

# Chairman's report

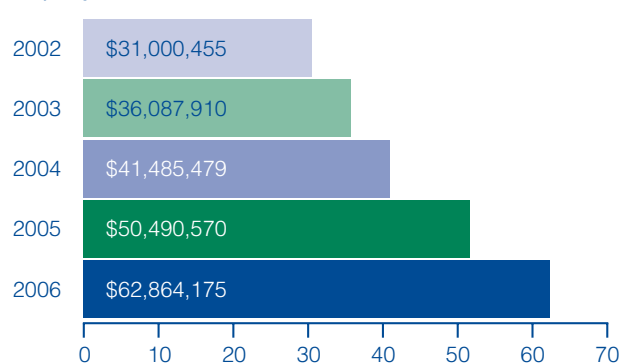
The year 2005–2006 was the first year of the merged entity between BCU and Big River Credit Union. The merger has proved to be mutually beneficial to both organisations, and forms part of the overall expansion targets set within the five-year strategic plan. Today's financial marketplace is extremely competitive and the BCU board has embarked on an expansion strategy in order to tackle head on the financial reality that in today's market, only those organisations that are dynamic, flexible and geared for change will survive.

## YEAR IN REVIEW – THE FIGURES

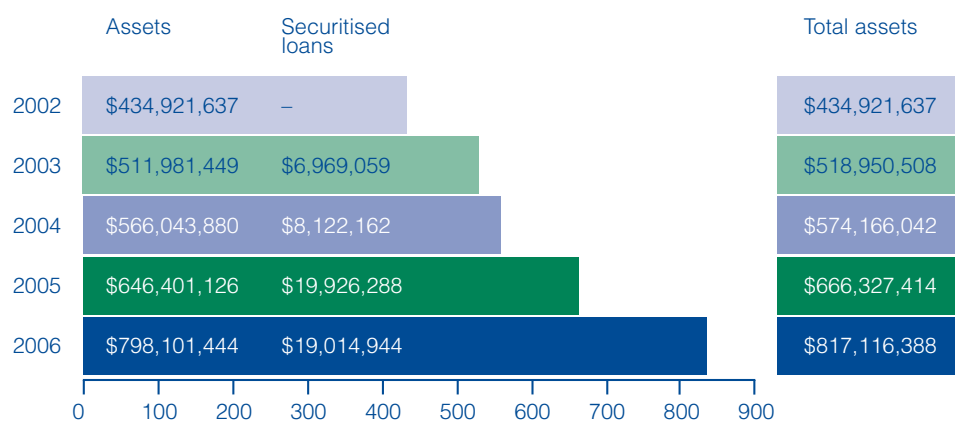
The merger saw an overall increase in the number of branches from 16 to 20 after the consolidation of BCU and Big River branches in Park Avenue, Coffs Harbour and Grafton CBD. The merger also saw an overall increase in staff from 192 at the end of June 2005 to 226 one year later. Membership rose 6,666 in the financial year to 55,896.

Over the last year, we maintained profits at similar levels to the 2004–2005 financial year with a reported net profit of \$5,067,269. This has been achieved despite ongoing costs of the merger, costs related to the development of a national delivery network, a slowdown in the home loan market and increased competition from national and international banks in the small business market.

### Equity



### Assets



Total loans (excluding securitised loans and doubtful debt provisions) increased as at end June 2006 to \$618,542,734, compared to June 2005 (\$543,893,810):

- personal loans were up \$9 million to \$50,146,151
- housing loans increased \$56 million to \$397,351,421
- commercial loans were up \$10 million to \$171,836,378.

Deposits grew by \$136 million during the year, or 23.5%, to \$716,079,984. Excluding member shares, this was made up of:

- \$319,775,363 in at-call savings – up \$58,921,261 from 2005
- \$379,665,472 in term deposits – an increase from \$306,157,120 in 2005
- \$16,133,645 in RSAs (retirement savings accounts) – \$4 million more than the previous year.

Total assets increased from \$666,327,414 at the end of June 2005 to \$817,116,388 at 30 June 2006.

Non-interest income continues to play an important role in our overall profit. We have seen an increase in insurance commissions to \$792,549 for the 2005–2006 financial year and the number of members choosing to pay their bills using BPAY has increased significantly, with monthly transactions up 21%. Income generated from non-BCU members using our ATMs last year contributed more than \$2 million to the credit union with overall ATM usage up 21%.

Internet banking is becoming increasingly popular with an increase of 2,622 active users this year and almost 8% more transactions through *iBank* than in 2004–2005.

## YEAR IN REVIEW – THE MILESTONES

Following the legal merger of BCU and Big River on 1 July 2005, the first six months of the financial year were focused on the integration of products and the merger of the two databases over the weekend of 26 and 27 November. I'm pleased to report it all went to plan, with minimum disruption to members. I can't praise the efforts of staff too highly and must thank members for their patience and cooperation.

November also saw the renaming of our phone centre to BCU Direct and the change to more memorable telephone numbers (1300 BCU BCU or 1300 228 228

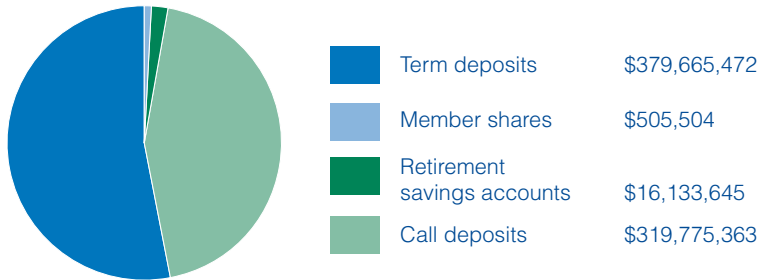
for BCU Direct and 1300 24 7 365 for phone banking and account information). We also invested in new technology and increased staffing levels to improve our capacity and standard of service. We now have 20 staff employed at BCU Direct, take about 7,000 calls a month and the call abandonment rate has dropped from 14.73% in 2004–2005 to 8.77% in 2005–2006, well below the industry average of around 10%. At BCU Direct you can talk to a 'real person' not a machine or a call centre overseas. This service is critical to providing choice for those members who do not have time to visit a branch and providing a banking service for members, regardless of where they live in Australia.

With the increase in branch numbers and the geographic spread of the branch network, BCU restructured the area management functions. This was designed to provide greater support to business managers and branch managers and ensure we continue to provide quality sales and service to our members. We have divided the network into two regions – South (Port Macquarie to Woolgoolga) and North (the Clarence to the Gold Coast) with two area managers for each region – one specialising in business development and the other focusing on services delivered through the branches. Business managers are now less desk-bound and able to go out and visit members at their premises more often. Branch managers focus solely on supporting the branch staff and ensuring service levels are maintained.

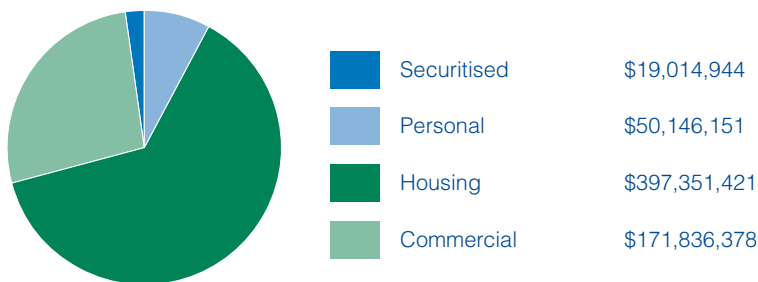
From previous surveys, it is our staff and the service they provide to our members that make BCU stand out from our competition. To protect and enhance this, we continue to develop and promote staff within the credit union. An example is the recent appointment of two regional service managers who started with BCU almost 10 years ago in cashiering and have worked their way through the organisation. This strategy ensures that we maintain skilled staff within the credit union and protect the BCU service culture.

Towards the end of 2005 we launched the BCU Bill Ussher Agricultural Scholarship to honour the late Bill Ussher, the credit union's very first member. The scholarship, worth \$5000, was designed to fund education or research to assist family-run agri-businesses keep abreast of industry changes and new technology. The inaugural winner was Lakeview Fresh, a mushroom

## Deposits



## Loans under management



farm at Boambee, near Coffs Harbour. Not only were proprietors, Graham and Bronwyn Finch thrilled to receive the prize money, they were taken aback by the publicity the scholarship generated and the flow-on benefit to their business in terms of sales and additional contacts.

The second six months of the financial year were focused on establishing and consolidating the new alliance with Prime Super. As the preferred provider of banking services to one of Australia's largest super funds for rural and agricultural workers and businesses, we are now poised to become a national banking provider. BCU Direct will service an Australia-wide membership base and offer financial products nationally.

Not only are we entering the national market but BCU has this year achieved national recognition for our accounts and loan products.

In December 2005 we were awarded a 'Best of the Best' award by *Money Magazine* for the Best Transaction Account - Non-Bank. This is the third 'Best of the Best' award from *Money Magazine* we have been given in three years.

Following this, in June 2006 BCU hit the national headlines when we were awarded five-star ratings across all four business lending categories\* by CANNEX, Australia's independent financial services research group. A five-star rating is the highest possible rating (indicating 'superior value') and BCU was the only business lender in Australia to achieve this.

It demonstrated how well we are performing against all other business lenders across Australia. It also showed how competitive we are as a community credit union and we remain a viable alternative to the banks. We not only provide value for money when compared with some of the best banking products in Australia but can achieve this without losing sight of our aim to provide personal service to our members and local communities.



## THE YEAR AHEAD

2006–2007 will be the year to move ahead and capitalise on the opportunities created in the previous financial year while maintaining our focus on traditional markets and loyal members.

Effective from 1 November this year we will be introducing a new 'loyalty rebate scheme', which will reward members maintaining loans or deposits with BCU and will encourage existing members to consolidate their banking in order to maximise the rebates on most fees and charges.

This will not only generate additional income for BCU but the 'loyalty rebate scheme' could return in the order of \$500,000 to members in rebated fees and charges over the next financial year.

Our research shows that business continues to be generated from word of mouth; that is, from our members recommending BCU to family and friends. Because of this, we are committing considerable resources to process improvement to ensure we not only maintain but improve our service quality.

We are mindful that an increasing number of members live outside the mid and far north coast of New South Wales or move out of the area, and have therefore created a new membership category to retain their banking. As a BCU Direct Shareholder, BCU members outside our branch network will obtain 10 free ATM transactions a month anywhere in Australia and, for the cost of a local call, can ring BCU Direct.

With increasing competition and pressure on profit margins, we recognise that we must keep pace with market trends and be quick to capitalise on opportunities with innovative products and services.

A good example will be our entry into the credit card market with the new Bonus Rewarder Visa credit card and its innovative Rewarder program. It is initiatives such as these that will help retain existing business and expose BCU to a much wider market.

We are approaching the half-way point in our five-year strategic plan and I'm pleased to report that, in the main,

we are on track to achieve our growth targets. However, we are now operating in a global market with international players making inroads in Australia. The challenge will be to continue to move ahead over the coming three years and remain a viable alternative to the banks.

In closing, I would like to thank my fellow directors, our CEO (Ray Battle), our Deputy CEO (David Bevan), the management team and all BCU staff for their role in achieving the national recognition that our credit union so rightly deserves.



G J Regan  
Director

Macksville  
10th day of October 2006