

Creating competition



**cu**a™  
A change for the better

# AGM 2011

NOTES:



# Welcome

*from Alan Beanland  
Chairman of the Board*

NOTES:

# CUA Board

## Board

- > Alan Beanland, *Chairman*
- > Kate Greer
- > Kevin Ross
- > Chris Franks
- > Peter Dowling
- > Elizabeth Foster
- > Paul Bedbrook
- > Nigel Ampherlaw
- > Chris Whitehead, *Chief Executive Officer*

## Executives

- > Tony Taylor, *Chief Financial Officer*
- > Rod Saville,  
*General Counsel and Company Secretary*

Creating  
competition

NOTES:



# Alan Beanland

*Chairman*

NOTES:

# CUA in 2011

## A Year of Investment and Growth

### Financial highlights

- > Reportable net profit after tax increases to \$54.4 million
- > Underlying net profit after tax increased to \$46.2 million
- > Total assets under management up to 10% to record \$9 billion
- > Loans settled increased by 14% to \$1.9 billion
- > Deposits increased by 13% to \$6.1 billion
- > Capital adequacy remains positive at 13.3%
- > Membership increased to a record 416,899

#### NOTES:

Slide 5

I am please to report to members that financial results for the year to June 2011 are a reflection of another strong, positive year, despite some difficult market conditions, with CUA continuing to show a modest increase in both reportable and underlying net profit after tax.

It is important to note that our aim is not to make the highest profit possible. Rather, we wish to make a sustainable profit, whilst we continually re-invest back into the business for the benefit of our members.

With that end in mind, this increased profit was achieved against a backdrop of considerable investment in the business, particularly in the areas of employees and technology infrastructure. Our CEO, Chris Whitehead, will expand upon this investment later in his presentation to you.

It was a particularly strong year for deposit growth, with CUA outperforming the system growth rate of 7.4% by almost double, to increase deposits to 6.1 million. Our total assets under management grew to a record \$9 billion as we continued to take market share from other financial institutions.

Capital adequacy remained solid at 13.3 percent. This is considerably above that of the tier two banks which we regard as our peer group, who generally sit between 10.5 percent and 11.5 percent. However, CUA's ratio has fallen slightly due to a number of factors such as:

- the increased capital investment in the business in the last twelve months and;
- the transition to a more conservative interpretation by APRA on the need to provide provisioning against securitised funding, which was a relatively new regulatory requirement.

Overall, a very pleasing result.

# CUA in 2011

## An overview

- > Australia's largest customer-owned financial institution
- > Profits are reinvested back into the business to deliver
  - > Award-winning products
  - > Excellent customer service
- > \$9.0 billion in assets under management
- > Largest in the Australian mutual sector
  - > 10.8% of sector's assets under management
- > Investment grade credit rating from Standard and Poor's of BBB+
- > Australia-wide distribution network (78 branches and 3,800 ATMs)
- > Providing financial services to Australians for more than 70 years

## NOTES:

Slide 6

So how are we placed as an organisation?

The successful year we have had is reflected in CUA now representing nearly 11 percent of the entire mutual sector's assets under management.

Our products continue to attract awards and our customer service and advocacy levels have remained industry leading.

We have just had our Standard and Poor's BBB+ investment grade credit rating re confirmed for the next twelve months, which has assisted in attracting an increased number of major deposit-making customers in the last year.

Overall, CUA has recorded 20 percent growth in assets over the past two years, despite the challenging economic environment.

# Multiple awards



- > Canstar Cannex 5 Star rating for 8 fixed-rate home loan products
- > Australian Banking and Finance 'Credit Union of the Year' for third consecutive year
- > Australian Banking and Finance Finalist:
  - > 'Australian Financial Institution of the Year'
  - > 'Advertising/Marketing/Promotional Campaign of the Year'
  - > 'Best use of Social Media'
- > Your Mortgage magazine 'Credit Union of the Year'

## NOTES:

Slide 7

As I stated previously, CUA's highly competitive products continue to attract industry plaudits.

Of particular note are the 5 Star Cannex rating for 8 of our fixed home-loan products, a sector of the market which has been fiercely contested in recent months. Cannex is recognised as the industry's 'gold standard' in terms of product related awards.

I'd also like to highlight an area where, although we did not win, we achieved a significant result none-the-less. Australian Banking & Finance Magazine listed us as a finalist in 3 categories at their annual awards:

- Australian Financial Institution of the Year
- Advertising/Marketing Campaign of the Year and
- Best use of Social Media for the launch of our Facebook presence

A ranking of 'finalist' is a major achievement for CUA as this was against every single financial institution in the country, bar the Big-Four Banks. It underlines the fact that CUA is punching well above its weight and is rightly ranked as a serious contender to the Tier-two listed banks.

# Key issues for CUA

## Managing Challenging Global Economic Conditions

- › Lending market has slowed
- › Retail spending at all time low
- › International turbulence continues to impact Australian economy

## Actively Driving Competition

- › Maintaining leading edge products in a fiercely competitive market
- › Increasing awareness and differentiation in a confused consumer market
- › Lobbying government for *meaningful* regulatory support on key issues

## Impact of Regulation

- › Cost and complexity of regulatory compliance is increasing
- › Basel III
- › Capital management - we will continue to explore innovative options to access capital
- › Funding - maximising the benefits of our credit rating and accessing alternative funding sources

### NOTES:

Slide 8

I would like to mention a number of issues that have been material for CUA in the past twelve months. These are not new, however they continue to be factors which we need to successfully navigate and, as such, are worth bringing to the attention of our members and customers.

Overshadowing us all, the economic environment continues to provide a challenge to all financial institutions and has had some material impacts upon CUA as the lending market has slowed and retail lending market experience a significant downturn. Chris will expand upon this in his presentation.

However, I would like to note our on-going ability to offer leading products in a fiercely competitive environment and our need to ensure that members, and potential members and customers, know exactly who CUA is, and what we stand for. To help achieve this we seek necessary improvements in the regulatory environment to support the mutual sector.

The impact and cost of regulatory compliance continues, the latest being Basle III capital requirements, needing careful management. This ongoing burden, which requires specialist skills at executive and board level, continues to be a major issue for smaller mutuals and is a major driver for many of them to seek potential merger partners.

Access to reasonably priced funding and capital is needed to support our growth strategy. We continue to maximise the benefits of our credit rating and will look to access alternative funding sources as competition for retail finds remains fierce.

As we grow capital management becomes increasingly important to us, as CUA seeks to fund that growth and we will continue to explore innovative options to access capital.

# The mutual industry: a period of change

- > Recommendations from the Senate Inquiry into 'Competition within the Australian Banking Sector' now being felt
- > CUA remains committed to the mutual model and must differentiate itself clearly to the consumer
- > Several credit unions and building societies have become 'mutual banks'
- > Will maintain a watching brief and seek to capitalise on our strength and stability during a time a of turbulence for the credit union sector

## NOTES:

Slide 9

These are interesting times for the mutual industry in Australia and I'd like to make some comments on recent developments.

Firstly I would like to clearly state, as I have in the past, that CUA remains committed to the mutual model and sees itself as having a responsibility, as Australia's largest credit union, to uphold the interests of the mutual and credit union sector.

Later in the meeting we will address the proposed Amendment to our Constitution, including our Demutualisation Rules. I must emphasise that this is not reflection of any intention to move from our mutual status and our commitment to mutuality remains unchanged. The Constitution and the Demutualisation Rules merely need to be reviewed in light of the growth of CUA and the many legislative and regulatory changes that have taken place.

However, I would like to touch on an issue that many of you would already be aware of, as the recommendations from last year Senate Inquiry into 'Competition with the Australian Banking Sector; begin to be felt.

Many of our fellow credit unions are now making the move to become 'mutual banks' and we are watching this development with interest. One fall-out is that this has the potential to further confuse the consumer, many of whom are already unsure what a mutual is and what a credit union can offer. The need for CUA to clearly differentiate itself and point out the advantages of mutuality to members, and to potential member and customers, is critical if we are to retain our relevance and profile in the future.

# CUA in 2012

## Looking forward

- › Enhancing member experience
- › Commitment to growing our business and improving efficiencies
- › Sustainable profit levels to support growth
- › Providing an enduring and competitive alternative to major banks
- › Maintaining sound governance and prudent risk management
- › Continued commitment to staff development

**CUA will remain strong, secure,  
profitable and growing for members.**

### NOTES:

Slide 10

Looking forward, we see our priorities as continuing to enhance our member's experience and we keep your interests at the forefront of everything we do.

So to summarise, growing the business, achieving greater efficiencies, providing a viable alternative to the listed banks, developing our staff, and managing the business prudently and responsibly, will all be of benefit to our members in the short, medium and long term.

So although it was a challenging year, the Board believes it was a successful year, and we are confident that CUA will remain strong, secure, profitable and mutually owned business.

I will now pass over to Chris who will expand upon our strategy for achieving those objectives.

Creating competition



**cu**a™  
A change for the better

# AGM 2011

NOTES:



# Chris Whitehead

*CEO*

NOTES:

# CUA: a path of change and investment

- > The competition debate continues
- > CUA ideally placed as largest mutual - but we need to differentiate from the 'mutual banks'
- > Ongoing investment as we pursue our change agenda:
  - > improving customer service across all channels
  - > lowering operating costs
  - > growing membership organically and via mergers
  - > broadening our reach to prospective customers
- > Significant investment in new systems, recruitment and training

## NOTES:

Slide 13

Thanks Alan.

I'd like to provide an update on the key strategic and operational aspects of the business.

In many ways this has been an immensely exciting year for CUA as we made significant progress on a sustained path of change and investment.

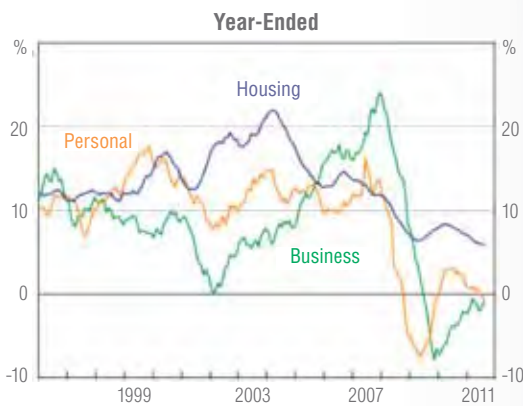
As you have heard the competition debate continues, with 5th banking pillars being mooted, Big Banks breaking up with each other, fierce competition for retail customers and a number of credit unions opting to be mutual banks.

Throughout this disruption we remained focused on our agenda of growth and change with significant investment in new systems, recruitment and training.

# Volatile economic environment

## Credit Growth

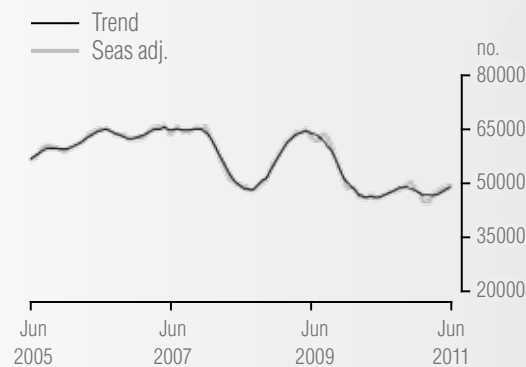
Credit growth in decline since 2009 and at lowest levels in over 20 years.



Source: RBA - The Australian Economy and Financial Markets, September 2011

## Housing

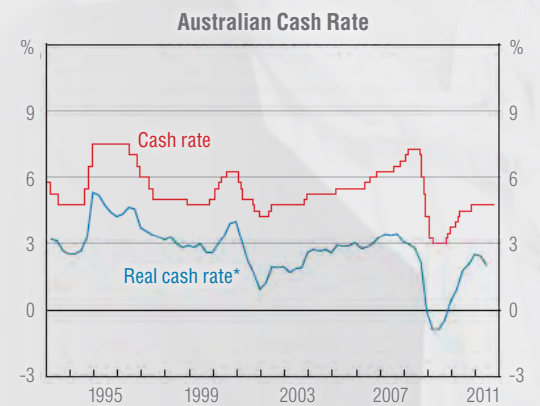
Number of owner occupied dwellings financed at lowest levels since 1977.



Source: ABS 5609.0 - Housing Finance, Australia, Jul 2011

## Interest Rates

Interest rates have remained steady at 4.75% since November 2010.



\*Calculated using average of weighted median and trimmed mean inflation  
Sources: RBA - The Australian Economy and Financial Markets, September 2011

## NOTES:

Slide 14 /15

First I'd like to provide a broader context for the strategy which CUA is pursuing.

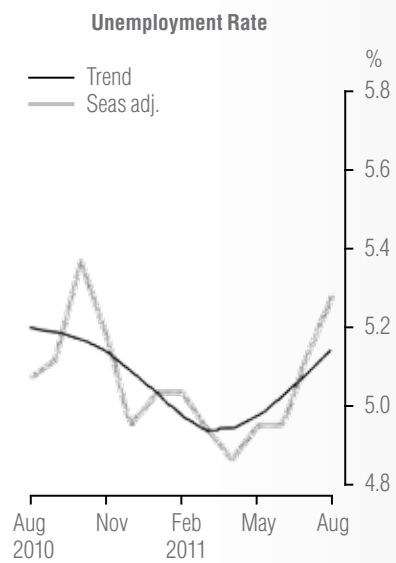
- Credit Growth has slowed significant since 2009 and is at its lowest level in 20 years
- Housing: Lowest level of financing for owner occupied dwellings since 1977.
- Consumer confidence has taken a hit with lower retail spending levels reflecting this caution. However, as this graph shows, confidence is stronger than you would think and we are predicting that people have more faith and confidence in the Australian economy than is indicated and that there will be a return to a healthy, but responsible level of lending sooner, rather than later.

Despite these conditions CUA has grown the business twenty percent over the past 24 months, and we account for about 30 percent of the growth of the entire mutual sector. This speaks volumes for the competitiveness of our products and levels of customer service.

# Volatile economic environment

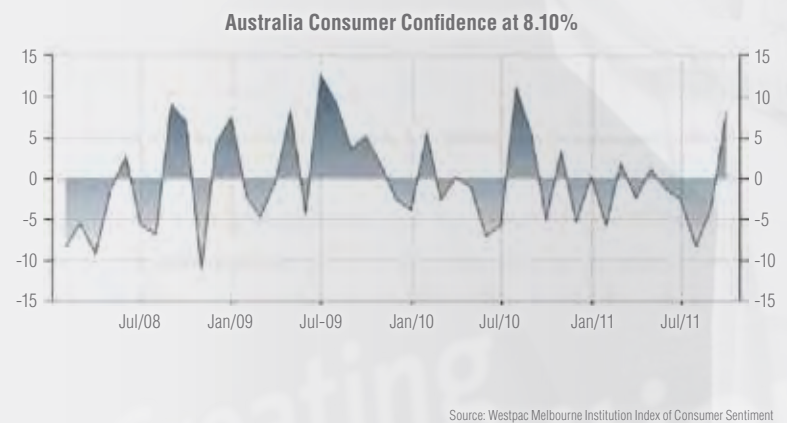
## Employment

Australia's unemployment rate has remained relatively flat over the past year.



## Consumer Confidence

Despite a recent rise, consumer confidence remains weak in a climate of economic uncertainty. However, CUA predicts a return of consumer confidence in borrowing.



NOTES:

# Strategic objectives

- > Make customer-owned banking more relevant
- > Grow assets under management through:
  - > Organic growth
  - > Partner alliances
  - > Investment in the business
  - > Merger opportunities
- > ...to achieve the economic advantages of increased scale

## NOTES:

Slide 16

We reaffirmed our strategic objectives in January of this year and have remained firmly focused on bringing them to realisation:

# Operational highlights

- > Achieved BBB+ investment grade credit rating from Standard and Poor's
- > Successfully completed merger with Plenty Credit Co-operative Ltd
- > Maintained a differential of at least 50bp on the Standard Variable Home Loan (SVHL), compared with the Big Four banks' average SVHL rate
- > Awarded CANSTAR CANNEX 5 Star ratings for eight fixed-rate home loan products
- > Achieved an Employer of Choice citation from the Equal Opportunity for Women in the Workplace Agency for the sixth consecutive year
- > Invited to appear at Senate Economics References Committee Inquiry into 'Competition within the Australian banking sector'

## NOTES:

Slide 17

The year has also seen a number of highlights which we'd like to share with you.

One standout experience of 2011 that I have not mentioned is the management of the Queensland floods which forced the evacuation of our headquarters in Brisbane for several weeks. I should mention the dedication and professionalism shown by our employees to ensure that members were kept informed of what was going on and that compassion and understanding was given to those members who were affected by the floods. Our systems were down for less than 36 hours and 14 branches were closed and the member feedback we received during that time was terrific and greatly appreciated.

# Investment for future growth

## Significant investment in FY2011 for long-term, sustainable growth:

- > A new core system
  - > Selection of TCS and TCS BaNCS as preferred supplier
  - > Moving from design phase to full scale implementation during 2012/13
- > Considerable investment in training to further enhance the customer experience through all channels
- > Increased staff numbers to support growth
  - > Over the course of FY2011, CUA increased headcount by 12.5%
- > Aligning remuneration levels with the broader market to attract and retain some of the best talent in the industry
- > Digital platform investment, roll-out of new digital strategy
  - > Facebook campaign (second-highest number of 'likes' across Australian banking sector)
  - > Launch of first-to-market App, CUA AutoMate

### NOTES:

Slide 18

Alan and I have referred to investment several times and I'd like to outline the three main areas that this has taken place in.

- Systems – core and online banking
- People – training, remuneration and headcount
- Infrastructure – move from design phase to full scale implementation

Lastly, but by no mean least, we have made a significant progress in launching our digital offer which is critical to ensure that we remain relevant and compelling in this increasingly important channel. Indeed it is worth noting that 30 percent of CUA's business now comes through our website and this will only increase in the future.

# Strategy for Growth:

## Customer/Member Strategy

Increase customer value through sophisticated market segmentation and analysis to improve customer experience

- > Enhanced customer communication systems (completed)
- > Better understanding of our markets and our customers' needs

## Core System Strategy

Ensuring appropriate core system to meet current and future needs

- > Selection of TCS and TCS BaNCS as preferred supplier
- > Moving from design phase to full scale implementation during 2012/13

## Distribution Strategy

Integrated, effective and efficient distribution experience through needs-based acquisition and engagement frameworks

- > Focus on full financial service + great service for all frontline staff
- > Industry leading customer advocacy

## Capital and Funding Strategy

Resilient, efficient, compliant and flexible programs

- > Achieved BBB+ investment grade credit rating from Standard and Poor's in October 2010

## Digital Strategy

Review and update CUA's website and online banking to optimise the experience and effectiveness

- > Re-developing the online banking service, including mobile banking
- > Planned launch of new, updated CUA website

### NOTES:

Slide 19

There were six major strategies that CUA was focussed on. Several significant milestones have been met and, indeed, three of these projects are now complete, whilst two are rapidly moving into full roll-out phase.

# Outlook

- > A positive financial position to deliver on its growth strategy, despite challenging market conditions
- > CUA will continue to focus on being a compelling alternative to major banks through reinforcement of the benefits of the customer-owned model
- > CUA will move from the design phase to full scale implementation of its core banking system
- > CUA remains focused on delivering increased cost efficiencies and profitability
- > While CUA continues to invest in its business, relatively flat profit growth is expected in FY2012
- > CUA predicts a rebound in consumer confidence and a return to borrowing

## NOTES:

Slide 20

Overall, an exciting and challenging year and I look forward to updating you on our progress twelve months from now.

Creating competition



**cu**a™  
A change for the better

# AGM 2011

NOTES:



Creating competition

## Agenda Item 2

*Financial Statements  
and Reports*

NOTES:

Creating competition



**cuu**<sup>TM</sup>  
A change for the better

# AGM 2011

NOTES:

Creating competition



## Agenda Item 3

*Amendment to  
Constitution*

NOTES:



## Creating competition

That the Constitution of Credit Union Australia Ltd be amended by deleting the year “2011” where it appears in Appendix 5 - Demutualisation Approval Procedure Rules, Division 1, Clause A5-1 (3) and inserting in its place the year “2012”.

Creating competition



**cu**a™  
A change for the better

# AGM 2011

NOTES:



Creating competition

# Agenda Item 4

*Election of Directors*

NOTES:

Creating competition



**cu**a™  
A change for the better

# AGM 2011

NOTES: