Annual Report 2009

Growing Confidence

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Cover Image:

During a period of extraordinary turmoil in financial markets, Gateway maintained the confidence of members and built even stronger foundations. We remain a stable and solid institution.

Annual Report 2009
Growing Confidence

Chairman	Mr S R Carritt, BA (Accounting)
Deputy Chairs	
from February 2009	Ms J M Wicks, BA, GMQ, GAICD
until February 2009	Mr M S Graham, MA (Management), F Fin, FAMI
Directors	Mr A J Beeston
	Mr J B Flynn
	Ms C M Hallinan, BA (Hons), MBA, F Fin, GAICD
	Mr K J Pritchard, Grad Dip (Banking Management), F Fin, FINSIA, FAMI
	Mr G B Raward, B Comm, M Applied Finance
	Ms I H van der Loos, Diploma, AICD
Chief Executive Officer	Mr P J Thomas, MBA (Dist), FIFS, AFAMI
Head of Marketing	Ms L L Cox-Paton, B Econ, M Bus (Marketing)
Head of Sales and Operations	Mr G D English, M Mgt, MAMI
Head of Corporate Services	Mr P W G Gilmore, B Bus, CPA

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Chairman's Report

A crisis of confidence

Fiscal '09 will be remembered as a period of unparalleled uncertainty. Fear and panic reached epidemic levels as trust in the global financial system plummeted. Gateway met the challenges of a dislocated market with maturity and sound business principles. We have emerged as a stronger and wiser institution.

A chain reaction

The global financial crisis began with the 'irrational exuberance' of borrowers in the US real estate market and the over confidence of lenders. It was then fuelled by human emotion which created a pessimistic pall that spread like a bush fire. It ultimately resulted in bank failures in America, nationalisations in Britain and rescues in Europe.

When the credit crisis hurricane hit Australia our financial system withstood the force better than most. Nonetheless, our national economy was not immune from the ramifications of the Wall Street meltdown. Banks limited the supply of credit, consumers tightened their purse strings and the government spent unprecedented amounts on various forms of assistance.

No safe haven

The financial crisis starkly reminded us that national economies are umbilically linked in a globalised world. No country was able to decouple and escape the disruption to credit markets. The ramifications were felt widely with global losses and write downs estimated to be in the trillions of dollars. Corporations collapsed and giant household names in banking disappeared.

Consumers saw the value of their retirement and investment nest eggs nose-dive as the decline in the share market decimated millions of people's savings. Private sector expenditure collapsed as consumer confidence fell and unemployment rose. Against this backdrop Australian households – during the year under review – were wary of taking on new debt and this directly impacted Gateway.


Confidence

Chairman's Report

A crisis of confidence

Cause & effect spiral

With talk of a recession and concerns about job security, our members reduced their level of spending. They also paid down debt and put on hold big ticket expenditure items like home and car purchases. Gateway's experience was mirrored throughout the broader economy. Australians everywhere battened down the hatches.

In response, the government encouraged Australians to go out and spend to steer the economy out of stormy waters. Families, however, understandably cut back on discretionary expenditure and this caused aggregate demand to fall. This, in turn, led to decreased economic activity which, in turn again, resulted in a decline in total income. One person's income is another person's spending.

Rates tumbled sharply

To break this vicious cycle the government tried to resuscitate the economy by giving lump sum payments to pensioners, families, carers and first home buyers. In addition to this fiscal policy response, the Reserve Bank of Australia (RBA) helped by easing monetary policy. The RBA lowered interest rates a record six times over seven months.

The RBA slashed the cash rate by 425 basis points between September 2008 and April 2009. For four consecutive months the RBA reduced the cash rate. It paused for breath in January and then resumed its campaign of aggressive rate cuts in February. Another pause in March was followed by a final 25 point rate chop in April taking the cash rate to a 49 year low of 3 per cent.

Profits nose-dived

The drastic action by the RBA had a dramatic impact on our profit. Each time the official cash rate was lowered we promptly passed on all or most of the decrease to our borrowers. This caused 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 resulted in a significant squeeze in our interest rate margin. It was impossible for us to maintain profitability under the triple impact of (i) a falling return on loan assets (ii) a lag in term deposits repricing and (iii) a higher liquidity holding. Consequently, we posted a 49 per cent fall in pre tax profit to $2.065m.

Chairman's Report

A crisis of confidence

Deposit costs rose

The higher liquidity holding was mandated by the banking and finance sector regulator, APRA, and was seen as a prudent and necessary step in a period of considerable depositor uncertainty. Gateway was able to maintain the confidence of members and actually grew member deposits during fiscal '09 by a credible 8.53 per cent.

Like all of Australia's Approved Deposit-taking Institutions (ADIs), our efforts to attract and retain deposits were assisted by the federal government's decision in October 2008 to guarantee deposits held with banks, building societies and credit unions. The deposit guarantee was introduced at the nadir of the crisis and, as this is written, the guarantee is still in place.

Leading through uncertainty

Confidence is everything in financial services and your board worked assiduously throughout the year to maintain the confidence of members. We take our stewardship role very seriously and know we must never take for granted the trust that members place in us. On your behalf, I thank my fellow directors for the exemplary way they discharged their corporate governance obligations.

The board increased its oversight of risk management and this ensured we had the right controls and processes in place to weather the credit crisis storm. Your board also worked closely with the CEO, Paul Thomas, and his Senior Leadership Team. I express my appreciation to the management and staff for their day-to-day management of the extraordinary challenges we faced.

Thanks to members

That we have survived the most difficult 12 month period in our 54 year history relatively unscathed, speaks volumes for the prudent foundations upon which the credit union is built. It is also testament to the unswerving loyalty of our members. On behalf of the board and management, my gratitude for your continued support of Gateway.

As the dust settles on the worst financial crisis in decades, Gateway's journey will go on and we will continue to put the needs of members at the forefront of every decision we make. We remain a safe and sound institution with one of the strongest balance sheets of any financial institution in Australia. It is a genuine honour and privilege to serve you. With my deep personal thanks.

Steven R. Carritt
Chairman

CEO's Report

Support in times of need

In a year when the term 'sub-prime' became part of everyone's vernacular, Gateway remained a trusted friend. Amidst the market turmoil, we maintained attractive rates on savings, we continued to fund loans and we helped members in financial need. We supported members and they supported us.

A tsunami year

The world has seen its share of financial upheavals before, but never have the effects been so globally synchronous. The speed and scope of the financial crisis surprised even the most pessimistic economists. The casualty list of sick institutions – including iconic brands and titans of finance – reached epidemic proportions and brought the free market to the precipice.

To avoid systemic collapse, extreme capitalism gave way to extreme government intervention. The unfettered excesses of High Street were replaced by frantic spending programs for Main Street. Governments and central banks acted in unison, unveiling remarkable fiscal and monetary policy responses. Multi-billion dollar stimulus packages and aggressive interest rate cuts were used to stimulate demand.

Unlevel playing field

Many governments went one step further and introduced wholesale funding arrangements. This enabled financial institutions to raise finance to satisfy their lending demand after global debt markets froze. In Australia, the pricing of the government guaranteed funding scheme proved to be anti-competitive and enabled the big four banks to capture a dominant share of the home loan market (see commentary on page 17).

Before the global financial crisis, the major Australian banks wrote about 75 per cent of all new home loans. As at 30 June 2009, this figure had risen to over 90 per cent. Non-bank lenders and mutuals lost market share and Gateway was no exception. While our overall assets grew by 3.98 per cent our loan book actually fell by 2.16 per cent.


support

CEO's Report

Support in times of need

Financial year results

Had we not taken over the loan and deposit book of Broadway Credit Union in November 2008, the fall in our loan book would have been 6.68 per cent. The Broadway transaction also added to our deposit growth, which would have been flat had it not been for the $40.3 million in deposits we acquired from Broadway. (Note the Broadway loan book totalled $30.2 million.)

Like all financial institutions we were braced for a rise in sour loans. As expected, the credit crisis provided the perfect storm for bankruptcies. The fallout from this was our need to write off $1.5 million in bad debts. Over half of the loans written off ($817,000) had no default or arrears history with Gateway prior to the member filing for bankruptcy.

New period of austerity

The adverse turn of the economic cycle impacted all players. In the words of one economic commentator, the year under review was 'a pain in the assets'. But behind every cut and dry statistic about falling home prices and rising unemployment lies people and we did our very best to support members in genuine need.

After years of easy credit, big spending and rising asset prices, Australian families felt the pinch for the first time in a decade. Gateway members became debt adverse and lived a little more frugally. Many saw cash as king and debt as a four letter word. My suspicion is that the trend towards thrift will not disappear when the economy picks up.

Not a natural disaster

The credit crisis generated a long list of superlatives: the worst, the deepest, the toughest, etc. I'll add another: unnecessary. The dislocation in financial markets was caused by irrational lending practices - saddling borrowers with sub-prime loans they could not afford. As the loans went pear shaped, markets overreacted and then fear and panic set in.

Many financial services organisations around the world displayed a cavalier attitude to risk management. That's why the root cause of the credit crisis was not a failure of markets but a failure in corporate governance. In contrast, Gateway's corporate governance principles safeguarded the credit union against excessive risk taking.

CEO's Report

Support in times of need

New product offerings

The year under review was not all gloom and doom. Every crisis has the dual characteristics of threat plus opportunity and we took the opportunity to expand our product line up. We introduced a Discounted Variable Rate Home Loan and enhanced our on-line loan application capability. But the big product addition was the launch of the Gateway Visa Debit Card.

Member research clearly identified a need for easy access to members' funds. The introduction of Visa Debit provides members with immediate access to their funds through a network of over 6,000 ATMs as well as via the Visa network.

During the year two of our products, eMax Saver and EquitiSmart Home Loan, were awarded 5 Star Ratings from Canstar Cannex.

Survival of the fittest

Downturns disrupt normal business rules and shake out weaker competitors. That's why the middle ground in Australian banking has become a barren wasteland. A number of mortgage brokers as well as regional banks have disappeared from the landscape. The big four banks have become the proverbial 800 pound gorillas in the marketplace and their dominance appears unassailable.

Against this background, it is pleasing to note that the credit union business model survived the market tumult of the past year. Moreover, the financial probity displayed by credit unions is in stark contrast to the corporate largesse of traders and investment bankers. Nonetheless, the road ahead will be tough, only the fittest competitors will survive and Gateway intends to be one of them.

With personal appreciation

At the heart of all modern economies are borrowers and investors. At Gateway, we serve both and did our best to shield members from the worst of the crisis. I particularly thank our investors who experienced a cycle of 'pay cuts' as interest rates tumbled. Regrettably, there was little outpouring of sympathy in the popular press for savers reliant on cash to generate income.

The credit union's staff provided unflinching support under trying conditions. I thank the entire Gateway team for their loyalty and commitment to members. I acknowledge the special contribution of my executive colleagues, Gary English, Peter Gilmore and Loyce Cox-Paton, who worked diligently to steer us through rough waters. Finally, I laud the Gateway board and in particular, Steve Carritt, for his calm leadership and wise counsel.

Paul J. Thomas
Chief Executive Officer

Divisional Reports

Achievements

The uncertainty and volatility of the last year brought the need for strong, decisive leadership to the fore. Amid the most difficult financial conditions Gateway has faced, the Senior Leadership Team worked together to maintain and develop our member focus and culture of support.

Through these efforts, the Senior Leadership Team introduced products, programs and initiatives to help steer Gateway through trying times, ensuring we are well placed to continue to serve our members.

We would like to acknowledge the support of our members throughout the challenges of the last 12 months, and reaffirm our commitment to providing value and service while helping members reach their financial goals.

Key Achievements this year included:

- Developed and introduced Discounted Variable Rate Home Loan
- Successfully launched and deployed Visa Debit card
- Managed the implementation of the Government Guarantee scheme
- Completed and integrated the Broadway portfolio acquisition
- Expanded staff development programs with a key focus on service quality
- Further enhanced the resilience of our IT systems infrastructure and tested our Business Continuity Capability
- Nominated for the Australian Banking and Finance Awards - Credit Union of the Year - 2008
- Continued our ongoing support of Credit Union Foundation Australia (CUFA) with regards to improving financial literacy amongst developing economies


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Board of Directors

Steven R Carritt – Chairman

Non-executive Director. Qualifications: BA (Accounting). Experience and special responsibilities: Board Member since July 1992, Chairman since January 2005, Member of Members' Equity Protection Committee, Member of Nominations & Remuneration Committee (since February 2009). General Manager, ALM – Group Treasury, Commonwealth Bank of Australia. 34 years Bank experience.

Malcolm S Graham – Deputy Chairman (part year)

Non-executive Director. Qualifications: MA (Management), F Fin, FAMI. Experience and special responsibilities: Board Member since July 1992, Deputy Chairman from March 1994 to January 1998 and March 2008 to February 2009, Chairman from January 1998 to December 2004, Convenor of Risk & Audit Committee (from February 2009), Member of Nominations & Remuneration Committee, National Manager, Mortgage Funds, ING Australia Ltd. 36 years Bank and Finance experience.

Jennifer M Wicks – Deputy Chairman (part year)

Qualifications: BA, GMQ, GAICD. Experience and special responsibilities: Board Member since February 2008. Deputy Chair since February 2009. Member of Risk & Audit Committee, Member of Members' Equity Protection Committee. Management Consultant. Over 20 years Bank experience.

Allan J Beeston – Non-executive Director

Experience and special responsibilities: Board Member since February 1984 (Retired from the Board 25 November 2008), Deputy Chairman from October 1990 to February 1994, Chairman from March 1994 to January 1998, Member of Audit Committee (until 25 November 2008). Retired. 43 years Bank experience.

John B Flynn – Non-executive Director

Experience and special responsibilities: Board Member since January 1989, Deputy Chairman from January 1998 to December 2002. Member of Risk & Audit Committee. Finance Consultant. 38 years Bank experience.




Catherine M Hallinan – Non-executive Director

Qualifications: BA (Hons), MBA, F Fin, GAICD. Experience and special responsibilities: Board Member since 20 June 2006. Convenor of Nominations & Remuneration Committee (until February 2009), Convenor of Members' Equity Protection Committee. Formerly General Manager, Investment Management & Life, Zurich Financial Services Australia Limited. 28 years Bank and Finance experience.

Kenneth J Pritchard – Non-executive Director

Qualifications: Graduate Diploma (Banking Management), F Fin, FINSIA, FAMI. Experience and special responsibilities: Board Member since March 1994 (Resigned 23 July 2008), Member of Members' Equity Protection Committee (until 23 July 2008), Member of Audit Committee (until 23 July 2008). Management Consultant. 37 years Bank experience.

Graham B Raward – Non-executive Director

Qualifications: B. Comm., M Applied Finance. Experience and special responsibilities: Board Member since 20 June 2006. Convenor of Audit Committee (until February 2009). Member of Risk & Audit Committee. Executive Manager, Group Funding, Commonwealth Bank of Australia. 36 years Bank experience.

Irene H van der Loos – Non-executive Director

Qualifications: Diploma, AICD. Experience and special responsibilities: Board Member since February 2008. Governor of Nominations & Remuneration Committee (since February 2009). General Manager Marketing, NRMA Motoring & Services. Director: Sydney Ports Corporation (2006–2012). 10 years Bank experience.

Vision, Mission & Values

Vision Statement

A Vision defines what an organisation's desired long-term position will be. It envisions what an organisation can and should become.

Our Vision:

To provide excellent service and great value.

Mission Statement

A Mission describes how an organisation will achieve its Vision. It identifies the scope of the organisation's operations, expresses its priorities and articulates why it exists.

Our Mission:

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

Values Statement

A Values statement outlines how an organisation will behave in achieving its Vision and Mission. It encapsulates what the organisation stands for and guides its decision-making.

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.

Meet Our Staff

CEO Blog

www.gatewaycu.com.au/ceoblog

Each week Gateway's CEO, Paul Thomas, writes an on-line editorial called a blog. By way of example, here is a copy of the blog Paul posted on the changing face of financial services competition resulting from the global financial crisis.

A staggering 43 world records were set at the recent world swimming championships in Rome. Most experts 'blame' the use of high-tech polyurethane bodysuits for the flood of world records. The new suits increase buoyancy and gave those who wore them an unfair advantage.

As a result of the global financial crisis, banks also have an unfair advantage. The big four banks were given 'polyurethane' assistance from the federal government in the form of access to cheaper wholesale funding and have left the competition in their wake.

The big four banks now stand alone on the winner's dais while regional banks and non-bank lenders wallow. There has been a brutal reshaping of the field with middle tier competitors like RAMS, St George, BankWest and Wizard swallowed up.

As I stated in a previous blog, I'm all for survival of the fittest but it has to be on a level playing field. Just as I believe the best and most talented athlete should win – not the one with the latest swimsuit – the same holds true in business. To be fair, the banks are formidable competitors and have put in world class performances to survive the credit crisis relatively unscathed. Failure to acknowledge this would be bad sportsmanship. However, they have been favoured by government policy and a growing chorus of spectators is now crying foul.

The call to ease the stranglehold of the big four is coming from a number of quarters. Consumer group, Choice, opposed the takeover of BankWest by the Commonwealth Bank. Competition Commissioner, Graeme Samuel, has expressed concern at the reduction in competition. And the Reserve Bank believes the banks need to reduce their reliance on the government guarantee. Even the former Competition Commissioner, Allan Fels, has weighed into the debate labelling the relationship between the Rudd Government and the banks as 'crony capitalism'.

The pressure is on from some circles to axe the bank guarantee in order to restore fair competition. However, a more equitable solution may be to revise the anti-competitive pricing on the wholesale funding guarantee to provide a more level playing field for all lenders to access wholesale funds.

Close to one in five Australians belongs to a credit union or mutual building society. Financial co-operatives are a silent giant in the economy and a force for good. We've also come through the crisis in pretty good shape. All we ask is for a fair go. Australians deserve choice and mutuals are a viable alternative to the big banks. We are the 'People's Bank'.

Paul J. Thomas

GREENHOUSE FRIENDLY

CONSUMER

Gateway Credit Union
uses **Greenhouse Friendly™**
ENVI carbon neutral paper.

ENVI is an Australian Government
certified Greenhouse Friendly™ Product.

Gateway Credit Union has neutralised 3.83 tonnes of harmful CO_2e by using ENVI paper for this combined Annual Report and the accompanying Financial Report, which is equivalent to taking one car off the road for a whole year.*

* *Based on Holden VE Commodore Omega driving 15,000km and emitting 3.75 tonnes CO_2 equivalent per year.*

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