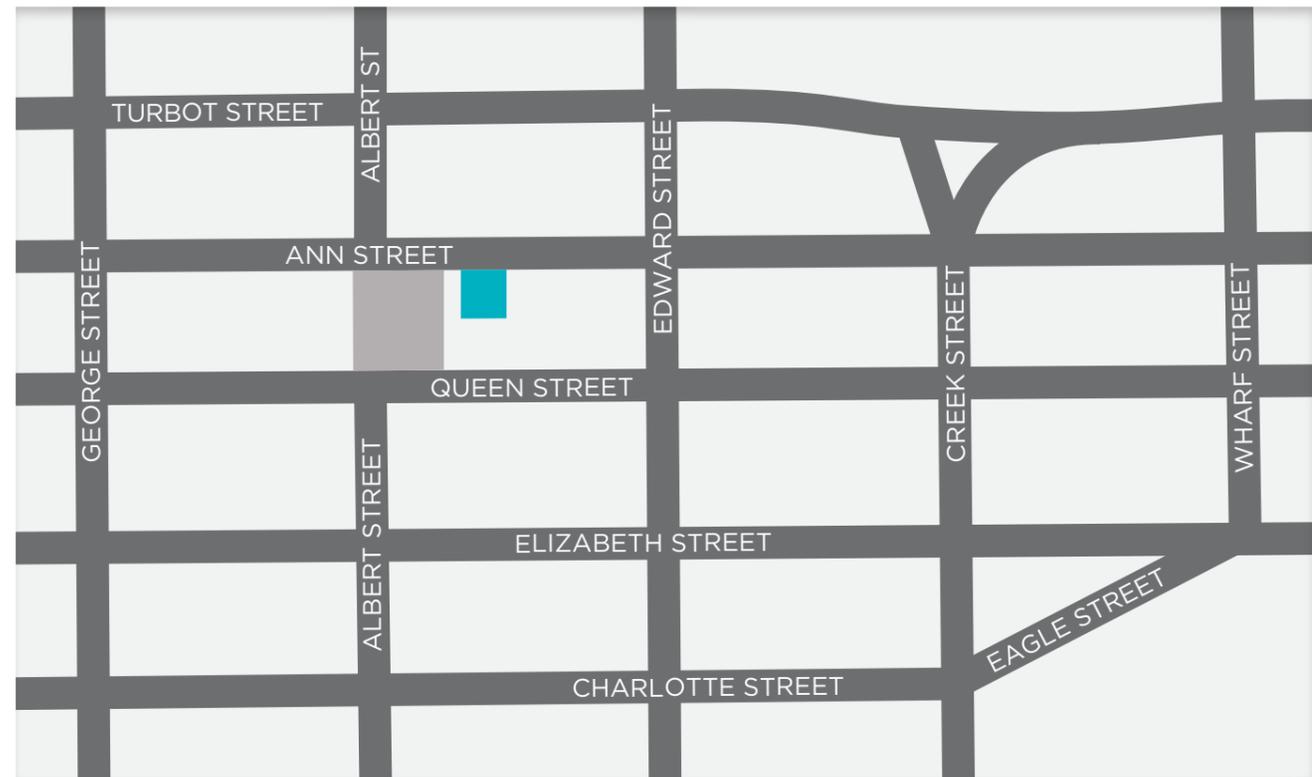


Getting there:

Level 23, 145 Ann Street, Brisbane QLD 4000

Commencing at 5.00pm (AEST) or immediately following CUA's Annual General Meeting



 CUA Building and meeting location

CREDIT UNION AUSTRALIA Ltd
ABN 44 087 650 959
AFSL and Australian credit licence 238317
GPO Box 100, Brisbane, QLD 4001
P 133 282 cua.com.au

Chairman's Letter

Dear Member,

It is my pleasure to invite you to an Extraordinary General Meeting (EGM or Meeting) of Credit Union Australia Limited (CUA) on Thursday 6 November 2014, to be held immediately after CUA's Annual General Meeting (AGM).

The purpose of the EGM is to propose amendments to CUA's Constitution (including the Principles of Mutuality).

CUA has a proud history as a mutual and remains committed to mutuality. It operates in a highly competitive industry, which is continually evolving through changes in technology. Services that historically were provided face to face in branches are now provided through online digital banking services. This trend presents opportunities and challenges to CUA. The Board propose a number of changes to the constitution to improve the ability of CUA to compete as a mutual. The Board urges members to see these measures as vital support.

One of these challenges is to ensure that online services are simple and fast. In this regard the requirement to collect a \$10 refundable fee for membership prior to acquiring a product is a dis-incentive for potential new members. It adds a complexity not encountered with most of our competitors such as the major banks. The collection of this fee is also problematic for new members joining via a broker or online. The proposed changes allow CUA to grant membership without collection of this fee in future and also allows existing members to obtain a refund of the membership they have paid whilst remaining as members. **Under the changes proposed by the Board, all active members of CUA will still be entitled to a vote.**

To cater for additional investment or in case of stress, such as another GFC, it might be necessary for CUA to raise additional funding. Regulators are expected to make a provision for a mutual to do this. The Board therefore propose to clarify the rules applying to the potential issue of a new class of additional shares. Currently CUA has no such intent or need and any such decision would require the prior approval of members in a general meeting. The rules clarify that if such shares were issued the holders would have no voting rights and would not be entitled to share in the distribution of surplus assets in the unlikely event of a winding up.

Our mutual status will not change as a result of this proposal.

At the end of the 2014 AGM, Appendix 4 of the Constitution (Demutualisation Approval Procedure Rules) will lapse. It is proposed to replace it with a new simplified Appendix 4.

I encourage you to attend the EGM or lodge a proxy to have your say in helping CUA to remain a strong progressive leading Mutual in the competitive financial services market.

The meeting will be held in our Brisbane Head Office, Level 23, 145 Ann Street, Brisbane QLD 4000, commencing at 5.00pm (AEST) or immediately following CUA's Annual General Meeting. Details on how to get to the meeting are set out in this Notice of Meeting.

We have enclosed a Proxy Form for members who are unable to attend the meeting and would like to appoint a Proxy to attend and vote on their behalf. You can complete and return the hardcopy of your Proxy Form by post in the Reply Paid envelope provided. Instructions on how to vote and alternate methods of lodging your proxy are contained in this Notice of Meeting.

The directors and executives of CUA look forward to seeing you at the EGM.

Yours sincerely,

A.E. Beanland
Chairman
10 October 2014


Life rich banking

PLEASE BRING YOUR CUA DEBIT CARD WITH YOU TO THE EGM TO ASSIST WITH REGISTRATION.

2014 Notice of Extraordinary General Meeting

Credit Union Australia Ltd (ABN 44 087 650 959)

Notice is hereby given that an Extraordinary General Meeting (EGM) of Credit Union Australia Limited (CUA) (the Company) will be held at:

- Location:** Level 23, 145 Ann Street
Brisbane, QLD, 4000
- Date:** Thursday 6 November 2014
- Time:** 5.00pm, (AEST) or immediately following CUA's Annual General Meeting

ITEMS OF BUSINESS

1. Chairman's Presentation

2. Amendment of the Constitution (including the Preamble) of CUA

To consider, and if in favour, pass the following as a special resolution:

"That the Constitution of Credit Union Australia Limited be amended by deleting the words that are struck out and adding the words underlined in the marked up copy of the Constitution (including the Preamble) tabled at the Meeting and initialled by the Chairman for the purposes of identification (Proposed Amended Constitution)"

By Order of the Board of Directors

A.B. Ong
Company Secretary
10 October 2014

Important Information for Members

PROXIES

Any member entitled to attend and cast a vote at the Extraordinary General Meeting may appoint a proxy to attend and vote for them at the meeting. Members are encouraged to appoint a proxy where they are unable to attend the meeting.

A proxy does not need to be a member of CUA.

A Proxy Form and Reply Paid envelope are enclosed with this Notice of Meeting.

You can appoint a proxy to attend and vote for you at the meeting in accordance with the directions on the Proxy Form. If you do not direct your proxy as to how to vote on the proxy form then the proxy may vote as he or she thinks fit.

Additional information on proxies is included in the Member's Guide to Proxy Voting.

To be effective you must lodge your Proxy Form by no later than 4.00pm (AEST) on Tuesday, 4 November 2014.

FURTHER INFORMATION

Copies of CUA's 2014 Annual Report and the 2014 Notice of Annual General Meeting, the Proposed Amended Constitution and other documents referred to in the Explanatory Notes are available at www.cua.com.au.

Explanatory notes

ITEM 2: SPECIAL RESOLUTION TO AMEND THE CONSTITUTION

The Meeting has been called for members to consider and, if in favour, to pass the following resolution as a special resolution:

“That the Constitution of Credit Union Australia Limited be amended by deleting the words that are struck out and adding the words underlined in the marked up copy of the Constitution (including the Preamble) tabled at the Meeting and initialled by the Chairman for the purposes of identification (Proposed Amended Constitution).”

MODERN MUTUALITY

The Board has reviewed the Constitution of CUA (Constitution) and are seeking to update the Preamble to the Constitution and the Constitution to reflect modern mutuality.

Accordingly, our “Principles of Mutuality” as set out in the Preamble to the Constitution, which we adopted over a decade ago, will be refined to focus the Principles of Mutuality on principles that we consider to be at the core of modern mutuality:

- **Governance:** one member, one share, one vote (subject to qualification criteria and the restrictions in the Constitution on voting by minors)
- **Economic:** only current members, a like institution or a charity may share in any surplus assets on winding-up

These principles are consistent with the Australian Securities and Investments Commission’s (ASIC) policy as expressed in Regulatory Guide 147 Mutuality – Financial Institutions (RG 147), issued in September 2000, regarding matters relevant to a mutual structure.

In addition, we will also retain some other indicators of mutuality which, although not core to a mutual structure under ASIC’s policy in RG 147, nevertheless reflect what we consider are matters of importance to members, such as:

- the requirement that, subject to any board resolution to the contrary, all customers of the credit union must be members
- the requirement that all directors must be members

In seeking to focus on the core principles of modern mutuality as outlined above, the proposed amendments to the Principles of Mutuality:

- provide for CUA to establish and amend membership criteria and voting qualification criteria for members (ASIC notes in RG 147 that it is not inconsistent with a mutual structure to have membership and voting qualification criteria provided they are reasonable)
- provide that if there are additional shareholders they must not participate in or accrue rights to surpluses in that capacity except by receiving dividends that cannot exceed a fixed percentage (determined by CUA’s board) of CUA’s annual profit after tax in the relevant year and payable out of that year’s profit

- remove matters that are less relevant to the core Principles of Mutuality or involve unnecessary detail (particularly in light of other changes to the Constitution) such as, for example:
 - the requirement to provide a nominal financial contribution (currently \$10) to subscribe for a share and become a member
 - the terms relating to additional shares (which are replaced by the new terms of issue for additional shares proposed to be included in the Constitution as described in the section entitled ‘Outline of key changes to the Preamble and the Constitution’)
 - the restriction on accumulation of securities so that no person or group of associated persons may exercise a significant degree of influence over the affairs of CUA

A range of amendments to the Constitution are also proposed to be made to reflect the changes to the Principles of Mutuality in the Preamble and other matters as described below.

OUTLINE OF KEY CHANGES TO THE PREAMBLE AND THE CONSTITUTION

Broadly, the key changes proposed to be made to the Preamble and the Constitution are to:

- modernise and simplify the Preamble
 - the Preamble sets out the Principles of Mutuality on which CUA is organised
 - the Principles of Mutuality will remain non-binding, except as otherwise expressly provided in the Constitution
 - the amendments to the Principles of Mutuality are as outlined above under the heading ‘Modern mutuality’ and reflect commonly accepted principles amongst credit unions in Australia, as well as taking into account the current regulatory landscape
 - as previously stated, the reason for these changes is to modernise, refresh and simplify the Principles of Mutuality
- clarify the existing power to issue and general terms of issue for additional shares
 - the issue of additional shares will be subject to the applicable prudential requirements of the Australian Prudential Regulatory Authority (APRA)
 - the shares must be fully paid, at a subscription price determined by the CUA board
 - additional shares may be issued only to persons who satisfy any applicable requirements under the Corporations Act 2001 (Cth) (Corporations Act) or requirements of APRA
 - different classes of additional shares may be issued
 - holders of the additional shares will not have any voting rights (except to the extent required by Part 2F.2 of the Corporations Act (Class Rights))
 - provided the members in a general meeting approve the manner of calculating the dividends before the additional shares are issued, holders of additional shares may be entitled to receive non-cumulative dividends as declared by the CUA board subject to specified restrictions;

- the specified restrictions include that dividends payable with respect to additional shares must not exceed 5% per annum above the 180 day bank bill swap reference rate and the dividends payable on additional shares must not exceed more than 49% of CUA's net profit after tax in any year
 - the additional shares are transferrable to persons qualified to hold additional shares, subject to the terms of the Constitution
 - the additional shares are redeemable by CUA (not by holders of additional shares), subject to specified conditions (such as prior written approval by APRA and the approval of the CUA board)
 - on a winding up, the additional shares will rank in priority to member shares in regard to a return on capital, but will have no right to participate in a distribution of surplus assets
 - the power to issue additional shares was already contemplated by the existing Principles of Mutuality without there being specific provisions in the Constitution to provide for this power and the terms of issue of the additional shares
 - while we have no current intention to issue additional shares, we wish to take this opportunity to include a specific power and terms of issue in the Constitution to provide us with the flexibility to be able to raise capital if we wish to do so in the future through the issue of a new form of security in which investors could obtain a dividend return together with a priority return of capital, but without any access to surplus capital
 - the terms of issue of additional shares are consistent with ASIC's views as stated in RG 147 regarding the terms on which investor shares may be issued consistently with a mutual structure
 - reduce the issue price of a member share
 - the issue price of a member share will reduce from \$10 to nil consideration
 - the reason for this change is that the requirement to pay an issue price for a member acts as a disincentive to new customers, adds complexity to the process of becoming a new member and puts CUA at a competitive disadvantage to other institutions who do not have this requirement
 - the reduction is intended to facilitate growth in membership numbers and an increase in the scale of CUA's business which may in turn lead to benefits to members in the form of lower banking fees and lower interest rates on home loans
 - introduce a voluntary system to convert existing member shares
 - with the introduction of nil consideration issue price for member shares, all existing members can request to have their member share transitioned from a paid share to a nil consideration share
 - redemption requests will be processed and members will be repaid the issue price they paid for their member shares subject to CUA complying with prudential requirements
 - the reason for this change is to take into account the difference in subscription price between existing and new members that would otherwise exist if there is no system to permit repayment of the subscription price already paid
 - the amendments provide that members who take advantage of this opportunity will be regarded as having continuity of membership from the date of the original issue of the redeemed member shares
 - introduce voting qualification criteria consistent with ASIC's policy as stated in RG 147 based on a minimum level of business with CUA
 - a member (other than a minor) who meets one of the following voting qualification criteria at the relevant date will be able to exercise their right to vote under their member share:
 - the member holds a CUA deposit account which has a maturity term of not less than 1 month as at the relevant date, or has held the account within the last 90 days
 - the member holds a transaction account which has not been inactive for 3 years or more
 - the member has obtained a loan from CUA that has not been repaid at the relevant time and the CUA board has not resolved to redeem the member's member share for reason of the member failing to discharge obligations owed to CUA or being guilty of conduct detrimental to CUA
 - the reason for this change is to ensure that the power to vote is in the hands of members who have a current level of engagement with CUA as customers of CUA
 - insert a new Appendix 4 to replace the current Appendix 4: Demutualisation Approval Procedure Rules which lapses at the end of CUA's 2014 AGM
 - as the current Appendix 4 will have lapsed before this EGM, changes to the Principles of Mutuality can be made without the requirement to comply with the detailed terms of current Appendix 4
 - the new Appendix 4 will replace the current Appendix 4 until the end of CUA's 2018 AGM (instead of the board of CUA extending it for 12 month periods as has been the case in the recent past)
 - the new Appendix 4 will provide substantially the same protections that are afforded to members by the current Appendix 4 subject to certain changes as described below
 - the circumstance in which the new Appendix 4 will apply to a restructure have been simplified to circumstances where CUA no longer complies with the Principles of Mutuality in respect of member shares on issue (this approach is consistent with the approach taken in other parts of the current and new Appendix 4; the more prescriptive provisions in the current Appendix 4 have been removed)
 - the terms of the new Appendix 4 will not apply to changes to the Preamble
 - the changes proposed to be made to the new Appendix 4 are consistent with CUA's approach to modernising the Constitution
 - clarify that application for membership may be made by facsimile or email or other electronic means and CUA can determine the contents of the application as well as the form and manner of the application
 - the reason for this amendment is to provide greater flexibility to CUA and enable the use of more modern technology in dealing with applications for membership with the aim of removing barriers to applications for membership
- A range of other consequential amendments and miscellaneous improvements or updates to the Constitution will also be made as set out in the Proposed Amended Constitution.

VARIATION OR CANCELLATION OF MEMBERS' RIGHTS

At the end of the 2014 AGM, the current Appendix 4 of the CUA Constitution ceases to have effect.

As the current Appendix 4 will have ceased to have effect, there is no requirement for the current processes in Appendix 4 to be followed including requiring 25% of all members to vote at the postal ballot conducted under Division 3 of Appendix 4, with not less than 75% voting in favour, before action can be taken to convene a meeting of members' to pass a special resolution to approve the proposed changes to the Constitution.

Accordingly, we propose at this EGM to take the opportunity to ask members to pass a special resolution approving the amendments to the Constitution as set out in the Proposed Amended Constitution and described in these Explanatory Notes. As noted above under the heading 'Outline of key changes to the Preamble and Constitution', the amendments include the insertion of a new Appendix 4.

The new Appendix 4 will vary your rights as a member, by reinstating the rights in the current Appendix 4 (subject to the changes described in these Explanatory Notes).

Additionally, the introduction of voting qualification criteria may mean that a small number of members who have an insufficient level of engagement as a customer of CUA will no longer have the right to vote.

If members pass the special resolution set out in the accompanying Notice of Meeting, members will have agreed the proposed variation of members' rights as described above.

PROCEDURAL STEPS REQUIRED (INCLUDING VOTING)

As the current Appendix 4 will have lapsed by the time of this EGM, the only procedural steps required to be followed involve the calling of a general meeting of members of CUA to pass a special resolution to approve the proposed amendments to the Constitution in accordance with the requirements of the Corporations Act and the current Constitution.

All current members (other than minors) are entitled to vote.

Voting will be on a show of hands unless a poll is demanded. On a show of hands each member (other than a minor) has one vote. On a poll each holder of member shares (other than a minor) has 1 vote. Proxies are not entitled to vote on a show of hands.

The special resolution will be passed if at least 75% of the votes cast by members entitled to vote on the resolution vote in favour of the resolution (in person or by proxy).

FINANCIAL BENEFITS

The proposed amendments to the Constitution do not give rise to a demutualisation of CUA and neither members nor officers of CUA will be receiving a direct financial benefit upon the passing of the special resolution.

Existing members who take advantage of the ability to convert their existing member share will benefit by receiving the equivalent of the issue price they paid for their member share on redemption. This is appropriate given that future member shares will be issued for nil consideration.

INDEPENDENT EXPERT'S REPORT (IER)

An IER has been prepared by Grant Thornton confirming that in their view **the proposed changes to the Constitution are in the best interest of members as a whole**. An executive summary of their report is attached as Annexure 1.

ASIC has not considered whether the proposed modification is in the best interests of the members of CUA as a whole.

EXCHANGE OF EXISTING MEMBER SHARES

If the special resolution set out in the Notice of Meeting is passed, from 1 January 2015, if you wish, you will be able to go to our online portal or visit a branch, and exchange your current member share with a new member share for nil consideration. If you have paid a subscription amount for your current member share, you will receive that amount back on redemption of your current member share.

ADVANTAGES/DISADVANTAGES

If the special resolution is passed, CUA considers that members will benefit by continuing to be part of a more agile and competitive credit union with a modern rather than outdated Constitution. Please see the more detailed assessment of the advantages and disadvantages included in the executive summary of the IER at Annexure 1.

If the special resolution is not passed, the existing form of the Preamble and Constitution will remain, albeit without Appendix 4 which will have lapsed and will not have been replaced. CUA believes its ability to be competitive and meet future challenges will be limited without changes to the Constitution (including the Preamble) as proposed being approved.

COPY OF DOCUMENTS

On or before 15 October 2014 until the EGM is held, a copy of the Proposed Amended Constitution and the full IER will be available on CUA's website at www.cua.com.au for members who wish to review all proposed amendments to the Preamble and the Constitution and the full IER.

The Proposed Amended Constitution does not show specifically the changes proposed to be made in the new Appendix 4. Accordingly a separate document entitled 'Comparison between the current Appendix 4 and the new Appendix 4' (Appendix 4 Comparison Document) will be available on CUA's website along with the Proposed Amended Constitution.

Alternatively, members who do not have internet access may contact us on 07 3552 4313 to request a copy of the Proposed Amended Constitution, the Appendix 4 Comparison Document or the IER.

Member's Guide to Proxy Voting

WHAT IS A PROXY?

If a member of Credit Union Australia Limited (CUA) cannot attend a general meeting of members, they can appoint a person to attend on their behalf. If you are a member jointly with another person, only the 'primary joint member' can sign the Proxy Form. You are the primary member if CUA notices are addressed to you. The person appointed is called your 'Proxy'. Your Proxy cannot vote on a show of hands but is entitled to vote on a poll or ballot and ask questions on motions before the meeting.

WHO CAN YOU APPOINT AS PROXY?

You can appoint the Chair of the meeting or any other person. That person need not be a member of CUA.

APPOINTING THE CHAIR OF THE MEETING

By appointing the Chair as your Proxy, the Secretary registers your Proxy and voting directions when your Proxy Form is received. You can be confident that when a ballot or poll is taken at the meeting, your pre-registered vote will be automatically included.

YOUR PROXY VOTING INSTRUCTIONS

Undirected Proxy

If you do not direct your Proxy how to vote your Proxy can decide how they vote on your behalf.

Directed Proxy

If you give a direction as to how your Proxy must vote your Proxy can only cast your vote as you directed (i.e.: For or Against) on those items of business that you indicate. On items that you do not specifically direct how you want to vote, your Proxy can decide how they vote on your behalf.

Abstain

If you do not want your proxy to vote on a particular resolution or ballot you can direct the Proxy to Abstain from voting.

PROXY FAILURE TO ATTEND OR CAST THE PROXY VOTE

If your proxy fails to attend the meeting, is absent or chooses not to cast the proxy vote, and a poll is called then:

- i. the Chair will be required to cast any 'directed' proxy votes where a vote is taken; or
- ii. your proxy vote will not be counted where you have not directed your Proxy how to vote (an 'undirected' Proxy).

WHEN A PROXY DOES NOT APPLY

Your Proxy will not apply if you personally attend the meeting.

Your Proxy will not apply if your Proxy fails to attend the meeting or is absent when a vote is taken unless you have 'directed' your Proxy as to how your Proxy must vote.

Your Proxy may not apply if you have not completed the Proxy Form correctly.

Your Proxy is not entitled to vote on a show of hands.

SPECIAL REQUIREMENTS - INCORPORATED BODIES AND ATTORNEYS

Where an incorporated body is giving the Proxy, the Proxy Form must be completed in accordance with the requirements of that body's Constitution. If an authorised person signs the Proxy on behalf of the incorporated body, the original or a certified copy of the authorisation, along with the signed Proxy Form, must be received by CUA.

If you have appointed someone else as your Attorney, your Attorney can sign the Proxy Form on your behalf provided that the original or certified copy of the Power of Attorney, along with the signed Proxy Form, is received by CUA.

WHAT TO DO NEXT

Proxies may be lodged by:

- Using the Reply Paid envelope enclosed.
- Posting to the Company Secretary, CUA Voting, PO Box 961, Archerfield QLD 4108.
- Emailing to: voting@cuameetings.com.au
- Faxing to: 07 3809 7220
- Delivering it to the Registered Office of Credit Union Australia Ltd at Level 23, 145 Ann Street, Brisbane, QLD.

Important:

Proxy Forms must be received by the Company Secretary no later than **4.00pm** (AEST) on **Tuesday, 4 November 2014**.

The Directors
Credit Union Australia Ltd
Level 23
145 Ann Street
Brisbane, QLD 4000

Attn: Alexander Ong

16 September 2014

Concise Independent Expert's Report and Financial Services Guide

Introduction

Credit Union Australia Limited ("CUA") is a mutual company that provides personal and business banking services as well as insurance products and financial planning services to approximately 400,000 members across Australia.

CUA operates in a competitive banking industry which is continually evolving through changes in technology. Traditional banking services and products that were historically provided face to face in branch offices are now provided through online digital banking services. This trend presents both opportunities and challenges to CUA.

The Directors of CUA have proposed to make a number of changes to the constitution of CUA ("the Proposal") which are designed to modernise CUA so that it can adapt to the challenges of the digital banking environment.

Under the current constitution of CUA, a new CUA customer is required to contribute a one-off membership fee of \$10 before being eligible to purchase any CUA product or service. New CUA customers are required to present \$10 either physically (at a branch) or through a long administrative process which in the opinion of Management of CUA ("Management"):

- Detracts from the customer experience.
- Does not appropriately present CUA as a progressive and innovative organisation.
- Introduces unnecessary cost to CUA.

Based on discussions with Management the continued presence of the \$10 'fee' represents a perceived dis-incentive for new customers to build a business relationship with CUA. As a result,

CUA is not able to optimally access new customers online or through the utilisation of intermediaries/brokers for new customer introductions.

Summary of the Proposal

The changes to the constitution of CUA are summarised below and further discussed in Section 1 and in Section 5. The proposed changes are consistent with the requirements of ASIC Regulatory Guide 147 "Mutuality – Financial institutions" ("RG147") which regulates the operations, structure and principles of unlisted mutual organisations:

- *Amendments to the preamble of the constitution which set out the 'Principles of Mutuality'* The Principles of Mutuality are the guiding principles that CUA agrees to be governed by. The existing principles were adopted by CUA over a decade ago and do not reflect a modern mutual organisation.
- *Reduce the issue price of a member share from \$10 to \$Nil.* Under the Proposal, the issue price will be reduced to \$Nil which will mean that new members will not be required to physically visit a branch to become a member of CUA. The proposed amendments to the Constitution also clarify that applications for membership may be made by facsimile, email or other electronic means.
- *Voluntary system to convert existing member shares.* As a result of reducing the issue price per new member share to \$Nil, existing CUA Members will be able to request the repayment of membership fee and be issued a new member share for \$Nil consideration. The new member share will have the same rights as the existing member shares.
- *Introduction of a new share class of "additional shares".* This is consistent with RG147 and it will enable CUA to raise capital funding outside of its member base. The holders of the additional shares will not have any voting rights (except to the extent required by Part 2F.2 of the Corporations Act (Class Rights)) but may be entitled to receive one interim dividend and one final dividend per annum¹. The members in general meeting must approve the manner of calculating dividends before the additional shares are issued. The additional shares must be fully paid and the subscription price will be determined by the CUA Board. In addition, the additional shares are redeemable by CUA and on a wind up, the additional shares will rank in priority to member shares in regard to a return on capital, but will have no right to participate in a distribution of surplus assets.
- *Introduction of "voting qualification" criteria for voting rights of member shares.* Under the Proposal, CUA intends to introduce voting qualification which requires members to meet one of the criteria sets out in Section 1 in order to be able to exercise their right to vote.
- *New Appendix 4 – Demutualisation Approval Procedures Rules.* A new Appendix 4 will be inserted to replace the current Appendix 4 which lapses at the end of the 2014 Annual General Meeting. The New Appendix 4 will provide substantially the same protections that are afforded to members by the current Appendix 4 except that it will apply until the end of CUA's 2018 Annual General

¹ Capped at 5% per annum above the 180 day bank bill rate. Dividends payable on additional shares must not exceed more than 49% of CUA's net profit after tax in any year.

Meeting, it will no longer apply to changes to the Principal of Mutuality and the circumstances when the new Appendix 4 applies to a restructure has been reinstated.

Purpose of our report

The Directors of CUA have requested Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) to prepare an Independent Expert’s Report to express an opinion as to whether the Proposal is in the best interests of the members of CUA (“CUA Members”) as a whole for the purposes of Part 5 Schedule 4 of the Corporations Act. A concise version of the report will be included in the Notice of Meeting and Explanatory Memorandum to be sent to CUA Members by CUA. The full report will be available on the CUA website or available to CUA Members on request.

Basis of assessment

In our assessment of whether or not the Proposal is in the best interest of CUA Members as a whole, we have considered the requirements of RG 111. Based on the proposed changes to the constitution of CUA, in our opinion, the assessment of “value” is of secondary importance for CUA Members as the Proposal does not involve:

- A change in the underlying economic interests of CUA Members.
- A change of control.
- A selective treatment of different security holders.

Accordingly, in accordance with RG 111, we have considered whether the advantages of the Proposal outweigh the disadvantages for the CUA Members.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposal is in the best interest of CUA Members as a whole.

Set out below is an overview of the advantages and disadvantages of the Proposal for CUA Members.

Advantages (refer to Section 6.1 of the full independent expert’s report for further details)

- The underlying economic interests of CUA Members do not change as are result of approving the Proposal. In addition, the financial benefits that may flow to CUA Members in a full demutualisation scenario are not deterred as a result of the Proposal.
- The volume of bank loan and new account applications made by potential customers is expected to increase as a result of electronic processing of new applications and the removal of the requirement to pay a \$10 membership fee physically over the counter at a CUA branch.
- If the Proposal is approved, Management expect a reduction in the manual processing of paper applications and back office administration expenses. These cost savings will be passed through

to CUA Members via better terms or enhanced services. In addition, as a result of the simplification of the application process, CUA should be able (in the medium term) to increase its customer base, to scale and spread its fixed costs over a greater number of members.

- Increase in CUA’s capital flexibility with the ability to issue the additional shares to take advantage of any strategic market opportunities to improve the scale of CUA.
- Simplification of future business process and system by removing the existing enrolment process and eliminating the need to incorporate a personalised ‘membership enrolment’ functionality as part of the process.
- Improve customer experience via a fully automated enrolment process through a self-service digital channel which is expected to take significantly less time compared with the current member registration process.
- Improve broker satisfaction metrics as the current complicated administrative process will be replaced by a new streamlined electronic process with a faster turnaround time. This will eliminate existing hurdles and inefficiencies that create disincentive for the brokers to refer CUA home loans to customers.

Disadvantages (refer to Section 6.2 of the full independent expert’s report for further details)

- CUA may be required to repay up to approximately \$3.6 million in membership fees, if CUA Members choose to exchange their membership share for one with \$Nil consideration. We note that this is not material relative to CUA’s financial strength and capability. Based on the balance sheet of CUA as at 30 June 2014 and all else being equal, the total assets of CUA is expected to decrease from \$10.307 billion to \$10.303 billion. Further, we note that the decrease represents approximately 0.03% and 0.45% of total assets and net assets of CUA respectively.
- There is a risk that some of the benefits outlined in the advantages section above may not be fully realised. However, even if the expected benefits may not be realised in full or at all, we believe there is limited downside for CUA Members in relation to the Proposal.
- The priority ranking of additional shares in the event of winding-up may result in lower distribution of surplus assets to the CUA Members than in the situation where such additional shares were ranked equally or the additional shares were not issued. We note, however, that any issuance of additional shares should occur at market value and it will bring additional assets (cash) into the business and accordingly it is not expected to be dilutive for the existing and future CUA Members.
- Potential increase in the risk profile of CUA in relation to the issue of additional shares. The dividend payable to the holder of additional shares is capped at the 180 day bank bill swap reference rate plus 5 per cent per annum. This is a materially higher cost of funding compared to CUA term deposits. As a result CUA will be required to invest the funds raised via the additional shares in higher risk asset classes which may increase the risk profile of CUA.
- The introduction of the voting qualification criteria represents a disadvantage for those existing CUA Members who do not meet those criteria and will be prevented to vote going forward.

However we note that the existing CUA Members that do not meet the voting qualification criteria only represents 1.8% of the total existing CUA Members. Accordingly the proposed voting qualification criteria do not represent a disadvantage to the existing CUA Members as a whole.

Other factors

- Management have advised that the costs in relation to the Proposal will amount to approximately \$1.0 million in administrative, communication, marketing, printing and legal costs associated with the Proposal. These costs will be incurred by CUA irrespective of whether CUA Members approve the Proposal. We note that a significant proportion of the costs relate to communication and marketing of the Proposal to CUA Members.
- The introduction of the voting qualification criteria is not expected to have a material impact on the voting rights of existing CUA Members. Furthermore, it may encourage the small percentage of inactive CUA Members² to engage with CUA.
- The new Appendix 4 will provide substantially the same protections that are afforded to CUA Members by the current Appendix 4 up to the 2018 Annual General Meeting.

Conclusion

Grant Thornton Corporate Finance has concluded that the Proposal is in the best interest of CUA Members as a whole.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision as to whether or not to approve the Proposal is a matter for each CUA Member based on their own views of CUA and expectations about future market conditions, CUA performance, risk profile and investment strategy. If the CUA Members are in doubt about the action they should take in relation to the Proposal, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD



ANDREA DE CIAN
Director



GRAHAM MCMANUS
Director

² Management has advised that the share of existing members not falling within the voting qualification requirements is approximately 1.8%, which falls under ASIC's 10% guideline.

16 September 2014

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Credit Union Australia Limited ("CUA") to provide general financial product advice in the form of an independent expert's report in relation to the proposed changes to the constitution of CUA ("the Proposal"). This report is included in the Notice of Meeting and Explanatory Memorandum outlining the Proposal.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is CUA. Grant Thornton Corporate Finance receives its remuneration from CUA. In respect of the Report, Grant Thornton Corporate Finance will receive from CUA a fee of \$60,000 plus GST, which is based on commercial rates plus reimbursement of out-of-pocket expenses in relation to the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of CUA in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 Independence of expert issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with CUA (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal."

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposal, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Industry Complaints Services Complaints Handling Tribunal, No F-3986. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and this FSG. Complaints or questions about the Notice of Meeting and Explanatory Memorandum should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

