

2013

Gateway Credit Union Annual Report

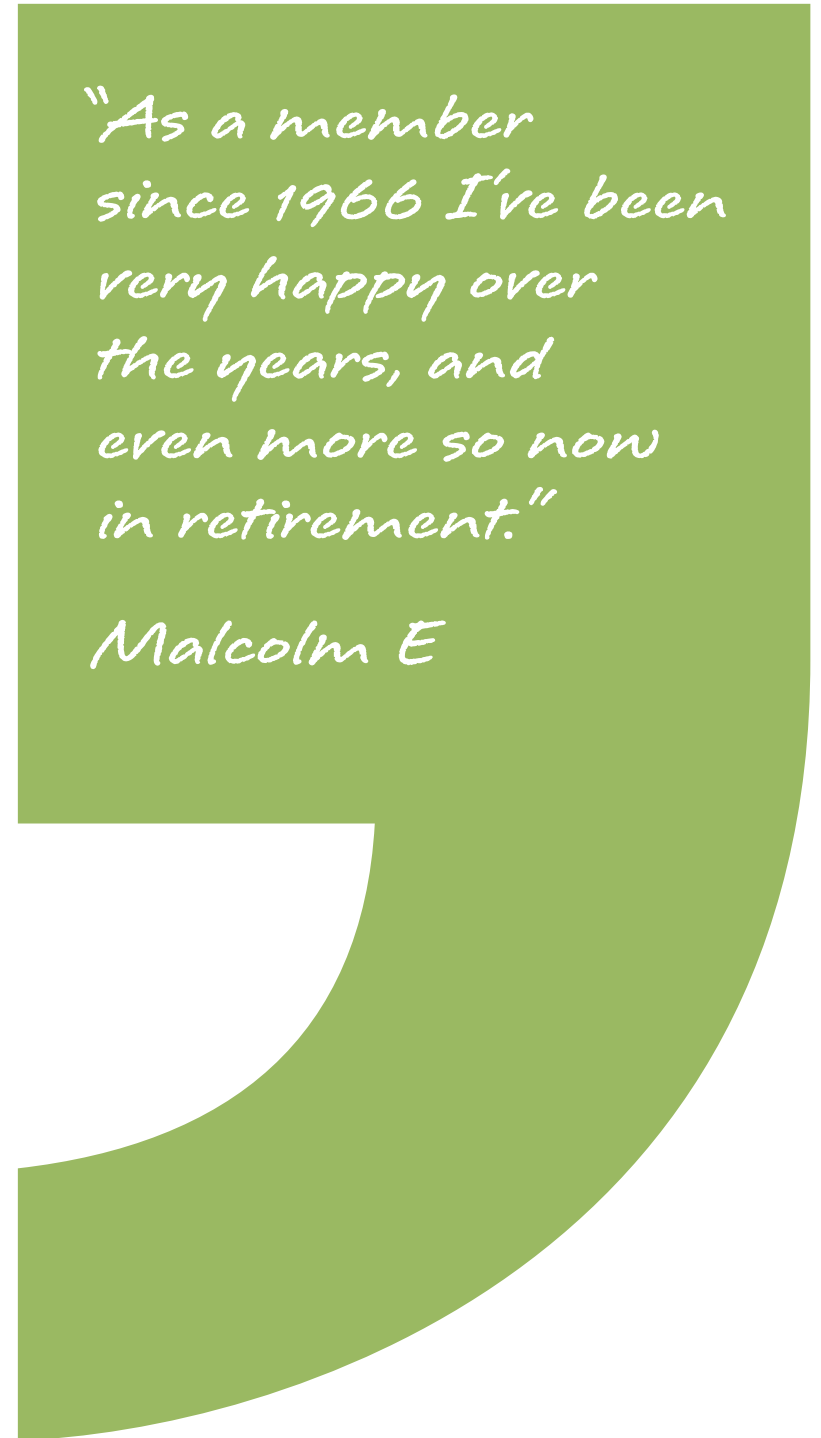


As a Member, you are at the heart of everything that we do. And as a customer-owned banking institution our focus is to look after your financial needs, from generation to generation, so that you can relax and spend your time on what is at the heart of your world.



"As a member since 1966 I've been very happy over the years, and even more so now in retirement."

Malcolm E



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CHAIRMAN

C M Hallinan, BA (Hons), MBA, F Fin., GAICD, FAMI.

DEPUTY CHAIRMAN

J B Flynn, FAMI.

DIRECTORS

S R Carritt, BA (Accounting).

M S Graham, MA, F Fin., FAMI.

G B Raward, B Comm., M Applied Finance.

I H van der Loos, GAICD.

J M Wicks, BA, GMQ, GAICD, FAMI.

CHIEF EXECUTIVE OFFICER

P J Thomas, MBA (Dist), FIFS, FAMI.

CHIEF OPERATING OFFICER

G D English, M Mgt, FAMI.

CHIEF FINANCIAL OFFICER

P W G Gilmore, B Bus, CPA.



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Chairman's Report

People are our strength

In a difficult year for the financial services sector, Gateway performed credibly. While we did not set growth records, our operating profit rose, our capital adequacy grew and our statutory liquidity strengthened. We also managed to post best practices outcomes in staff engagement and Member satisfaction.



LADIES AND GENTLEMEN

This is my second annual report as your Chairman and writing it has again been an interesting experience. My focus, of necessity, is always on the future but the Chairman's Report lets me reflect on the past. In looking through the rear-view mirror it would be easy to let the figures and statistics dominate my review of our performance. But raw numbers rarely make intriguing stories as they cannot alone fully explain what happens in a business.

Behind all numbers is a tale of success or failure driven by the actions and decisions of individuals. Numbers then are really stories about people as they are outcomes of consumer sentiment, borrower behaviour, broker partnerships, Member loyalty, staff engagement and director commitment. In bringing this human dimension to bear on my analysis of the year under review my aim is to underscore that people are the key to our success.

FRAGILE CONSUMER CONFIDENCE

The first cohort I would like to focus on is Australian consumers who have not felt financially secure since the GFC. Households continue to be exposed to downbeat assessments about the state of the economy. They are cautious in ways that seem at odds with the general resilience of the economy. Australians are reluctant to borrow and spend, causing businesses to cut back on employment and investment.

This chicken and egg stalemate – you spend first, then I'll hire and vice versa – is also evident in the property market. Housing credit growth is a bellwether for economic growth. Households remain cautious about borrowing to build or renovate a home due, it seems, to lingering jitters about job security. This caution is reflected in the paltry 4.5 per cent housing credit growth for Australia for fiscal 2013 – the lowest level since records began 37 years ago.

MORTGAGE BORROWERS DELEVERAGING

We have witnessed a fundamental shift in the risk appetite of borrowers. The heady pre-GFC days of borrowing to the max to fund a home purchase have given way to more subdued demand. This has impacted the lending activities of all financial institutions, including Gateway, as households continue to reduce debt. Over the past year, credit providers competed aggressively to gain and maintain market share in the \$1.3 trillion Australian mortgage market.

Lenders were locked in a war of attrition, grinding down mortgage rates in an effort to steal customers from each other. The major banks fought hard to prevent rivals, like credit unions, from taking a bigger share. Gateway fought back and was able to grow its mortgage book by 3.2 per cent. But in a market driven by price discounting, this growth came at reduced margins and is reflected in our profit before tax of \$3.53m. This is a pleasing 45.9 per cent increase over the previous year.

GROWING BROKER NETWORK

An increasing number of the loans we funded were originated via mortgage brokers and this trend mirrors what is happening nationally. Two out of five residential mortgage borrowers in Australia, or about 40 per cent, now utilise brokers for their lending needs. It is even higher for younger borrowers. Gateway picked up on this shift in mortgage shopping habits and post-GFC introduced an ancillary third-party broker channel to operate in parallel with our traditional Member direct channel.

Our broker channel is now a vital avenue for generating home loan business and growing market share. During the past year we added a third broker group – Connective – as a distribution partner. Connective now sits alongside our two other partners – Mortgage Choice and Yellow Brick Road. These partnerships have given us easier access to target markets and cost-effectively broadened our reach beyond the eastern seaboard of Australia.

HIGH MEMBER SATISFACTION

An added bonus in utilising brokers has been a rise in the number of new Members who, like our broader membership base, are delighted with our level of service and care. Each year we formally survey Members to ascertain their level of satisfaction and once again we scored high marks with a sector leading 94 per cent satisfaction rating. We operate in a very demanding and competitive environment and our Members are our *raison d'être*.

For us, it comes down to delivering what our Members want and doing it flawlessly over and over again. Now, that's easy to say but hard to do. No organisation is perfect but we have worked tirelessly to create a culture where we truly put Members first. With industry leading response times and standards of service, we strive not just to meet but to exceed the expectations of our Members.



RECORD STAFF ENGAGEMENT

Of course, we train our people to meet the changing and increasing needs of our Members. Our employees, therefore, are the key to our success. To run a thriving business in the current economic climate requires more than just sound planning. It's the intangibles that separate the great businesses from the good businesses and in our case that intangible 'X factor' is the Gateway team.

Proficient and engaged employees provide a competitive advantage which invariably leads to strategic success. Our achievements are clearly the result of attracting, developing and retaining talented individuals at all levels of the organisation. And judging by the latest staff survey results, our employees really enjoy their jobs and feel proud to work for Gateway. We recorded our highest ever staff engagement score of 92 per cent.

ROBUST BOARD GOVERNANCE

Your board of directors is highly engaged in directing and controlling the activities of the credit union. We take this stewardship role very seriously and know we must never take for granted the trust Members place in us. Our governance structure helps us make what we believe to be the right decisions to ensure the long-term success of the business. I thank my fellow directors for the exemplary way they have discharged their corporate governance obligations.

Experience has taught me that effective corporate governance is dependent on the skills and experience of individual directors. You will note from the directors' profiles on pages 13 and 14 of this report that they are all well qualified. We are a balanced and diverse board with a constructive and inquiring culture. My role as Chairman is to lead the board in ensuring it remains focused on the oversight of management and the delivery of our strategy.

EFFECTIVE MANAGEMENT LEADERSHIP

Paul Thomas' role as Chief Executive Officer is to focus on sustained operational excellence and the growth of the business. Our roles are complementary but distinct and I wish to place on record my sincere appreciation to Paul for his leadership and professionalism. Leadership propels every successful business and Paul has proven to be a thoughtful, resourceful and strategic leader.

He has worked to develop others in the business as well – the Senior Leadership Team, their managers and team leaders – all provide him with great support. The achievements of the organisation have been delivered with commitment and passion and I am proud of the team and their relentless pursuit of excellence in the service of Members. They are to be commended for their efforts over the past year.

APPRECIATION TO OWNERS

Annual reports are said to be the pinnacle of corporate communication yet reading them can be daunting. I trust I have adequately communicated our progress over the past year in a concise and transparent manner. Our Members are our owners and this report is your owner's manual for fiscal 2013. On behalf of the board, management and staff, I thank you, our valued Members, for choosing Gateway to help achieve your financial objectives.

With sincere gratitude.



Catherine M. Hallinan
Chairman

*"I get a sense of
contribution and
recognition and love
the encouragement
for continuous
improvement."*

*Bob, Staff Member
since 1988*

"Gateway have been exceptionally helpful to me as a new mortgage holder with every aspect. It's great to talk to a human in Australia."

Nick A



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CEO's Report

Strategy delivering results

The year saw improvements in earnings, credit quality and capital. We also diversified our funding base, expanded our distribution network, and deepened our operational capabilities. Moreover, we placed second in the best Credit Union of the year category at the Australian Banking & Finance Awards. But asset growth was weak due to sluggish demand for credit.



FELLOW MEMBERS

Our 2013 results confirmed the expectations that it would be a tough year. As the Chairman has already outlined, we experienced major competitive pressures, we faced slower economic growth, we encountered a subdued property market and we operated in a low rate environment. While each of these factors affected our performance, we closed the year in a solid financial position with our strongest balance sheet ever.

During fiscal 2013, our liquidity ran at an average of 15.1 per cent which is ahead of regulatory requirements. Our capital position ended the year at a rock solid 22.38 per cent. Our credit quality was assessed as best practice following an independent review. And our Member Satisfaction and Staff Engagement scores remained at industry leading levels. Whichever way you look at it, Gateway is one of Australia's leading credit unions on most measures.

STRONG PROFIT GROWTH

One metric that has not been best practice post-GFC is profit before tax and this has been largely caused by the constant Reserve Bank rate reductions. Each time the official cash rate is lowered we promptly pass on all or most of the decrease to our borrowers. This causes an immediate cut to the income we receive from loans to Members without a corresponding reduction in the interest expense paid on the deposits held by Members.

The difference in the speed of resetting the interest rates on loans and deposits results in a significant squeeze in our interest rate margin. It has not been possible for us to maintain historic levels of profitability under such conditions. Nonetheless – and in spite of three RBA rate reductions during fiscal 2013 which wiped an estimated \$750k from our bottom line – we increased our profit before tax by 45.9 per cent to \$3.53m.

CUT THROAT COMPETITION

We are delighted at this result which was achieved through tight cost control. But our challenge is not to cut costs as we run a lean organisation. Rather, our imperative is to grow revenues by writing more loans. However, in the current economic environment, this is easier said than done. Australians remain on a spending and borrowing strike with credit providers aggressively competing for the limited business available.

Most lenders are reluctant mortgage war combatants who, in truth, do not like the taste of price battles and the resultant need for deep discounts and near break-even propositions. But in a market which is being driven by price, all lenders must have an appetite for some level of price risk if they wish to stay in the game. For smaller players like Gateway, competing with the 'Big Four' banks in a head-to-head price war is tough.

RECORD LOW RATES

I chair Gateway's Pricing Committee and it meets each week to discuss and set the interest rates on our savings and loans products. Price competitiveness is a critical strategic issue and we closely monitor competitor activity in the home loan market. Winning business from rivals is the name of the game and many lenders do this by enticing borrowers to jump ship with discounts and special offers.

But care must be taken in this race to the bottom as price wars are a zero sum game. Gateway did not allow itself to get caught in the more

frenzied attempts to attract business at all costs as this is not prudent. Nonetheless, we did manage to maintain competitive rates on both sides of the ledger. Interestingly, not even a steady diet of rock bottom interest rates was able to alter the suppressed debt appetites of households.

BEHIND THE SCENES

Much of what we achieved during the year occurred below the waterline of public view. Nonetheless our achievements in improving back office efficiencies, upgrading our systems, installing new technology and up-skilling our people are real. Moreover we put in place new and innovative funding programs, built a data warehouse and enhanced our EFT settlement capabilities.

As Member expectations are always rising, we never rest on our laurels. We have a deep-rooted and unrelenting drive to constantly enhance our processes and eliminate waste. We have worked hard over a number of years to integrate our people, processes and technology. This has created a culture of continuous improvement which drives outcomes for Members that are quicker, cheaper and better.



PROGRESS ON STRATEGY

Our mantra of evolution rather than revolution is reflected in our strategy. Contrary to what is written in management textbooks, strategy unfolds over time as it permeates and drives decision making. The choices that shape the future of an enterprise are invariably made in the flow of running the business. Strategy, then, is about change and transformation – it is not a one-off process, but an ongoing commitment to improve.

In our case, this fluidity and agility has helped us build our competitive advantage over time. We have 4, five-year goals and are absolutely committed to achieving them. We have made much progress in three of our strategic areas – viz, expand funding, build platforms and develop people – and these are our key building blocks for growth moving forward.

THANK THE TEAM

In each annual report I have written I have commended the Gateway staff. It would be wrong to view this yearly praise as an obligatory exercise or to see my remarks as perfunctory. To not share the credit for our success with the women and men who toil everyday for the benefit of Members would be a travesty of justice. They are the heart and soul of this wonderful co-operative institution.

I have long believed that CEOs need to talk less about 'me' and more about 'we'. At Gateway, an important 'we' is the Senior Leadership Team (SLT). The SLT comprises COO, Gary English, CFO, Peter Gilmore and CEO, yours truly. The C-suite here provides much of the firepower for our forward momentum. Gary and Peter are talented individuals and the best at what they do. They make me look good and I thank them sincerely for their support.

"I love that we are an organisation that values our Members and always tries to improve on the customer experience."

Kate, Staff Member since 2000

BEST PRACTICE GOVERNANCE

Another group requiring recognition is the Gateway board. Our directors are fine stewards who always keep the interests of Members central to every decision they make. In addition to regular board meetings, all directors have contributed a significant amount of additional time in unscheduled meetings and extensive committee work. Their passion for Gateway is clear as is their commitment to co-operative ideals.

For the past two years the board has been ably led by Catherine Hallinan. She is a strategic thinker who has brought subtle changes to the role while respecting Gateway's rich history. We have developed a collaborative rapport which is underpinned by open and ongoing dialogue aligned to a common vision for Gateway. For me, Catherine is a source of wise counsel and proof that two heads together at the top can be better than one.

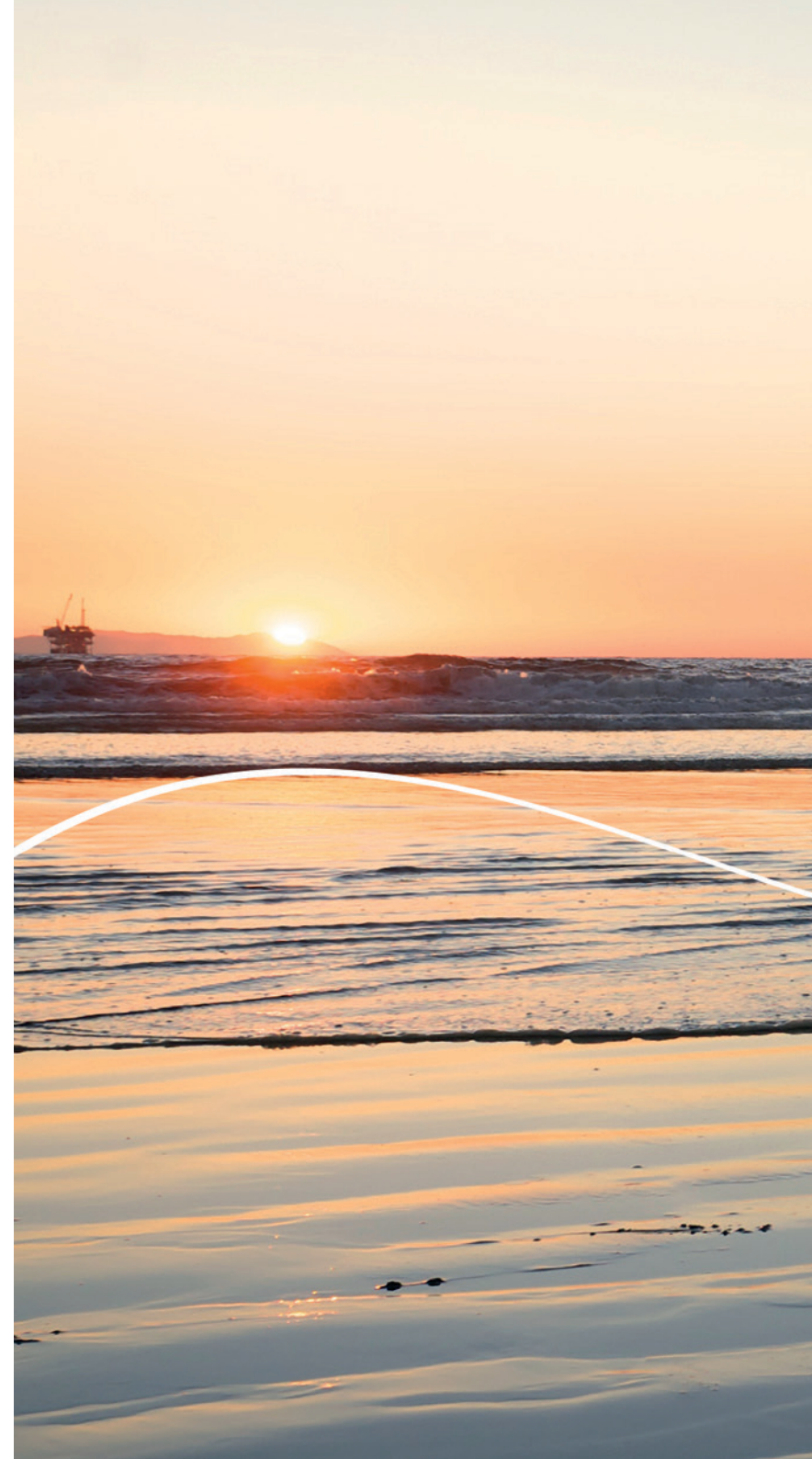
WITH PERSONAL OPTIMISM

Gateway is a fantastic credit union with significant potential still to be fully unlocked. I know we will continue to go from strength to strength. I hope you enjoy this report to Members and that you share our excitement for the future of Gateway. I have confidence in our plan and in the people who will be executing it and look forward to reporting our progress to you a year from now.

With thanks.



Paul J. Thomas
Chief Executive Officer





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Board of Directors

**Catherine M Hallinan, CHAIRMAN****Qualifications:** BA (Hons), MBA, F Fin., GAICD, FAMI.**Experience and special responsibilities:**

Catherine joined the Board in June 2006 and was appointed Chairman in May 2012. She is also a director of HCF Life Limited and has over 30 years' experience in banking, finance and management consulting.

- Deputy Chair (March 2010 to May 2012)

Committee Memberships:

- Risk & Audit
- Nominations & Remuneration

**John B Flynn, DEPUTY CHAIRMAN****Qualifications:** FAMI.**Experience and special responsibilities:**

John joined the Board in January 1989. He is currently a Finance Consultant; with over 41 years' finance experience, including 37 years with the Commonwealth Bank of Australia.

- Deputy Chairman (January 1998 to December 2002)
- Deputy Chairman (February 2013 to present)

Committee Memberships:

- Risk & Audit
- Nominations & Remuneration

**Steven R Carritt, NON-EXECUTIVE DIRECTOR****Qualifications:** BA (Accounting).**Experience and special responsibilities:**

Steven joined the Board in July 1992. He has over 38 years' banking and finance experience and was formerly General Manager ALM with the Commonwealth Bank of Australia.

- Chairman (January 2005 to February 2010)

Committee Memberships:

- Convenor Members' Equity Protection
- Risk & Audit



"Gateway always strives to work in the best interests of its Members."

*John Flynn,
Deputy Chairman*



Malcolm S Graham, NON-EXECUTIVE DIRECTOR

Qualifications: MA, F Fin., FAMI.

Experience and special responsibilities:

Mal joined the Board in July 1992 and has over 40 years' banking and finance experience. He currently holds the position of Credit Manager, Uniting Financial Services. Mal is also a director of AM Institute.

- Deputy Chairman (March 2008 to February 2009)
- Chairman (January 1998 to December 2004)
- Deputy Chairman (March 1994 to January 1998)

Committee Memberships:

- Convenor of Risk & Audit



Graham B Raward, NON-EXECUTIVE DIRECTOR

Qualifications: BComm., M Applied Finance.

Experience and special responsibilities:

Graham joined the Board in June 2006 and has over 40 years' banking experience. He is an Executive Manager, Group Funding of the Commonwealth Bank of Australia.

- Deputy Chairman (May 2012 to February 2013)

Committee Memberships:

- Members' Equity Protection



Irene H van der Loos, NON-EXECUTIVE DIRECTOR

Qualifications: GAICD.

Experience and special responsibilities:

Rene joined the Board in February 2008. She is the General Manager, Strategic Marketing & Innovation at NRMA Motoring & Services. Rene has 13 years' banking experience and was formerly a Director of Sydney Ports Corporation (2006–2012).

Committee Memberships:

- Nominations & Remuneration
- Members' Equity Protection



Jennifer M Wicks, NON-EXECUTIVE DIRECTOR

Qualifications: BA, GMQ, GAICD.


Experience and special responsibilities:

Jennifer joined the Board in February 2008. She is a Management Consultant with over 21 years' financial services experience.

- Chairman (February 2010 to May 2012)
- Deputy Chairman (March 2009 to February 2010)

Committee Memberships:

- Convener of Nominations & Remuneration
- Members' Equity Protection



*"I can't recommend
Gateway highly
enough and always
look at them first
when considering
any loan."*

Fiona H

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Key Achievements

Success lies in our people, the values we live and the culture we instil. Results show we have a loyal Member base and a fulfilled and engaged workforce that delivers on the key business drivers and being open to change is a key enabler.

**2012**

Gateway Credit Union
Winner of the Credit Union
of the Year in the 22nd
Annual Australian Banking
& Finance Awards

**2013**

Gateway Credit Union
Finalist in the Credit Union
of the Year in the 23rd
Annual Australian Banking
& Finance Awards

KEY ACHIEVEMENTS ACROSS THE BOARD INCLUDE:

- 2013 Credit Union of the Year Finalist in the Australian Banking & Finance Magazine Awards (winner in 2012), demonstrating that we are a consistent and standout performer among Australian credit unions.
- Achieved a sector leading Member satisfaction rating of 94% and our Members told us it was due to the quality and competitiveness of our products and our reliable high quality service.
- Recorded our highest-ever staff engagement rating at 92%, simply put, staff truly enjoy working at Gateway.
- Introduced our third mortgage distribution partner, Connective, strengthening our ability to access new target markets and as a result drive cost efficiencies for Members.
- Recorded a net profit before tax increase of 45.9% on fiscal 2012.



Paul Thomas CEO, Gary English COO, Peter Gilmore CFO

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Vision Statement

OUR VISION

To provide excellent service and great value.

OUR MISSION

To supply high value, low cost financial services to our Members.

OUR VALUES

- Service: We are here to please our Members – without them nothing else matters.
- Excellence: We strive for continuous improvement in everything we do.
- Respect: We treat others fairly, consistently and with dignity.
- Integrity: We are fair and honest in all our interactions.
- Learning: We are committed to developing the skills and capabilities of staff.
- Teamwork: We trust, respect and support fellow employees and operate as a team.
- Fun: We will have some fun along the way and value a sense of humour.



"I am proud to be part of an organisation that is constantly evolving in order to provide the ultimate customer experience!"

Marisa, Staff Member since 1995





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