fall into this category, including 2-4 branches in the greater Brisbane area and 4 regional branches), the combined branch will require staff experienced in providing banking products and services; and
  - it will be necessary for there to be continuity of other QTMB staff and management as RACQ is not experienced in providing banking products and services;
- QTMB's CEO will remain as CEO; and
- the seven current directors of QTMB will remain on the QTMB Board (with the addition of up to three RACQ directors including the RACQ group CEO) and QTMB's Chairman will remain as chairman.

An inability to agree these types of issues is often cited as the main reason why mergers of mutual organisations are not able to be completed.

(vi) Continued Community Involvement

As mutual organisations, both QTMB and RACQ have long histories of involvement with the communities in which they operate. In line with their business operations, QTMB focuses its community support on the education sector and RACQ's support relates more to road safety, motoring and sustainability as well as natural disasters through the RACQ Foundation. RACQ's community support includes an existing commitment to the education sector through road safety programs and driver education programs aimed at primary and secondary school students, which are delivered both at schools and online.

If the Merger is implemented, RACQ's commitment to these educational programs will continue as part of its broader community involvement. RACQ also intends to continue to support key QTMB sponsorships.

(vii) Strategic Importance for RACQ

Adding a banking pillar to its business operations is strategically important for RACQ. In particular, it enables RACQ increase its "touchpoints" with members, which is critical to remaining relevant to members in a changing world. RACQ's existing core businesses of roadside assistance and insurance are mature and revolve around risk and emergencies. Other than payment of an annual subscription or premium, requiring roadside assistance is a one in three year event and making an insurance claim is a one in nine year event.

The strategic importance of banking to RACQ is an advantage for QTMB as RACQ will be determined to ensure that the Merger is successful.

6.3.2 Impact on QTMB Members as Banking Customers

(i) No Change to Banking Products of Existing QTMB Members

There will be no change to the banking arrangements and products of existing QTMB members immediately following the Merger, other than at the request of a QTMB member, in response to changes in the official interest rate set by the RBA or in line with the terms of any existing loan agreement.

New products and services will be introduced in the short to medium term, with the objective of better meeting the needs of members.

(ii) Better Pricing

The Merger will enable QTMB to maintain competitively priced banking products for members and, as scale increases, to be more competitive on pricing.

An increase in scale (i.e. more customers) will enable QTMB to leverage its largely fixed cost base and operate more efficiently. The resulting increase in profitability can be redirected to providing more favourable rates on lending and deposit products.

(iii) Enhanced Product Range and Services

Following the Merger, QTMB is expected to be able to offer, through access to RACQ's scale and resources:

- an improved suite of banking products, including an integrated credit card offering. In the short term, the integrated credit card offering will allow QTMB members to view their credit card transactions online through the bank's internet and mobile banking portals. Over the medium term, integration of the offering will provide other opportunities, including the provision of a credit card as part of a broader bundled package of products for members; and
- enhanced services, particularly in terms of distribution, improving the level of service provided to QTMB members, including:
  - longer contact centre opening hours (24 hours a day/7 days a week compared to the current 8.30am-6.00pm Monday to Friday and 9.00m-2.00pm Saturday);
  - access to a more extensive branch network, particularly for QTMB members in regional Queensland where RACQ has 84 branches/agencies compared to QTMB's four. In the greater Brisbane area, RACQ has 14 branches/agencies compared to 10 for QTMB, although there is some duplication of branches (2-4 branches in the greater Brisbane area); and
  - a stronger digital offering, including a new mobile application, greater internet banking functionality and enhanced platforms that will allow QTMB members to apply for banking products online.

Access to longer contact centre hours and a more extensive branch network are expected to be available to QTMB members relatively quickly after implementation of the Merger. The enhanced digital capabilities will take time (up to 18-24 months) to develop and launch.

6.3.3 Impact on QTMB Members as Members of RACQ

(i) More Robust Banking Business

As members of RACQ, QTMB members will be members and customers of a more robust banking business.

RACQ intends to make a significant investment in QTMB's banking platform, providing an enhanced range of products and services that should improve customer retention and help to win new customers. The ability to offer banking products and services to 1.5 million RACQ members provides an opportunity for QTMB to grow its business significantly (and there may also be further opportunities for future inorganic growth).

The increase in scale as part of the RACQ group will allow QTMB to operate more efficiently and improve its ability to provide a relevant and competitive offering that meets the needs of QTMB members over the long term.

(ii) Ongoing Membership of a Mutual

Member research conducted in March 2016 showed that QTMB members value a mutual structure. As RACQ members, QTMB members will remain members of a member-owned and member-focused organisation committed to mutuality.

QTMB members will retain their RACQ membership as long as they hold a QTMB core banking product or another eligible RACQ product.

(iii) Recognition of QTMB Years of Tenure

If the Merger is implemented, the RACQ membership granted to a QTMB member will recognise the QTMB member's years of tenure in equivalent RACQ loyalty years, entitling the QTMB member to loyalty benefits such as discounts on roadside assistance fees and, if they hold a roadside assistance product, insurance premiums:

RACQ Loyalty Benefits		
RACQ Loyalty Years	**Roadside Assistance**[25]	**Insurance**[26]
0-4 (Blue)	-	2.5-5% discount
5-9 (Bronze)	0-5% discount	5-7.5% discount
10-24 (Silver)	0-7.5% discount	10% discount
25-49 (Gold)	10-25% discount	12.5% discount
50+ (Gold50)	25-50% discount	17.5% discount

Source: RACQ

QTMB members who are already RACQ members but have longer tenure as a QTMB member will have their existing RACQ loyalty years adjusted to reflect their longer tenure as a QTMB member, potentially entitling them to greater discounts on their eligible RACQ products.

It is not possible to value this benefit on a per member basis as it will vary from member to member depending on whether they hold or decide to purchase roadside assistance and insurance products and the number of years of membership. However, these discounts are a material benefit to RACQ members collectively, delivering an estimated $66 million of insurance premium discounts in FY15.

(iv) Benefits for those not already RACQ Members

If the Merger is implemented, QTMB members who are not already RACQ members will be entitled to RACQ's membership benefits. In addition to the loyalty benefits referred to above, QTMB members will be able to access a number of other savings and discounts, including:

- discounts at 1,200 partner locations across Australia and more than 150,000 participating partner locations worldwide through the "Show Your Card & Save" program;
- discounted movie, theme park and other entertainment event tickets;

25 Discounts for roadside assistance apply to extended benefit products RACQ Ultimate ($256 per annum) and Plus Care/Ultra Care ($142-182 per annum) but not to standard roadside assistance ($86-99 per annum) except for Gold50 members (50+ loyalty years). Additional benefits are provided to Gold members (25+ loyalty years).

26 Only members who hold a roadside assistance product are entitled to discounts on home and motor vehicle insurance.

- dining rewards;
- discounted accommodation at selected locations; and
- free and discounted maps and guides.

It is not possible to value this benefit on a per member basis as it will vary from member to member depending on the extent to which they choose to purchase goods and services that attract savings and discounts. However, in FY15, RACQ returned more than $34 million of value to members collectively in the form of savings and discounts (in addition to the estimated $66 million of insurance premium discounts).

(v) Cultural Alignment

Both QTMB and RACQ have similar philosophies and values based on their mutual heritage. Both organisations are community-minded, committed to meeting the needs of members and their communities and committed to providing service to members.

QTMB's cultural values are one of the reasons QTMB members choose QTMB. The alignment of QTMB's cultural values with those of RACQ is a benefit of the Merger for QTMB members as the commitment to "put members first" will continue.

In addition, QTMB will remain Queensland-based. Member research undertaken by QTMB in March 2016 showed that members value that QTMB is Queensland-based.

6.4 Disadvantages of the Merger

6.4.1 Loss of Opportunity to Benefit from an Alternative Transaction

If the Merger is implemented, QTMB members will forego the opportunity to benefit from a possible future alternative transaction. There are a number of possible alternatives. The most likely alternatives are a demutualisation (which could result in the release of reserves to QTMB members), a merger with another mutual ADI or a voluntary winding up of the company. These alternatives are considered below.

As set out in Section 2 of this report, a membership interest in a mutual such as QTMB has no current realisable value (other than repayment of the subscription amount of $10 on ceasing to be a member). Any underlying "value" within the entity is not able to be accessed by members unless QTMB is wound up or the QTMB Board takes action to change the status of QTMB and the necessary majority of members approve this change. Neither of these actions is currently contemplated.

As a result, these alternatives are hypothetical. Analysis of the potential alternatives is included only to provide context for QTMB members. The analysis in no way represents any kind of warranty or guarantee (express or implied) as to the likelihood of an alternative proposal or the value that might be realised.

- **Demutualisation and Sale**

  A demutualisation and sale of QTMB to a shareholder-based entity (listed or private) could crystallise value for members. However, such an outcome would only be possible if the QTMB Board was to make the decision to put a demutualisation or similar transaction to QTMB members for their approval. This is not consistent with the views of the QTMB Board. The directors of QTMB believe that the prospect of executing a transaction that results in QTMB members receiving a share of QTMB's reserves is unlikely:

  - the Board strongly believes that a business model underpinned by the principles of mutuality provides the basis for a superior bank offering to members; and

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- QTMB's reserves have been accumulated from current and past members and are held for the benefit of current and future members. A demutualisation would only reward current members and would ignore the past members who have contributed over the course of many years to the accumulation of reserves.

QTMB members also value a mutual structure. This was the finding of research conducted with QTMB members during March 2016 and has been supported by feedback from QTMB members following announcement of Merger. Without the support of the requisite majority of QTMB members (i.e. approval by 75% of members where at least 25% of members vote), a demutualisation and sale would not proceed.

In any event, a demutualisation of QTMB is unlikely to deliver as significant a value to members on an individual basis as the value realised in the December 2015 demutualisation of Your Credit Union.

There have been a number of transactions involving the demutualisation and sale of mutual ADIs. The key parameters of recent relevant transactions are summarised below:

Comparable Transactions Involving Mutual ADIs

Date	Mutual ADI	Acquirer	Consideration		Multiple of Adjusted NTA[27]
			Total ($ millions)	Per Member	
Dec 15	Your Credit Union	Auswide Bank	30.4-31.8	$7,424-7,779	1.2-1.4
Oct 08	MyState Financial Credit Union	Tasmanian Perpetual Trustee	122.8-170.6	$1,026-1,425	1.1-1.5
Aug 05	StateWest Credit Society	Home Building Society	143.4-207.2	$2,241-3,237	2.2-3.3

Source: Grant Samuel analysis

In relation to the analysis above:

- more weight should be placed on the two more recent transactions. The acquisition of StateWest Credit Society Limited by Home Building Society Limited took place more than 10 years ago and was prior to the global financial crisis;
- all the transactions involved consideration consisting of scrip or scrip and cash. The ranges shown in the table reflect the relevant share prices on the date of announcement and on the date of the scheme booklet;
- the focus is on net tangible asset ("NTA") multiples rather than earnings multiples. Invariably in these types of transactions, the earnings multiples are very high, reflecting the significant synergies expected to be achieved; and
- NTA has been adjusted for surplus capital in excess of 12% of risk weighted assets to reflect additional capital held in the mutual above a target regulatory requirement of 12% (representing the APRA minimum requirement for all ADIs of 8% (at the time) plus an assumed mutual ADI buffer of 4%). Each of the mutual ADIs above had capital adequacy ratios in excess of this target regulatory requirement at the time of their respective mergers, in part reflecting their mutual status and their inability to distribute profits. This additional capital is not

27 NTA has been adjusted for excess capital based on a target capital adequacy ratio of 12%.

required to be held in the business and has therefore been treated as a surplus asset.

Applying a multiple of 1.1-1.5 times NTA to QTMB's adjusted NTA gives an indicative value per member in the order of $2,200-2,700:

QTMB – Indicative Value per Member			
	Reference	**Low**	**High**
QTMB net assets attributable to members as at 30 June 2015 ($ millions)	Section 3.7	128.1	128.1
Intangible assets as at 30 June 2015 ($ millions)	Section 3.7	(2.7)	(2.7)
QTMB NTA as at 30 June 2015 ($ millions)		**125.4**	**125.4**
Add: impact of sale of head office ($ millions)[28]	Section 3.7, footnote 28	15.3	15.3
Less: surplus capital[29] ($ millions)	footnote 29	(57.9)	(57.9)
QTMB adjusted NTA ($ millions)		**82.8**	**82.8**
NTA multiple		1.1	1.5
Business value ($ millions)		**91.1**	**124.2**
Add: surplus capital ($ millions)	footnote 29	57.9	57.9
Equity value ($ millions)		**149.0**	**182.1**
Number of members as at 1 August 2016	Section 3.4	68,233	68,233
Indicative value per QTMB member		**$2,184**	**$2,669**

By way of comparison, the indicative value per QTMB member equates to 4-5 months' interest on a $250,000 home loan (assuming the QTMB Home Loan Variable Package interest rate of 4.27% as at 1 August 2016).

Moreover, access to this value could come at a cost to QTMB members, particularly through the loss of the benefits of being part of a mutual organisation that is operated for the benefit of members and not to generate a return for shareholders/owners (e.g. less favourable rates on banking products, lower levels of customer service and higher fees and charges). QTMB members would need to take into account the loss of these mutual benefits, not all of which are quantifiable, on an ongoing basis, when considering the value they might receive in a demutualisation and sale of QTMB.

- **Demutualisation and initial public offer ("IPO")**

A demutualisation and IPO does not require a third party to make a competing offer but it would require the QTMB Board to make the decision to put such a transaction to QTMB members. The same considerations would apply as in the demutualisation and sale scenario set out above except that:

- QTMB members would become shareholders in a listed entity and would potentially be entitled to receive dividends;
- there would not be an immediate cash payment unless QTMB members sold their shares on market; and
- shares would trade on a portfolio basis (i.e. trading prices would not incorporate a premium for control), which would be expected to be below the control value realised in a 100% sale.

[28] Adjustment for sale of head office of $15.3 million represents sale price of $25 million less costs associated with sale (including GST and selling costs) of $2.6 million and capital gains tax of $3.9 million less carrying value of head office of $3.2 million.

[29] Surplus capital of $57.9 million = (total capital as at 30 June 2015 of $120.1 million + impact of sale of head office of $15.3 million) - (risk weighted assets as at 30 June 2015 of $645.7 million x target capital adequacy ratio of 12%).

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In any event, it is arguable that QTMB has insufficient scale to be viable as a listed entity on a stand-alone basis. Outside of the major banks and the regional banks there are only three listed ADIs:

- MyState Limited ("MyState"), a diversified financial products and services group (incorporating MyState Bank and The Rock) with a market capitalisation of $357 million and NTA of $216.6 million. MyState reported a profit of $30 million in FY15;
- Auswide Bank Limited ("Auswide Bank"), which has a market capitalisation of $202 million and NTA of $158.7 million. Auswide Bank reported a profit of $13 million in FY15; and
- Goldfields Money Limited ("Goldfields Money"), which has a market capitalisation of $17 million and NTA of $14.6 million. Goldfields Money reported a profit of $0.3 million in FY15.

MyState and Auswide Bank are larger and significantly more profitable than QTMB. Goldfields Money is considerably smaller than QTMB. It has not been able to increase its value since listing in May 2012 (its market capitalisation on listing was $15.7 million).

Most small mutual ADIs that have demutualised and undertaken an IPO have subsequently been acquired by other listed ADIs. These ADIs have included Mackay Permanent Building Society Limited (acquired by Wide Bay Australia Limited, now Auswide Bank), Home Building Society Limited ("Home Building Society") (acquired by Bank of Queensland Limited ("Bank of Queensland")), Pioneer Permanent Building Society Limited (acquired by Bank of Queensland) and The Rock Building Society Limited (acquired by MyState Bank). Each of these ADIs, other than Home Building Society, was smaller than QTMB. However, these acquisitions have enabled shareholders to receive a control value for their shares.

- **Merger with a Mutual ADI**

A more likely alternative transaction would be for QTMB to merge with another mutual ADI. However, while a merger with another mutual ADI would increase QTMB's scale, whether this additional scale would be sufficient to make a difference would depend on the size of the merger partner. A smaller merger partner would probably have limited impact as QTMB would still have scale and brand (particularly brand recognition) issues. Other disadvantages of a merger with another mutual ADI include:

- the potential impact on products and services as the merged ADIs move to a single suite of products; and
- the impact on the organisation, as the merged ADI could only generate cost savings by removing duplicated functions.

The Merger overcomes these disadvantages and offers additional benefits:

- a focus on growth. QTMB will become the banking arm of RACQ. The Merger is about growing the bank rather than generating cost synergies;
- the ability to leverage RACQ's resources (capital and staff) to deliver an enhanced proposition to QTMB members; and
- a strong organic growth opportunity through offering banking products and services 1.5 million RACQ members.

Furthermore, if the Merger is implemented, QTMB will retain the ability to merge with other mutual ADIs as part of RACQ group (and will arguably be in a better position because as part of the RACQ group, will be the "acquirer" rather than the "target").

- **Voluntary Winding Up or Payment of Dividends**

  A possible alternative transaction would be to voluntarily wind up QTMB and distribute any remaining surplus to QTMB members. A voluntary wind up would require that:

  - the QTMB directors make a declaration of solvency, confirming that QTMB will be able to pay all of its existing debts within 12 months of beginning the winding up process;
  - QTMB members approve a special resolution to wind up QTMB (i.e. 75% of votes cast are in favour of winding up QTMB). The meeting at which this special resolution would be put to QTMB members could be called at the direction of the QTMB Board or if 5% of QTMB members (3,412 members based on the number of members as at 1 August 2016) requisition such a meeting; and
  - QTMB cease operating and a liquidator be appointed to sell QTMB's assets, pay all of its outstanding debts and manage the distribution of any surplus.

  In this situation, QTMB members would be likely to receive considerably less than the amount that would be received under a demutualisation and sale and less than the Preserved Surplus Amount as any remaining surplus would be impacted by:

  - no value being attributed to intangible assets;
  - realisation of assets on a wind up basis; and
  - the time and cost involved in realisation. The costs would include liquidator costs, staff redundancies, lease termination costs, etc.

  In any event, in Grant Samuel's view, it is unlikely that the QTMB directors would propose that QTMB be voluntarily wound up. It is also unclear why QTMB members would seek to wind up QTMB as a winding up would result in QTMB members giving up all of the benefits of the mutual banking arrangements between QTMB and its members (which is the very reason that they are members of QTMB in the first place).

  Similarly, it would also be possible for QTMB members to requisition a meeting and approve a special resolution to change QTMB's Constitution to enable QTMB to pay dividends as a means of unlocking value for QTMB members. Assuming a prudential regulatory capital requirement of 12% and the sale of QTMB's head office, QTMB would have surplus capital of around $58 million, or around $850 per QTMB member which could be distributed as a single dividend or over a period of time. However payment of dividends by QTMB:

  - is inconsistent with the principles of mutuality;
  - would result in QTMB members receiving significantly less than the amount that would be received under a demutualisation and sale, less than the Preserved Surplus Amount and less than the amount that might be received on a voluntary winding up because of the requirement that QTMB retain a minimum level of capital to meet regulatory requirements;
  - could potentially result in loss of QTMB's mutual status (i.e. an unintended demutualisation) under Regulatory Guide 147 if paid out as a single dividend; and

- has the potential to lead to QTMB breaching its minimum capital requirements and/or becoming insolvent if conditions change after a dividend was paid as a single amount.

If QTMB members wanted QTMB to be wound up or to change the QTMB Constitution to enable the payment of dividends as an alternative to the Merger, they have had ample opportunity since announcement of the Merger to communicate this to the QTMB Board and this has not been the case.

Weighing the advantages and disadvantages of the Merger against the advantages and disadvantages of a possible demutualisation, possible merger with another ADI or possible voluntary winding up in the future is not straightforward, not least because each alternative involves consideration of a number of factors that cannot be quantified. Ultimately, such an assessment will depend on the individual views of QTMB members and the relative importance they attach to the various aspects of their relationship with QTMB.

In deciding to enter into the MIA, the QTMB Board considered QTMB's market and competitive position as a stand-alone business and the potential alternatives and undertook a due diligence process on RACQ. Based on this process, the Board decided to recommend the Merger to QTMB members. However, QTMB members could choose to vote against the Merger, in the expectation that QTMB would be better off on a stand-alone basis or that an alternative, superior proposal might emerge.

In Grant Samuel's view, however, QTMB members would be worse off if the Merger did not proceed and QTMB continued as a stand-alone company. QTMB would not benefit from the capital and resources that RACQ would provide to improve QTMB's product offering and would not have the opportunity to achieve scale though offering banking products and services to RACQ's member base.

It is not possible to know whether there may be an alternative proposal that is superior to the Merger, either before the meetings to approve the Merger or at some time in the future. If a superior proposal did emerge prior to the meetings to approve the Merger, the QTMB directors could consider it on its merits and could reconsider their recommendation in relation to the Merger.

6.4.2 Loss of or Changes to Rights

If the Merger is implemented, QTMB members will no longer have a direct ownership interest in QTMB but will continue to have an indirect "ownership" interest in QTMB through their Legacy Share and their RACQ membership. QTMB members will give up their rights as holders of QTMB member shares in return for rights as holders of Legacy Shares and as RACQ members (unless a QTMB member is already an RACQ member).

As a result, QTMB members will have a different set of rights and liabilities. QTMB members will no longer have direct influence over the governance of QTMB, although as members of RACQ they will have some influence over RACQ (as the parent company of QTMB). However, there will be changes to some of the rights of QTMB members which could be considered to be disadvantageous. In particular, there will be changes to their right to participate in QTMB's reserves on a winding up or demutualisation of QTMB and the right to nominate and vote in relation to the appointment of directors. The impact of these changes on QTMB members is discussed below.

(i) Participation in Reserves

If the Merger is implemented, there will be changes to the rights of QTMB members to participate in QTMB's reserves. Under the QTMB Constitution, QTMB members are entitled to participate in QTMB's reserves in two situations:

- on a winding up of QTMB, QTMB members are entitled to repayment of the subscription price of $10 and to equal participation in any surplus; and
- on a demutualisation of QTMB, QTMB members who have been members for at least one year are entitled to participate in the distribution of QTMB's surplus and profits.

If the Merger is implemented, QTMB members (as members of RACQ) will:

- lose the right to participate in any surplus on a winding up of QTMB;
- not have any entitlement to any surplus and will be required to contribute up to $2 towards payment of the debts and liabilities of RACQ in the event of a winding up of RACQ; and
- forego the right to participate in the distribution of QTMB's surplus and profits on a demutualisation of QTMB but will be entitled to participate in the distribution of RACQ's reserves on a demutualisation of RACQ (although the basis on which any entitlement is allocated will depend on the terms of the proposal).

Participation in QTMB's reserves through a winding up is unlikely in the sense that:

- a voluntary winding up would require 5% of QTMB members to requisition a meeting and 75% of members who vote to approve the winding up. If QTMB members were to oppose the voluntary winding up it, would not occur. It is unclear why QTMB members would seek to voluntarily wind up QTMB; and
- an involuntary winding up (or insolvency) is remote and, in the event of an involuntary winding up of QTMB, it would be unlikely that there would be any material surplus to distribute to members.

Participation in QTMB's reserves through a demutualisation requires the QTMB Board to take action to change the status of QTMB and for the necessary majority of QTMB members to approve this change (i.e. approval by 75% of members where at least 25% of members vote). If members were to oppose this change in status, it would not occur.

In this sense, the entitlement to participate in QTMB's reserves is only a contingent right. As a result, except in the unlikely circumstance of a winding up of QTMB or demutualisation of RACQ, while QTMB members remain customers of QTMB, QTMB members are not disadvantaged by any change to their rights.

In any event, to the extent that this change to the rights of QTMB members may be regarded as a disadvantage of the Merger, this has been mitigated by the issue of the Legacy Shares, which preserve the rights of QTMB members to participate in QTMB's reserves in these situations for a period of seven years from implementation of the Scheme. In the event of a winding up of QTMB or Club Finance Holdings or a demutualisation of RACQ[30], QTMB members will have a preferred entitlement to the Preserved Surplus Amount. There will also be a preferred entitlement to the Preserved Surplus Amount if QTMB is sold or if QTMB or Club Finance Holdings become insolvent.

The Preserved Surplus Amount will be calculated as the equity attributable to QTMB members as at 30 June 2016 divided by the number of issued QTMB member shares on the date the Scheme is implemented (i.e. as if the winding up or the demutualisation had occurred at that time). Based on the equity attributable to QTMB members and the number

[30] The entitlement of QTMB members to the Preserved Surplus Amount on a demutualisation of RACQ is in addition to any entitlement as an RACQ member.

of issued QTMB member shares as at 30 June 2015, the Preserved Surplus Amount would have been $1,865 per member[31].

The Legacy Share also preserves a QTMB member's redemption right. While QTMB members will no longer hold their QTMB member shares, they will retain a right to repayment of the subscription price of $10 when they are no longer a customer of QTMB or if the Preserved Surplus Amount has been paid. In any event, the Legacy Share must be redeemed within three months after the seventh anniversary of its issue.

In this regard, at least for the next seven years, QTMB members are in a position equivalent to their current position:

- none of the trigger events is expected to occur and the QTMB Board considers that the likelihood of a trigger event occurring within seven years of the Scheme being implemented is remote:
  - QTMB would be likely to be wound up only if the business ceased to be financially viable. QTMB is financially sound and based on its current financial position and the regulated environment in which it operates, it would be extremely unlikely for its financial position to deteriorate such that a winding up would be necessary. In any event, in that situation, it is unlikely that there would be any material surplus to distribute, and any surplus would be likely to be less than net assets at that point in time (as no value would be attributed to goodwill and assets would have liquidation values) and possibly less than the equity attributable to QTMB members as at 30 June 2016 (e.g. if losses had been incurred prior to the decision being made to wind up the company); and
  - RACQ is committed to the mutual structure and has no current intention to demutualise. Mutuality is embedded in RACQ's history and its culture and its long term strategy assumes that it remains a mutual.

    While the RACQ Board periodically re-examines its structure and a future board could arrive at a different conclusion in relation to RACQ's structure in different circumstances and in a different market environment, in the event of a demutualisation of RACQ, QTMB members would be entitled to the Preserved Surplus Amount in addition to any entitlement as an RACQ member;
- the right to participate in QTMB's reserves on any demutualisation of RACQ "locks in" the QTMB reserves as at 30 June 2016, rather than the date of RACQ's demutualisation. However, as 30 June 2016 is around the time when the demutualisation of QTMB will have technically occurred if the Merger is implemented, this is a reasonable outcome; and
- QTMB members are also entitled to the Preserved Surplus Amount if QTMB is sold or if QTMB or Club Finance Holdings become insolvent. To the extent that sale or insolvency are outside the scope of winding up and demutualisation, these are additional rights for QTMB members.

After seven years, these additional rights fall away and the Legacy Share (if not already redeemed) will be redeemed for $10 (which is equivalent to the subscription price initially paid by the QTMB member for their QTMB member share). As an RACQ member, QTMB members will:

- have no right to any surplus on a winding up (of QTMB or RACQ);

[31] Equity per QTMB member as at 30 June 2016 can only be calculated once the final accounts for FY16 are completed but QTMB expects that it will increase in line with expected increases in eligible regulatory capital and the capital adequacy ratio over the 12 month period. Equity per QTMB member will also increase as a result of QTMB entering into a contract to sell its head office for $25 million. Although completion is not expected to take place until October 2016, the head office will be revalued (from its carrying value of $3.2 million as at 30 June 2015) to reflect the sale price.

- be required to contribute up to $2 in the event that RACQ is wound up; and
- participate in RACQ reserves (which will include QTMB reserves) on a demutualisation of RACQ as an RACQ member. Treatment of members will depend on the terms of the proposal and different values may be placed on memberships depending on the products held and the tenure of membership. As an RACQ member, QTMB members would have a right to vote on any such proposal (which would require approval by 75% of members where at least 15% of members vote).

Those QTMB members who have continuously held a QTMB banking product through to late-2023 (seven years after implementation of the Scheme) will arguably be worse off at that time in relation to their rights on a winding up. However, to the extent that this is regarded as a disadvantage, the remoteness of such an outcome (both in terms of being at a distant time in the future and being extremely unlikely to occur), reduces its significance.

(ii) Director Nomination and Voting Rights

If the Merger is implemented, QTMB members will no longer have a right to nominate or vote in relation to the appointment of QTMB directors and will not have a right to nominate or vote in relation to the appointment of Club Finance Holdings directors. As RACQ members, QTMB members will have a right to nominate and vote in relation to the appointment of RACQ directors although these rights are different to the rights they have as QTMB members:

- 30 members together have the right to nominate an RACQ director (compared to six members required to nominate a QTMB director) and can only nominate a director in the zone in which the members reside; and
- members can only vote for a director in the zone in which the member resides and the vote is only valid if at least 5% of members in that zone vote.

If these requirements are not met, the RACQ Board appoints the director (or directors) for the zone.

These changes to director nomination and voting rights are not considered to be material in the context of the Merger. The basic right to nominate and vote for directors is retained and the additional requirements are not overwhelming. The RACQ nomination and voting requirements reflect the size of RACQ compared to QTMB (1.5 million members compared to 68,233) and a desire to avoid small minorities of members influencing the composition of the RACQ Board (particularly in circumstances where there are generally very low levels of voting participation by members in relation to these matters).

In fact, the zone requirement means that the RACQ Board is broadly representative of the member base (with five directors from the South East zone and one director from each of the South West, Central, North and Far North zones), which should be regarded as advantageous, particularly for members in more remote locations.

6.4.3 Loss of Brand

RACQ has applied to APRA for approval to continue to use the *QTMB* brand for a transitional period. It is expected that, after this period, QTMB will change its name to one that includes RACQ and that QTMB branches and products will be transitioned to the *RACQ* brand. While QTMB members may regard the loss of the *QTMB* brand as a disadvantage:

- the *QTMB* brand has only been in existence for five years, following the change of name from Queensland Teacher's Credit Union to QT Mutual Bank in 2011. While there was an expectation that this would strengthen QTMB's market position and relevance in the Australian banking market, it has arguably not been as successful as expected:

- membership has declined over the period from 2011 to 2016; and
- many members still refer to QTMB as "Queensland Teachers"; and

- the strength of the *RACQ* brand is one of the key benefits of the Merger. RACQ is a widely recognised and trusted brand throughout Queensland and this is expected to assist in generating scale in the banking business.

6.4.4 Transaction Costs

QTMB's transaction costs related to the Merger are estimated to total approximately $4 million. These costs include adviser, legal, accounting, expert, communication and other consultant fees and printing, postage and meeting costs as well as $1 million of internal staff costs. The costs incurred up to the closing of the Ballot are estimated to be approximately $3.1 million.

These costs are predominantly one off and are not material in the context of RACQ's net assets if the Merger is implemented (at less than 0.5%).

However, these costs are material in the context of QTMB's annual profit and will be incurred by QTMB on a stand-alone basis if the Merger does not proceed. In certain circumstances, QTMB will also be liable to pay RACQ a $1.5 million reimbursement fee (although not if member approval is not obtained). On the other hand, there are also certain circumstances in which RACQ will be liable to pay QTMB a $1.5 million reimbursement fee.

6.5 Risks of the Merger

6.5.1 Implementation Risks

The Merger will involve a number of implementation risks that QTMB members should take into account:

- there will be a risk that the integration of QTMB and RACQ takes longer or costs more than is expected due to unforeseen issues. The merged entity will have a broader range of operations and will as a result be more complex and more difficult to manage than QTMB on a stand-alone basis. Any delay in integration is likely to delay the provision of benefits to QTMB members.

  However, the integration of QTMB and RACQ will be less risky than the integration required for a merger with another ADI as there will be no requirement for integration of the banking platforms and there are limited synergies to be achieved. The main system integration required relates to shared services (IT, human resources, finance etc), which are more straightforward to integrate. QTMB's relatively small size and simple business operations should also result in lower integration risk.

  An integration committee has been in place since the MIA was signed to focus on monitoring and managing integration and extensive planning has been put in place to minimise or avoid integration risks. However, such risks cannot be entirely eliminated;

- there will be execution risk associated with the development and launch of QTMB's new digital platform. However, the risk will be less than if QTMB was to undertake the project as a stand-alone entity as RACQ will provide funding and access to an RACQ management team experienced in delivering technology projects; and

- while the Merger will immediately provide access to organic growth opportunities through offering banking products to the existing RACQ member base, inorganic growth will be required for RACQ to achieve its targeted banking scale (of ~$6 billion in lending assets). There is no certainty that inorganic growth will eventuate.

6.5.2 General Insurance Products Held by QTMB Members

QTMB members hold 16,746 general insurance policies issued by CGU (although many of these members would hold multiple policies covering home and contents, motor, landlord, boat, caravan etc.). Following a transition period, it is proposed that these policies will be replaced by products issued by RACQ Insurance, with the pricing of these products based on RACQ Insurance's assessment of the underwriting risk of the policies on an individual basis.

Consequently, there is a risk that, following the transition period, QTMB members renewing their general insurance policies with RACQ Insurance will be asked to pay a higher premium for equivalent insurance cover. However:

- QTMB members are not obliged to transfer their general insurance cover to RACQ Insurance (i.e. they can obtain quotes and take out policies from other general insurance providers); and
- as RACQ members, QTMB members should be eligible for discounts on general insurance premiums provided that they hold an RACQ roadside assistance product. The level of discount increases based on the number of RACQ loyalty years.

6.5.3 Potential Loss of Customers

There is the potential for QTMB to lose existing customers who are not in favour of the Merger. If a significant number of customers was lost, this could have an impact on QTMB's profitability and the reserves available for reinvestment.

However, the feedback on the Merger from QTMB members to date has been overwhelmingly positive and as a result, a material loss of existing customers appears unlikely.

In addition, RACQ's intention to provide additional capital to support growth and fund improvement in QTMB's digital capability should attract new customers (initially from RACQ's membership) to more than offset any loss of existing customers.

6.5.4 Potential Loss of Key Employees

QTMB has a number of key employees whose experience and expertise are important to the ongoing operation of the business. Any loss of key employees may have an adverse impact on the integration and performance of QTMB, particularly given that RACQ has no banking expertise. However:

- RACQ has stated that there will be no forced redundancies of staff from QTMB directly as a result of the Merger;
- the QTMB CEO, Stephen Targett has agreed to remain CEO of QTMB;
- there will be continuity at the QTMB Board level; and
- certain key QTMB employees will be paid retention bonuses if they remain employed by RACQ group on 30 June 2017 and meet certain performance, conduct and integration criteria.

6.5.5 Internal Allocation of Funds

If the Merger is implemented, QTMB will become a subsidiary of RACQ. As part of the RACQ group, there will be exposure to RACQ's insurance underwriting activities, which could have a material impact on overall performance (particularly due to long tail CTP liabilities and natural disasters). While RACQ Insurance will be a separate business to QTMB:

- over time, RACQ will be able to transfer QTMB profits and reserves out of QTMB and into the broader RACQ group for utilisation as required; and
- RACQ Insurance is an APRA regulated business with minimum capital requirements. As RACQ has no ability to raise capital externally, very poor performance from RACQ Insurance could require additional capital to be contributed from other RACQ subsidiaries.

The transfer of reserves out of QTMB could undermine its ability to grow and improve its product offering.

This potential risk to QTMB is mitigated by:

- RACQ's existing member reserves (which are in addition to RACQ Insurance's net assets) are $410 million, part of which has been set aside as a prudential reserve, the majority of which is allocated to the insurance business;
- QTMB is also an APRA regulated business with minimum capital and liquidity requirements designed to protect its customers, which would limit the extent to which capital could be transferred out of the banking business; and
- the Merger incorporates a number of protections for QTMB (i.e. QTMB will not contribute its surplus to the RACQ group for three years following implementation of the Merger and RACQ intends to provide additional capital to support growth and fund improvement in QTMB's digital capability).

The RACQ group is structured to enable capital to be deployed in the most efficient manner across the group. Given that QTMB will be part of a stronger, more financially sound group with better growth prospects, it should have no need to retain excess capital.

6.5.6 Funding of the Redemption Amount and the Preserved Surplus Amount

The redemption amount and the Preserved Surplus Amount are payable to QTMB members by Club Finance Holdings. Club Finance Holdings is a non-operating holding company and its only asset will be 100% of the shares in QTMB. It will have no other operations and will rely on distributions from QTMB or funding from its controlling shareholder, RACQ Investments No. 2 Pty Ltd (also a non-operating holding company) or its ultimate parent, RACQ, to meet its obligations. In this context:

- the total cost of redemption (based on the number of QTMB members as at 1 August 2016) is $682,330 and, on the basis of historical redemption levels, redemption amounts of $20,000-40,000 per year could be expected to be required to be funded. There are no arrangements in place to fund the redemption amounts; and
- while the proceeds from the sale of QTMB would be likely to be available to fund the Preserved Surplus Amount if QTMB was sold, in the event of QTMB or Club Finance Holdings becoming insolvent, it is less likely that Club Finance Holdings would have sufficient funds to pay the Preserved Surplus Amount.

As a result, the ability of Club Finance Holdings to fund the redemption amount and the Preserved Surplus Amount may rely on the wider RACQ group providing the necessary funds. In the context of RACQ having approximately $1.2 billion in net asserts following implementation of the Merger, there is clearly the ability to provide this funding if required, albeit any contribution would be voluntary as there would be no legal obligation for RACQ to provide funding to Club Finance Holdings.

6.6 Other Considerations

6.6.1 Taxation Consequences

A capital gains tax ("CGT") event will occur on the Scheme implementation date when QTMB members dispose of their QTMB member shares. Prima facie, QTMB members would be treated as having acquired their QTMB member share for the subscription price of $10 each and disposed of their QTMB member share for consideration equal to the market value of a Legacy Share. QTMB members who acquired their QTMB member share after 19 September 1985 would ordinarily realise a capital gain on the disposal of their QTMB member share to the extent that a Legacy Share has a market value in excess of $10.

QTMB has requested a class ruling from the Australian Taxation Office ("ATO") confirming the taxation implications of the Merger for QTMB members. Scrip for scrip rollover relief should be available to QTMB members (other than non-residents and temporary residents) who exchange their QTMB member share for a Legacy Share. QTMB members who elect to apply this rollover relief will be able to disregard any capital gain and the Legacy Share will be treated as having a cost base of $10.

No stamp duty will be payable by QTMB members on the disposal of their QTMB member shares to Club Finance Holdings.

There are no tax consequences of QTMB members becoming RACQ members as a result of the Merger.

The analysis set out above outlines the major tax consequences of the Merger and should be viewed as indicative only. It does not purport to represent formal tax advice regarding the taxation consequences of the Merger for members. Further details on the taxation consequences of the Merger for Australian resident QTMB members are set out in Section 9 of the Disclosure Documents. In any event, the taxation consequences for members will depend on their individual circumstances. If in any doubt, QTMB members should consult their own professional adviser.

6.6.2 Loss of Mutual Bank Status

If the Merger is implemented, QTMB will demutualise and will become a wholly owned subsidiary of Club Finance Holdings (which in turn will be a subsidiary of RACQ). As a result QTMB will no longer be a mutual ADI and will not be able to use the words "mutual" bank in its name (although it will, subject to APRA approval, be able to use the word "bank" as it meets APRA's minimum requirement of $50 million of Tier 1 capital).

However, the demutualisation is only one part of Merger. Essentially, QTMB is required to demutualise to facilitate the Merger. It is a step in the merger process, not the end result. QTMB members will remain members of a mutual organisation.

QTMB members retain the ability to participate in any subsequent demutualisation of RACQ:

- QTMB members will participate in any demutualisation of RACQ on the same basis as RACQ members; and
- if the demutualisation of RACQ occurs within seven years of the Scheme being implemented, QTMB members will also be entitled to the Preserved Surplus Amount.

6.6.3 Loss of the Teacher/Education Sector Common Bond

QTMB's teacher bond was removed in 1985. Since then, it has had an open and voluntary membership within a common bond. This common bond is very broad, ranging from association with education through employment, professional association or family through to having an interest in education in Queensland, being a person approved by the Board and members of other mutual ADIs that merge with QTMB.

As a result, while teachers have always represented a significant proportion of members, QTMB has had a much broader member base for many years. Currently, approximately 60% of loans written are to members from the education sector, although they represent a smaller proportion of QTMB's deposit base at around 40%. The relationship with the education sector is an historical legacy (when teachers got together to support other teachers) that is arguably, at the very least, too limiting in the modern world of banking.

If the Merger is implemented, the common bond will be removed. Combined with the improved product offering and use of the *RACQ* brand, this should assist in increasing the scale of QTMB which will benefit all QTMB members.

In addition, the primary purpose of the common bond today is to provide a focus for community involvement. RACQ already has a strong education focus that will continue. RACQ also intends to continue to support key QTMB sponsorships. In this respect, loss of the common bond should have no impact on QTMB members.

6.6.4 Minimum Voting Threshold

The QTMB Constitution provides that the Merger can only be approved if at least 25% of QTMB members vote on the Merger Resolution (and at least 75% of those QTMB members who do vote, vote in favour of the Merger Resolution). The minimum turn out requirement is a more demanding voting threshold than is usually required to approve a transaction and means that (based on the number of members as at 1 August 2016), at least 17,059 QTMB members must vote on the Merger Resolution, which is being conducted through the Ballot. There is a risk that this minimum threshold will not be met.

If this threshold is not met, the Merger Resolution will not be able to be approved (even if at least 75% of those QTMB members who do vote, vote in favour of the Merger Resolution) and, as the Merger Resolution, the Constitution Resolution and the Scheme are inter-conditional, the Merger will not proceed. QTMB has put in place a member engagement plan to raise awareness of the Merger and to encourage QTMB members to vote in the Ballot through use of an internet banking intercept page, pre-vote registration, the branch network and an inbound (and potentially outbound) call centre.

6.6.5 Conditions Precedent

The Merger is subject to a number of conditions precedent, including receipt of regulatory approvals from the Treasurer and APRA, none of which have been received as at the date of this report.

The Ballot is expected to be open from 20 August to 16 September 2016. It is therefore possible that QTMB members will vote on the Merger Resolution prior to the receipt of regulatory approvals from the Treasurer and APRA which creates uncertainty about the outcome of the Merger.

However, the meetings to approve the Constitution Resolution and the Scheme are not scheduled to be held until 2 November 2016, by which time it is expected that the necessary regulatory approvals will have been obtained.

6.6.6 Overseas QTMB Members

Overseas QTMB members (those with a registered address outside of Australia) will not be eligible to receive a Legacy Share.

However, as part of the Merger, overseas QTMB members will receive similar contractual rights. Club Finance Holdings has entered into a deed poll in favour of overseas QTMB members to pay to those members:

- $10 on implementation of the Merger; and
- the Preserved Surplus Amount if Legacy Shareholders are entitled to be paid the Preserved Surplus Amount.

As a result, the position of overseas QTMB members is, from a practical perspective, no different than the position of other QTMB members. In any event, these provisions apply to only 337 members, or less than 0.5% of QTMB members.

All QTMB members (including overseas QTMB members) will be eligible to become an ordinary voting member of RACQ.

6.7 Member Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether, in its opinion, the Merger is in the best interests of members and the benefits being provided to members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB, and to state reasons for those opinions. Grant Samuel has not been engaged to provide a recommendation to members in relation to the Merger, the responsibility for which lies with the directors of QTMB.

In any event, the decision whether to vote for or against the Merger Resolution, the Constitution Resolution and the Scheme are matters for individual members based on their personal circumstances and the nature of their relationship with QTMB, including the products and services they use and the importance they place on these products and services as well as their expectations of the benefits of holding a Legacy Share and being a member of RACQ. Members who are in doubt as to the action they should take in relation to the Merger should consult their own professional adviser.

7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 500 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD and Stephen Cooper BCom (Hons) ACA (SA) ACMA. Both have a significant number of years of experience in relevant corporate advisory matters and are representatives of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Merger is in the best interests of members and whether the benefits being provided to members are fair and reasonable having regard to any loss of rights and change as to voting rights and rights to participate in the reserves and profits of QTMB. Grant Samuel expressly disclaims any liability to any QTMB member who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Disclosure Documents or the Scheme Booklet issued by QTMB and has not verified or approved any of the contents of the Disclosure Documents or the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Disclosure Documents or the Scheme Booklet (except for this report).

Grant Samuel has had no involvement in QTMB's due diligence investigation in relation to the Disclosure Documents or the Scheme Booklet and does not accept any responsibility for the completeness or reliability of the process which is the responsibility of QTMB.

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with QTMB or RACQ or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger.

Grant Samuel had no part in the formulation of the Merger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of approximately $275,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Merger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

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7.4 Declarations

QTMB has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply to the extent that any such liability is found by a court to be primarily caused by any conduct involving negligence, fraud, breach of contract or wilful misconduct by Grant Samuel. QTMB has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by QTMB are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been guilty of negligence, fraud, breach of contract or wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to QTMB and its advisers. Advance drafts of this report were also provided to RACQ. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Disclosure Documents to be sent to members of QTMB. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears, such consent not to be unreasonably withheld.

7.6 Other

The accompanying letter dated 3 August 2016 forms part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
3 August 2016

Grant Samuel & Associates

Annexure B - Legacy Share Terms

Club Finance Holdings Limited
ACN 612 096 787

Terms of Issue of Legacy Shares

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In these Terms:

ASIC means the Australian Securities & Investments Commission.

Australian Mutual Entity means each of the National Roads & Motorists' Association Limited, Royal Automobile Club of Victoria (RACV) Ltd, Royal Automobile Association of South Australia Incorporated, Royal Automobile Club of W.A. (Incorporated), The Royal Automobile Club of Tasmania Limited and The Automobile Association of Northern Territory Inc and any successor or assign of any of these entities and any other entity established in Australia conducted on a not-for-profit basis or on principles of mutuality which the board of RACQ considers in its absolute discretion to be aligned with the business or objects of RACQ.

Australian Mutual ADI means an Australian authorised deposit-taking institution with a mutual structure as defined in ASIC Regulatory Guide 147 (or any replacement) or otherwise conducted on principles of mutuality similar to those set out in the QTMB constitution as it was before the Transaction.

Business Day means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Brisbane.

Class Consent means the consent referred to in clause 8.1.

Company means Club Finance Holdings Limited ACN 612 096 787.

Control has the meaning given to that term in section 50AA of the Corporations Act.

Controller has the meaning given to that term in section 9 of the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company acting as a board.

Face Value means the Redemption Amount.

Group Company means the Company and each subsidiary (within the meaning in the Corporations Act) of the Company.

Holder means a person whose name is entered in the register of members of the Company as the holder of a Legacy Share.

A person is **Insolvent** if:

(a) it is insolvent (as defined in the Corporations Act);

(b) it is in liquidation or wound up or has had a Controller appointed to a substantial part of its property;

(c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved;

(d) an order has been made or resolution passed, in each case in connection with that person, which results in any of (a), (b) or (c) above,

but any event that takes place as part of a reconstruction, amalgamation, merger or consolidation (including a 'transfer of engagements') while solvent on terms approved by the board of RACQ is excluded from this definition.

Interest Rate means:

(a) the rate known as the "Interbank Overnight Cash Rate", as determined by the Reserve Bank of Australia and published on the Reserve Bank of Australia website at or about 9.00 am (Sydney time) on the first day after the due date for payment of the Preserved Surplus Amount; or

(b) if no rate referred to in paragraph (a) of this definition is determined or the basis on which the rate referred to in paragraph (a) of this definition is calculated changes after the date of this document, the rate determined by the Company, acting reasonably, to be the appropriate equivalent rate having regard to prevailing market conditions, plus 2%.

Issue Date means the date in clause 2.3.

Legacy Shares means redeemable preference shares in the Company having the rights and restrictions set out in these Terms.

Ordinary Shares means ordinary shares in the capital of the Company.

Overseas Holder means each registered holder of a fully paid share in QTMB with a registered address outside of Australia as at 5.00 pm on the record date for the scheme of arrangement giving effect to the Transaction.

Preserved Surplus Amount means the amount per Legacy Share which equates to the Total Equity as recorded in the audited annual financial statements for QTMB as at 30 June 2016 divided by the number of shares on issue in QTMB as at the Issue Date.

QTMB means QT Mutual Bank Limited ACN 087 651 054 (to be re-named following the Transaction).

QTMB Disposal means any agreement, arrangement or transaction, which, if completed, would have the same effect as, or be similar in economic terms to, a disposal of QTMB or a substantial part of QTMB's business or any other transaction described in paragraphs (a) to (e) 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) all or a substantial part of the business or assets of the Company or QTMB;

(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 the Company or QTMB;

(c) a third party (either alone or with its associates) acquiring Control of, or merging or amalgamating with the Company or QTMB, including by way of takeover bid, scheme of arrangement or capital reduction or contractual arrangement;

(d) the Company or QTMB implementing any dissolution;

(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, 25% or more of the voting or non-voting shares in the Company or QTMB,

but excluding:

(i) any acquisition by the Company or QTMB of voting shares in an Australian Mutual ADI or a 'transfer of engagements' to QTMB from an Australian Mutual ADI or a 'transfer of engagements' to a Group Company from QTMB pursuant to the Financial Sector *(Business Transfer and Group Restructure)* Act 1999 (Cth) or any similar or replacement law, which may include the payment of consideration to the members or shareholders of the Australian Mutual ADI by the issue of non-voting redeemable preference shares in the Company or a Group Company ranking equally with or lower than the Legacy Shares in respect of the amounts payable on those preference shares; and

(ii) an Australian Mutual Entity or a related body corporate of an Australian Mutual Entity directly acquiring 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, up to 50% of the voting or non-voting shares in the Company.

In the event that there is a 'transfer of engagements' to a Group Company (**Transferee**) from QTMB under the *Financial Sector (Business Transfer and Group Restructure) Act 1999* (Cth) or any similar or replacement law, in a manner contemplated by paragraph (i) of this definition, a reference to QTMB in these Terms will be read as a reference to that Transferee.

RACQ means The Royal Automobile Club of Queensland Limited ACN 009 660 575.

RACQ Demutualisation means any arrangement which would have the purpose or effect of:

(a) creating or issuing shares in RACQ; or

(b) RACQ agreeing to create or issue shares in it; or

(c) varying the rights of members of RACQ, or a class of members of RACQ, to:

  (i) RACQ's reserves; or

  (ii) RACQ's assets on a winding up; or

(d) transferring, exhausting, surrendering, cancelling or terminating some or all rights of members (including the complete resignation of membership, whether in exchange for value or not),

and includes:

(e) any arrangement that would have the purpose or effect of authorising any of the matters set out in paragraphs (a) to (d); and

(f) any proposed modification or repeal of any part of the definition of 'Demutualisation' or rule 17 of the RACQ constitution,

but excludes:

(g) any amalgamation, merger or consolidation by RACQ with another Australian Mutual Entity, in which event a reference to RACQ in these Terms will be read as a reference to RACQ or the other Australian Mutual Entity with which RACQ has amalgamated, merged or consolidated and a reference to RACQ's constitution in these Terms will be read as a reference to the constitution of RACQ or the equivalent provision of the Australian Mutual Entity's constitution; and

(h) an agreement for a Demutualisation entered into by RACQ and authorised by the board of RACQ, provided that the agreement is conditional upon, and that the Demutualisation may only be carried out with, authorisation under rule 17 of the RACQ constitution.

Redemption Amount means $10 per Legacy Share.

Terms means these terms of issue of the Legacy Shares.

Transaction means the amalgamation or merger of QTMB with RACQ by way of a scheme of arrangement.

Winding Up in relation to an entity means the event by which the entity is placed in liquidation (including a resolution approving a voluntary liquidation or an order of a court to appoint a liquidator) but any event that takes place as part of a reconstruction, amalgamation, merger or consolidation (including a 'transfer of engagements') while solvent on terms approved by the board of RACQ, provided that under such a reconstruction, amalgamation, merger or consolidation (**Event**) each Holder either retains its Legacy Share or receives a replacement security in another entity (**Replacement Entity**) with an economic value no less than the economic value of the Legacy Share immediately prior to that Event, is excluded from this definition. If a replacement security is issued to a Holder under a Winding Up in a Replacement Entity, in a manner contemplated in this definition, a reference to QTMB in these Terms will be read as a reference to that Replacement Entity.

1.2 Interpretation

(a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms and the Constitution (excluding these Terms) then, to the maximum extent permitted by law, the provisions of these Terms will prevail.

(b) Unless otherwise specified, the Directors may exercise all powers of the Company under these Terms as are not, by the Corporations Act or otherwise by the Constitution, required to be exercised by the Company in general meeting.

(c) Except to the extent otherwise specified in these Terms, notices may be given by the Company to a Holder in the manner prescribed by the Constitution for the giving of notices to members of the Company and the relevant provisions of the Constitution apply with all necessary modification to notices to Holders.

(d) Unless otherwise specified, a reference to a clause is a reference to a clause of these Terms.

Annexure B - RACQ Legacy Share Terms (continued)

(e) If a calculation is required under these Terms, unless the contrary intention is expressed, the calculation will be rounded to two decimal places. For the purposes of making payment to any person, any fraction of a cent will be disregarded.

(f) A reference to a body (including APRA or any other institute, association or authority but excluding the Company or a Holder), whether statutory or not:

(i) which ceases to exist; or

(ii) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

(g) The terms "associate", "takeover bid", "relevant interest" and "scheme of arrangement" when used in these terms have the meaning given in the Corporations Act.

(h) A reference to a statute, ordinance, code or other law in these Terms includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

(i) If an event under these Terms must occur on a stipulated day which is not a Business Day, then the stipulated day for that event will be taken to be the next Business Day.

(j) Definitions and interpretation under the Constitution will also apply to these Terms, subject to this clause 1.

2. ISSUE AND TRANSFER

2.1 Issuer

Legacy Shares may be issued by the Company at the discretion of the Directors in accordance with these Terms.

2.2 Eligible Holders

Each person who is a member of QTMB on the record date for the scheme of arrangement giving effect to the Transaction, other than an Overseas Holder, may be issued one Legacy Share.

2.3 Issue Date

The Issue Date is the date on which the scheme of arrangement giving effect to the Transaction is implemented.

2.4 Fully paid

Each Legacy Share will be issued as fully paid at its Face Value.

2.5 Transfer

A Legacy Share may not be transferred.

3. PRESERVED SURPLUS AMOUNT

3.1 Entitlement to Preserved Surplus Amount

Each Legacy Share confers upon its Holder the right to payment in cash of the Preserved Surplus Amount upon the earlier to occur of:

(a) a QTMB Disposal;

(b) the Insolvency of the Company or QTMB;

(c) the Winding Up of the Company or QTMB; or

(d) an RACQ Demutualisation.

3.2 Payment of Preserved Surplus Amount

The Preserved Surplus Amount must be paid by the Company to each Holder in cash no later than 10 Business Days after the occurrence of the event giving rise to the entitlement.

3.3 Nature of payment

The Preserved Surplus Amount will be a debt owing by the Company to the Holder on and from the date of the occurrence of the event giving rise to the entitlement.

3.4 Interest

If the Company does not pay the Preserved Surplus Amount in full when it is due and payable, interest will accrue on the amount owing to the Holder at the Interest Rate, compounded with the amount owing on a quarterly basis.

3.5 If payment not legally permissible

If the Company is prohibited by the Corporations Act from payment of all or part of the Preserved Capital Amount under clause 3.1, the Company must in good faith take such alternative course of action as it considers reasonable in the circumstances (such as, but not limited to, a buy back or capital reduction) which delivers in a timely fashion to the holders of Legacy Shares an economic result which does not differ materially to the economic result which would have been delivered had payment not been prohibited.

4. REDEMPTION

4.1 Redemption by the Company

Subject to the Corporations Act, the Company:

(a) has the sole discretion to redeem a Legacy Share for the Redemption Amount if:

(i) the Holder of that Legacy Share does not hold, and has not in the previous 3 months held, any banking or finance product provided, sold or marketed by QTMB or by any Group Company; or

(ii) the Preserved Surplus Amount and any accrued interest has been paid to the Holder of that Legacy Share in accordance with clause 3; and

(b) must redeem each Legacy Share not previously redeemed by the Company under clause 4.1(a) on or before the seventh anniversary of the Issue Date for the Redemption Amount within three months after the seventh anniversary of the Issue Date.

4.2 Dormant accounts

A deposit account of a Holder (other than a retirement savings account regulated by the *Retirement Savings Account Act 1997*) will not be considered to be held for the purposes of clause 4.1(a)(i) if:

(a) no transaction has been initiated by the Holder for at least 12 months;

(b) the Holder has been given at least 28 days written notice that the directors of QTMB acting in good faith consider the account to be dormant and propose to return the deposited funds to the Holder (or pursuant to relevant unclaimed money legislation) and redeem the Holder's Legacy Share (with clear disclosure of the Face Value and consequences of redemption); and

(c) the Holder has not elected by writing or transaction to retain the deposit account within the 28 day notice period.

4.3 Method of redemption

(a) The Company may redeem the Legacy Share of a Holder pursuant to clause 4.1 by:

(i) notice in writing to the Holder; and

(ii) payment of the Redemption Amount in cash to the Holder on the date of the redemption.

(b) In effecting the redemption, the Company must comply with the Corporations Act.

(c) The Company is not entitled to redeem a Legacy Share other than pursuant to clause 4.1.

5. NO DIVIDEND ENTITLEMENT

Holders of Legacy Shares have no right or entitlement to dividends.

6. GENERAL RIGHTS

6.1 Ranking

(a) Legacy Shares rank equally among themselves in all respects.

(b) Legacy Shares rank in priority to Ordinary Shares for the payment of the Preserved Surplus Amount and the Redemption Amount.

6.2 Return of capital on a winding up

Each Legacy Share confers upon its Holder the right in a winding up of the Company to payment in cash of the Face Value:

(a) in priority to Ordinary Shares and any class of shares ranking behind the Legacy Shares; and

(b) on an equal basis pro rata with all other Legacy Shares and any class of shares ranking equally with the Legacy Shares.

6.3 Shortfall on winding up

If, upon a return of capital on a winding up, there are insufficient funds to pay in full the amounts referred to in clause 6.2 and the amounts payable in respect of any other shares ranking as to such distribution equally with the Legacy Shares on a winding up, the holders of the Legacy Shares and the holders of any such other shares will share in any distribution of assets of the Company in proportion to the amounts to which they respectively are entitled.

6.4 Participation in assets and profits

The Legacy Shares do not confer on Holders any further right to participate in the surplus assets of the Company on a winding up, or in the property or profits of the Company beyond the rights set out in these Terms.

6.5 Payments

Any amount payable to a Holder pursuant to these Terms must be paid in cash, by bank cheque, by direct deposit to an account of an Australian authorised deposit-taking institution or in any other form that the Holder agrees in writing.

6.6 Registration

Each Legacy Share will be in registered form and the Company must maintain a register of the Legacy Shares as part of the register of members of the Company in accordance with the Corporations Act.

7. VOTING RIGHTS

7.1 No entitlement to notice or to attend and speak except in specific circumstances

Except where the Holder is entitled to vote at a general meeting of the Company, Holders of Legacy Shares have no right to notices of general meetings of the Company or to attend and speak at those meetings.

7.2 Voting

Holders have no entitlement to vote at any general meeting of the Company except that they may vote:

(a) on a proposal that affects rights or privileges attaching to the Legacy Shares;

(b) on a resolution to approve the terms of a buy-back agreement of Legacy Shares; and

(c) during the Winding Up of the Company up until payment is made to the Holder of the Preserved Surplus Amount or the Legacy Share is otherwise redeemed.

7.3 Votes

At a general meeting of the Company where Holders of Legacy Shares may vote, and at a meeting of the Holders of the Legacy Shares, each Holder is entitled:

(a) on a show of hands, to one vote; and

(b) on a poll, to one vote for each Legacy Share held by it.

Annexure B - RACQ Legacy Share Terms (continued)

7.4 No entitlement to receive accounts

Subject to the Corporations Act, Holders of Legacy Shares have no right to receive accounts and reports of the Company.

8. VARIATION OF RIGHTS AND FURTHER SHARE ISSUES

8.1 Variation of Rights - Class Consent

The rights and restrictions attaching to the Legacy Shares may not be varied or cancelled unless:

(a) a special resolution is passed in favour of the variation or cancellation at a meeting of the Holders of Legacy Shares; or

(b) with the written consent of Holders who are entitled to at least 75% of the votes that may be cast in respect of Legacy Shares,

(**Class Consent**).

8.2 Procedures for meetings

The provisions of the Company's constitution relating to general meetings apply so far as they are capable of application, and with any necessary modifications to any meeting under clause 8.1(a).

8.3 Further share issues

(a) The issue by the Company of any further Legacy Shares or other preference shares which rank in priority to the Legacy Shares in respect of the Face Value or any other amount payable (whether the payment is in the nature of dividend, return of capital or otherwise) or on a winding up constitutes an alteration of the rights attached to the Legacy Shares. Accordingly, until all of the Legacy Shares have been redeemed, the Company must not, without a Class Consent, issue or permit any conversion into any such preference shares.

(b) Legacy Shares do not confer upon the Holder any right to subscribe for new securities in the Company or to participate in any bonus issues of the Company.

(c) For the avoidance of doubt, the issue of preference shares in accordance with paragraph (f) of the definition of 'QTMB Disposal' does not require Class Consent.

9. Amendments

Subject to any additional requirements of the Constitution of the Company, these Terms may only be amended by Class Consent.

Annexure C - Constitution Resolution

Proposed resolution to amend the QTMB Constitution to be considered at the Member Meetings:

That subject to and with effect from the Scheme of Arrangement being approved by the Court under Part 5.1 of the Corporations Act 2001 (Cth) and for the purposes of section 136(2) of the Corporations Act, the QTMB Constitution be amended by:

*(a) (**increasing maximum number of directors**) in clause 13.1, deleting 'nine (9)' and inserting 'ten (10)' in its place;*

*(b) (**director need not be a member**) deleting clause 13.3(1)(a);*

*(c) (**allowing a transfer of QTMB Shares under a scheme**) deleting clauses A2-D1-2(2) and A2-D1-8(1) and inserting a new clause A2-D1-8(1) as follows:*

'A member may not transfer their member share except by way of or pursuant to a scheme of arrangement approved under Part 5.1 of the Corporations Act 2001 (Cth).'

*(d) (**repealing Division 19 and Appendix 5**) deleting Division 19 and Appendix 5 - Procedure upon approach to demutualise.*

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Brisbane Qld 4000

Independent Expert

Grant Samuel
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1 Farrer Place
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QTMB Branch Locations

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Capalaba

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Fortitude Valley

QTMB Building 454 St. Pauls Terrace, Fortitude Valley, Brisbane QLD 4006

Gold Coast

56 Scarborough Street, Southport Central Shopping Centre, Southport QLD 4215

Greenslopes

Shop 10/11, Greenslopes Shopping Centre, 720 Logan Road, Greenslopes QLD 4120

Indooroopilly

Shop 3037, Indooroopilly Shopping Centre, 322 Moggill Road, Indooroopilly QLD 4068

North Lakes

Shop E8, 1 North Lakes Drive - Outside Westfield North Lakes Shopping Centre, North Lakes QLD 4509

Springfield

Shop 33, Orion Springfield Central, 1 Main Street, Springfield Central QLD 4300

Springwood

Shop 35, Centro Springwood, Cnr Rochedale Road and Fitzgerald Avenue, Springwood QLD 4127

Stafford

Shop E3/E4, Stafford City Shopping Centre, 400 Stafford Road, Stafford QLD 4053

Strathpine

Shop 106, Strathpine Centre, 295 Gympie Road, Brisbane QLD 4500

Toowoomba

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