

Chairman's report



The financial year ending June 2008 was characterised by the dislocation of global debt and credit markets as a result of the sub-prime lending practices in the United States of America. The financial repercussions quickly swept across the global financial markets causing a large number of banks in the USA, England and Europe to experience significant financial distress by having to write off large amounts of loans and investments.

Australian financial institutions to a large degree have not experienced the same level of financial instability as overseas, but it has resulted in the closure of most overseas markets from which Australian banks borrowed money. This has forced banks to raise their required funding in Australia and has been the catalyst for the very competitive environment for retail deposits we face today. As a result interest rates in Australia and overseas have gone through a period of turbulent change. In Australia, the Reserve Bank increased the cash rate four times between August 2007 and March 2008 by a total of 1%.

Year in review: The figures

Despite the economic climate BCU has not experienced the financial problems that have plagued the banks and has continued to focus on creating wealth for local people from local money, as well as furthering the support to members and the communities in which they live.

In the past 12 months:

- Capital, the cornerstone of financial strength, grew by \$2,281,137 to \$74,589,377.
- Total loans in arrears (an indicator of credit quality) remained stable at 0.85% of total loans.
- Liquidity was maintained at an average of 16% of total liabilities, well above regulatory minimums.
- Loans to members grew 12.2% to \$749 million.
- Total assets increased 5.4% to \$906 million.

- Member deposits (excluding securitisation and interest) rose by 5.9% to \$794 million.
- Non-interest income continued to grow to a total of \$11,071,995 including a \$100,000 increase in insurance commission.

Despite this growth, net profit after tax moderated from the previous financial year due to increased costs relating to the proposed merger with New England Credit Union which did not proceed, and a reduced net interest margin as BCU did not follow the banks by passing on the full increase in cost of funding to borrowing members. As at the end of June 2008 net profit after tax totalled \$4,392,233 and membership stood at 54,991.

Year in review: The milestones

Merger discussions with New England Credit Union (NECU) continued into the first four months of the new financial year. However, in October it was announced that following a detailed due diligence review, the boards of BCU and NECU mutually agreed to discontinue discussions regarding a possible merger of the two organisations. Whilst on the surface the merger proposal contained many perceived benefits, the joint boards were unable to reach final agreement on a number of governance-related matters.

The second half of the financial year revolved around internet banking and the desire to provide the best protection possible to over 18,000 members who transact online. After reviewing a number of alternative solutions, Tokens were launched to members in May at a significantly subsidised cost and became mandatory for those wishing to transfer more than \$2,000 in any one transaction. This small device, which generates a one-off unique number, provides a 'second layer' of security after entering the user name and password.

In the following month BCU made national and international news when we became the first financial institution in Australia to offer TrustDefender software to its members. Launched in Sydney on 26 June at an industry conference on 'Combating Multi-Channel Banking Fraud in an Increasingly Connected World', TrustDefender provided a 'third layer' of security prior to login and filled the last gap in BCU's internet protection ie the member's own computer. It has proven to be effective in not only detecting malware, trojans and key loggers but has been beneficial in the education of members in taking responsibility for the health of their own computers.

In addition to the launch of internet security products, in March we launched the online savings account, BCU Direct Saver to enhance our range of deposit accounts for those members looking for a higher rate of interest for at-call funds.

In the past 12 months we also saw significant growth in our new Community Saver Accounts being run to the benefit of 33 recipient groups, who receive from BCU a donation of 1% of the annual average balance held in these accounts. The NRL club, Jetstar Gold Coast Titans, launched their community saver account to the Gold Coast community on Sunday, 29th June at Kurrawa Park, which generated significant publicity for BCU.

As a precursor to our forthcoming strategic planning cycle, Transform ID and Jetty Research were commissioned to conduct member and non-member focus group research across the region. This was an important exercise to gain insight into member and non-member perceptions about BCU, how we compare to our competition and to determine what individuals and business are looking for from their financial provider. This supplemented a number of other research projects conducted during the year to monitor our service to members and was invaluable in ensuring that we continue to meet our members needs.

Giving back

2007–2008 was the first full financial year in which loyalty rebates were provided to members in support for the loans and / or deposits they hold with BCU. In total \$700,000 was returned to members in the form of fee rebates.

As a community credit union, we do not exist to increase dividend returns to external shareholders but provide value to our members and give back to the communities in which they live and work.

In this financial year BCU gave back \$367,000 in the form of sponsorship or educational programmes.

Educational support was provided to first home buyers, small business and farmers. Strategic planning seminars were delivered to small business operators between Nambucca and Grafton and for the second year in a row BCU was a major sponsor of the ETC Business Club in Coffs Harbour, which four times a year attracts national speakers to talk to small business on how to grow and succeed in business.

The BCU Bill Ussher agricultural scholarship, now in its third year, was won by Tim Zirkler of Premium Rhones Creek Blueberries near Macksville with Rosalie Nowland of Summerland Pecans at Nana Glen being recognised as a runner-up finalist. This scholarship for \$5,500 is made available to assist family run farms to fund educational and professional development initiatives and honours BCU founding Chairman and first member, the late Bill Ussher.

It's important, however, to not only support business growth but to recognise achievement. For this reason BCU continues to sponsor business awards across our region and this year awarded the first BCU Titans Junior Development Player of the Year Award to Shannon Walker. Shannon is from the Kyogle area and, whilst he has since gone on to play a few games in the First Grade Team, he continues to play an active role in junior development as a mentor to school children across our region.

Our people

Whilst BCU continues to invest in youth through traineeships (36 trainees undertook a 2 year traineeship in Certificate III in Financial Services), this financial year saw a number of longer serving staff being recognised for their contribution to our organisation. Overall 13 staff celebrated 5 years at BCU, there were 8 staff with 10 years service and 3 with 15 years employment at BCU.

In particular I would like to recognise 20 years service by our CEO, Ray Battle. When Ray joined BCU in February 1988 we only had 5 branches, and ATMs wouldn't be introduced to the credit union until 1995. Membership stood at 14,798 and assets totalled \$31.6 million.



It was also a year for the changing of the guard at the executive level with a number of retirements, including one of our Directors, Peter Ellis on 19th December. Peter was previously a Director on the Big River Board and in total served both credit unions for 7 years. Graeme Green, previously General Manager of Big River Credit Union, announced his retirement in February after 29 years with Big River and BCU. Graeme played a major role in the credit union industry and was instrumental in the smooth transition from Big River to BCU.

On 20th June our Deputy CEO and Chief Financial Officer, David Bevan, retired after 12 years with the Credit Union. In that time the number of BCU branches increased from 13 to 21 and assets rose from \$214 million to over \$900 million. I would like to thank David on behalf of the board and our Members for his contribution to the growth and sound financial management of the credit union. At the same time, I would also like to welcome his replacement, Lyndon Kingston, who has a wealth of financial and industry experience both as a regulator and in industry.

The first thing that members often say when you ask why they bank with BCU is that we don't treat them like a number. This is testament to our commitment to personal service and adequately manning branches and BCU Direct with skilled staff. To this end \$14.4 million was spent in this financial year on wages, which are then circulated back into the local communities.

The year ahead

Whilst the ongoing fallout from the US sub-prime market will continue to dominate the financial industry for the next 12 months with pressure on the cost of deposit funding, BCU will be better positioned than most to not only weather the storm but to continue to grow.

The board has approved branch expansion in northern NSW and SE Queensland to capitalise on recent investment and demand created in the Tweed Heads and Gold Coast regions. It is anticipated that two branches will be opened before Christmas and will be the first of our 'new look'

branches focussed more on member and advisory services than over the counter transactions.

With a new 5-year strategic plan under our belts, our eyes are firmly focused on the next big milestone, namely \$1 billion in assets, and reducing our cost to income ratio. Whilst it is important to achieve economies of scale, we are mindful of the fact that we must protect our member service culture and continue to focus on being relevant to the individual communities in which we operate.

In closing I would like to once again thank my fellow directors, our CEO (Ray Battle), our previous Deputy CEO (David Bevan), the management team and all BCU staff for their role in the continuing growth of our credit union in what is a challenging global financial market.



G J Regan, Chairman
Macksville
17 October 2008