



Gateway Credit Union Annual Report 2012



Cover image: Is the glass half-full or half-empty? At Gateway, we have a confident perspective and remain positive about the future. Our optimism finds expression throughout this Annual Report which includes quotes from famous people who inspire Gateway's leaders.

2012

CONTENTS

- 02 CONTENTS
- 03 CHAIRMAN'S REPORT
- 07 CEO'S REPORT
- 11 BOARD OF DIRECTORS
- 13 KEY ACHIEVEMENTS
- 14 VISION, MISSION & VALUES

Gateway Credit Union Annual Report 2012



CHAIR

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

DEPUTY CHAIR

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

DIRECTORS

Ms J M Wicks, BA, GMQ, GAICD

Mr S R Carritt, BA (Accounting)

Mr J B Flynn, FAMI

Mr M S Graham, MA (Management), F Fin., FAMI

Ms I H van der Loos, GAICD

CHIEF EXECUTIVE OFFICER

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

CHIEF OPERATING OFFICER

Mr G D English, M Mgt, FAMI

CHIEF FINANCIAL OFFICER

Mr P W G Gilmore, B Bus, CPA

A noteworthy performance

The 2012 financial year had its challenges, but was pleasing from beginning to end and closed on a particularly high note. In a range of areas we produced sector leading or near sector leading outcomes. To top it off, we earned a wonderful accolade - being named Credit Union of the Year.



Ladies and Gentlemen

It is with mixed feelings that I present my first report to you as Chairman of Gateway. I am delighted to have been elected as Chairman in May 2012 but disappointed that my predecessor, Jennifer Wicks, was unable to see out her full term as Chairman due to personal reasons.

I am pleased to report that Jennifer remains a director of Gateway and we continue to draw on her expertise and experience. Jennifer provided solid leadership and I want to take a moment to acknowledge her fine work. Under Jennifer's guidance, the past year has been a very productive one for Gateway.

SMOOTH LEADERSHIP TRANSITION

I am committed to building upon the successful and transformational journey that Jennifer led over recent years. It is clear to me that we have made great progress but our journey is ongoing. To this end, I am delighted at the professionalism and expertise of the employees and directors who will assist me on this path.

Prior to becoming your Chairman I was the Deputy Chairman for two years and prior to that, in turn, a director for four years. I have watched with interest and pride the growth and development of Gateway into one of Australia's most respected and innovative credit unions.



IN THE SPOTLIGHT

As fate would have it, two days after Jennifer vacated the Chair we were named Credit Union of the Year for 2012. The award was accepted by our CEO, Paul Thomas, at a gala event in Sydney. In front of an audience of banking and finance industry executives, Gateway was showcased as the best credit union in Australia.

Winning this prestigious award reflects the key values which are important to us as a co-operative viz, respecting our staff and serving our Members. The reality is that we would not have received this industry accolade without the dedication of our staff and the support of our Members and I thank these key stakeholder groups.

BEST PRACTICE OUTCOMES

Now in its 22nd year, the Australian Banking and Finance Awards recognise industry excellence. During the year under review Gateway set a number of record benchmarks and these were acknowledged by the judging panel.

- We recorded our highest-ever Member satisfaction rating at 95 per cent. Members complimented us on the quality of our products and the friendliness of our service.
- We recorded our highest-ever staff engagement score at 91 per cent. Employees gave us high marks for leadership, communication and trust.
- We recorded the highest-ever growth in our mortgage book of 21.3 per cent. Growth in housing credit in Australia finished the year at 5.1 per cent which means we well outperformed banking system growth.

SOLID GROWTH TRAJECTORY

We funded a record \$209m in loans, covering both mortgage loans and personal loans. This fuelled the growth in our total lending book and contributed to the 17.1 per cent increase in total assets to \$849.4m. Just to give this growth rate some context, the growth in assets for all Australian credit unions for fiscal 2012 was 3.7 per cent.

For Gateway, cracking the \$800m barrier in assets was pleasing. We now have our sights firmly set on reaching an even bigger strategic milestone - \$1 billion in assets under management.

INTEREST RATES TUMBLE

Notwithstanding our balance sheet growth, it was a very challenging year from an earnings perspective. Our profit performance reflects the tough economic environment in which we operated. These conditions contributed to the Reserve Bank of Australia's (RBA) decisions to lower the official cash rate to provide some relief to struggling households.

But the four RBA rate cuts during fiscal 2012 failed to boost retail sales or stimulate housing turnover. What the cumulative 1.25 per cent cut in the official rate did do, however, was squeeze our Net Interest Margin (NIM). This is reflected in the net profit before tax of \$2.4m. Indicatively, for every 10 basis points (0.1%) drop in our NIM, we lose approximately \$700,000 in income over a full year.

CHAIRMAN'S REPORT

CO-OPERATIVE BUSINESS MODEL

As a not-for-profit financial co-operative, our primary objective is not profit maximization. We exist solely to serve our Members, not to pay high dividends to an outside group of shareholders. We pride ourselves on putting people before profit and always strive to provide competitive rates on both sides of the ledger.

Of course, our people-first philosophy does not protect us from the need to run the business in a disciplined way and that includes making a prudent surplus. While our financial performance for the year is acceptable, there will be a greater bottom-line focus over the next twelve months. Annual profits enhance our financial strength by building our retained earnings (reserves) and ensuring we remain a strong and viable institution.

MEETING THE CHALLENGES

We recognised a number of years ago that how we were distributing our savings and loan products was at an inflection point. It became clear we were struggling to attract sufficient new Members to keep Gateway a healthy and viable business. This was particularly the case with regard to borrowers.

When taking out a home loan many potential borrowers want to speak face-to-face with a lending consultant and this is typically facilitated through a branch network. We were not reaching enough people through our direct model. So we introduced an ancillary third-party channel to operate alongside our traditional direct channel.

ACKNOWLEDGING OUR PARTNERS

During the year we added to our ability to distribute our loan products via third parties. To this end, we now have

two mortgage distribution partners – Yellow Brick Road and Mortgage Choice. Mortgage Choice came on board in December 2011 to complement what we have been doing with Yellow Brick Road since December 2009. These partnerships have given us easier access to target markets and contributed significantly to the lift in loan volumes I mentioned earlier.

Our results confirm our decision to utilise third-party channels to distribute our products and services on both sides of the ledger in order to cost-effectively broaden our reach into new markets. Importantly, we have not sacrificed loan quality as broker-sourced loans have the same credit standards as directly originated loans. Gateway retains full control of the management and monitoring of all its lending.

MARKET OUTLOOK

The aftershocks of the global financial crisis continue to be felt throughout Australia and the world economy and Gateway is not immune. We expect that it will remain difficult to grow profitably and there will be particular challenges around liquidity and funding. APRA's inspection and supervisory regime is now more intensive and, in the longer-term, the introduction of the Basel III global liquidity reforms will have wide-ranging consequences. We are confident of meeting these challenges.

CORPORATE GOVERNANCE PRACTICES

Your Board oversaw the development of the third-party distribution strategy and I believe that the composition of our Board is one of our strengths. Collectively, our directors have experience and expertise spanning distribution, treasury, operations, strategy and marketing. I pay tribute to my fellow directors for their wise counsel and strategic input.

I again acknowledge the leadership of Jennifer Wicks whose behaviour reflects the entire Board's commitment to high standards of corporate governance and ethical business operations. I also wish to congratulate Graham Raward on his appointment as Deputy Chairman.

CONGRATULATING THE GATEWAY TEAM

As an institution, we stretch ourselves each year against strategic and operational targets. The heavy lifting in terms of achieving these goals falls to our dedicated and talented employees. They are an excellent team, eager to do whatever it takes to help our Members achieve financial success.

The commitment of our employees is a reflection of the leadership of our CEO, Paul Thomas. Paul's uncompromising attitude to product quality and service excellence sets a high standard for others to emulate. He is to be congratulated for re-shaping the credit union and for his infectious enthusiasm and energy which motivates staff to go the extra mile.

With sincere gratitude.



Catherine M. Hallinan
Chair



SIR WINSTON CHURCHILL

**“THE PESSIMIST SEES
THE DIFFICULTY IN
EVERY OPPORTUNITY;
AN OPTIMIST SEES THE
OPPORTUNITY IN EVERY
DIFFICULTY.”**

A transformative year

With change as our constant companion, we had a challenging but rewarding year in which we progressed our strategic agenda and lifted the performance bar in a number of areas. We are proud of what we accomplished and how we achieved these results.



Fellow Members

Our elevation to the status of Credit Union of the Year is a privilege and an honour. This accolade recognises Gateway's success in executing a clear business strategy geared towards outstanding corporate performance that sustains the long-term interests of Members.

We continue to reap the benefits of our strategic direction and the resultant changes we have made over recent years to strengthen our competitive position. The most critical observer could not help but be impressed with the best practice outcomes Catherine Hallinan identified in her Chairman's report.

WINDS OF CHANGE

Before I turn to our results for fiscal 2012 I would like to make an observation about the marketplace in which we operate. It is a dangerous illusion to believe that the Australian economy will quickly return to the heady days of pre-GFC growth in credit demand and property prices.

Like many Western nations, one of the biggest challenges to Australia's economic outlook is weak consumer demand. Australians are borrowing less as house prices ease, further entrenching the culture of reducing debt as set in train by the GFC. Some commentators have labelled the prevailing period of austerity as the "new normal".

FLAGGING CONSUMER SENTIMENT

The GFC has clearly changed the perceptions of Australians. During the year under review more of us were pessimists than optimists. Economists accept that consumer mood-swings are real but cannot agree on how to measure their impact on the economic cycle. I have no doubt that many consumers base their spending on their hopes and fears.

Australians are understandably worried about the world economy, increasing utility bills and job security. I see the influence of consumer sentiment everyday in the behaviour of our savers and borrowers. But Gateway is in the glass-half-full camp and is positive about Australia's future. As a nation, we are delivering positive GDP growth and stable inflation.

UNIQUE GROWTH OPPORTUNITY

I have long believed that "steady as she goes" is not a viable strategy when market conditions are flat. History shows that companies which use a downturn to innovate will come out of a recessionary period stronger. While other businesses have cut back and battened down the hatches post-GFC, we have not taken our foot off the accelerator.

We have added additional people and installed new systems to give us greater capability. Behaving in such a counter-cyclical way is not for the faint-hearted, but it does pay dividends. Over the past couple of years Gateway has been a standout performer among Australian credit unions.

OUTPERFORMING THE MARKET

During fiscal 2011, we grew our mortgage book at a rate that was 3.5 times banking system growth. For the year under review (fiscal 2012) we built upon that success and posted an even better result – recording four times more growth in mortgage loans than the Australian banking sector industry average. This is another outstanding result of which we are proud.

As the Chairman stated in her report, we want to raise the cross-bar even higher and achieve a balance sheet of \$1 billion in assets. We know that banking is a scale business and acknowledge that even if we achieve our growth ambitions, we will still be a small fish in a big pond. The Big Four banks dwarf us in size.



CEO'S REPORT

DELIVERING SERVICE EXCELLENCE

But banking is not just a numbers game – it's also about people. While the major banks have economies of scale on their side, we have service. Throughout my financial services career I have always emphasised customer service. We live at a time and in a world where people are craving for personal connection and service is a key differentiator.

In our David and Goliath battle with the Big Four banks, we can't out muscle them, but we can provide a more intimate level of service to our Members. While our big bank competitors beat their collective chests at being ranked among the most profitable banks in the world, we can claim world's best practice when it comes to Member satisfaction – at 95 per cent.

SOLID FINANCIAL RESULT

Regrettably, I cannot assert that our profit before tax of \$2.4m is best practice, but the operation of monetary policy is beyond our control. Our conservative estimate is that the 125 point reduction in the cash rate during fiscal 2012 wiped \$1.4m off our bottom line. If this amount was added to our actual profit before tax, we would have finished the year with an above budget profit of \$3.8m.

To mitigate the financial impact of the squeeze on our interest rate margin, we focussed on costs which ended the year significantly below budget. Achieving this level of savings was not easy, but it was necessary. Tight cost controls also extended to capital expenditure which, where possible, was put on hold.

PRESENTATION OF ACCOUNTS

You will note that the financial statements this year are different as we now operate a "Special Purpose Entity". Our SPE – called Portavia – is a non-operating entity with no employees and was established for the sole purpose of raising funds off balance sheet. The money raised is used to fund home loans to Members.

During the year we sold \$89m of mortgage loans into the SPE which, in turn, raised funds from one of the major banks to purchase these assets. This process, known as securitisation, enabled Gateway as the mortgage originator to remove from its balance sheet certain pools of assets. These assets are included as loans and advances under the "Consolidated" balance sheet in the accompanying financial statements.

THANK THE TEAM

The real pleasure of my job is seeing the growth and development of our people. They are the foundation on which our success is built. Every one of them has confronted major change in the past year and I thank them for their efforts. I want to particularly recognise my executive colleagues, Gary English (COO) and Peter Gilmore (CFO) who have worked tirelessly to deliver sound results in challenging times.

I would like to place on record my sincere appreciation to the Board for their leadership and support. I am personally grateful to Jennifer Wicks and Catherine Hallinan for their wise counsel as Board Chairs. I also extend my gratitude to our wonderful Members - it is a privilege to serve you.

SEIZING TOMORROW'S OPPORTUNITIES

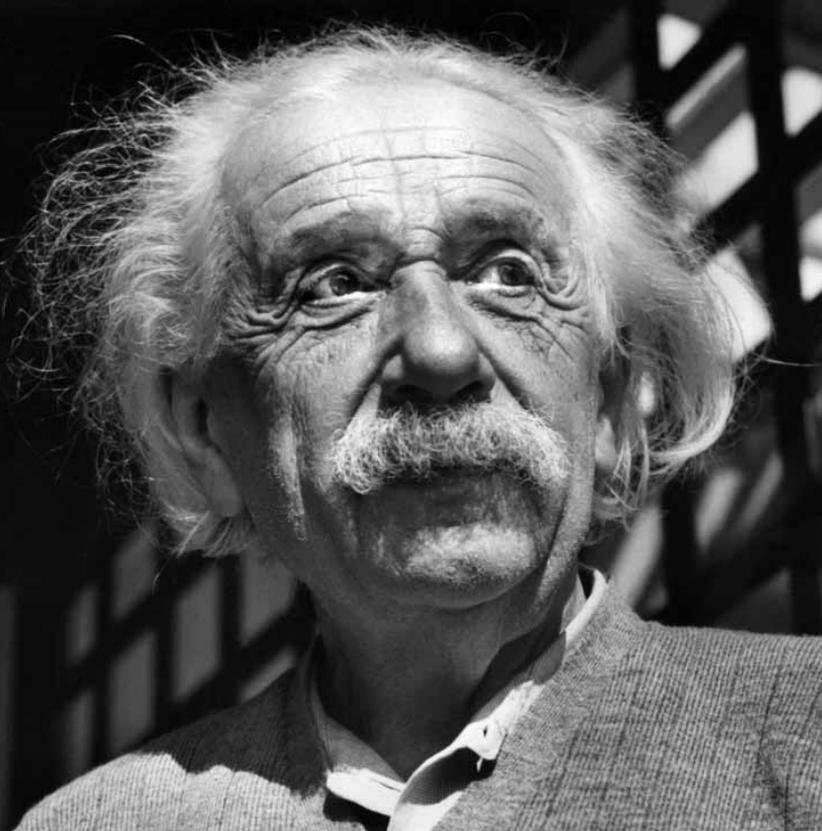
In 2010, a watershed year, we developed a bold five-year plan called Creating the Future. We deliberately set ourselves the most ambitious and challenging agenda in our existence. As the dust was settling on the GFC, we knew we had to make some profound changes to the way we were doing business to remain competitive.

As we enter the third year of our five-year plan, we are achieving the lift in performance we sought and are well placed to capitalize on new opportunities which may come our way. It's said that "optimism is a strategy for making a better future" and we are optimistic that our strategic re-positioning will continue to deliver benefits for Gateway.

With thanks.



Paul J. Thomas
Chief Executive Officer



Albert Einstein

“In the
middle of
difficulty lies
opportunity.”

BOARD OF DIRECTORS



1. Catherine M Hallinan

CHAIR

Qualifications: BA (Hons), MBA, F Fin., GAICD, FAMI.

Experience and special responsibilities: Catherine joined the Board in June 2006 and was appointed Chair in May 2012. She is also a director of HCF Life Limited and has over 29 years' experience in banking, finance and management consulting.

- Deputy Chair (March 2010 to May 2012)

Committee Memberships:

- Members' Equity Protection
- Risk & Audit
- Nominations & Remuneration

2. Graham B Raward

DEPUTY CHAIR

Qualifications: Bcomm., M Applied Finance.
Experience and special responsibilities: Graham joined the Board in June 2006 and was appointed Deputy Chair in May 2012 and has over 39 years' banking experience. He is an Executive Manager, Group Funding of the Commonwealth Bank of Australia.

Committee Memberships:

- Members' Equity Protection

3. 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 20 years' financial services experience.

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

Committee Memberships:

- Convener of Nominations & Remuneration
- Members' Equity Protection

4. Steven R Carritt

NON-EXECUTIVE DIRECTOR

Qualifications: BA (Accounting).
Experience and special responsibilities: Steven joined the Board in July 1992. He has over 37 years' finance experience and was formerly General Manager ALM with the Commonwealth Bank of Australia.

- Chair (January 2005 to February 2010)

Committee Memberships:

- Convenor Members' Equity Protection
- Risk & Audit

5. John B Flynn

NON-EXECUTIVE DIRECTOR

Qualifications: FAMI.
Experience and special responsibilities: John joined the Board in January 1989. He is currently a Finance Consultant, with over 40 years' finance experience including 37 years with the Commonwealth Bank of Australia.

- Deputy Chair (January 1998 to December 2002)

Committee Memberships:

- Risk & Audit
- Nominations & Remuneration

6. 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 39 years' banking and finance experience. He currently holds the position of Credit Executive, Uniting Financial Services.

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

Committee Memberships:

- Convenor of Risk & Audit

7. Irene H van der Loos

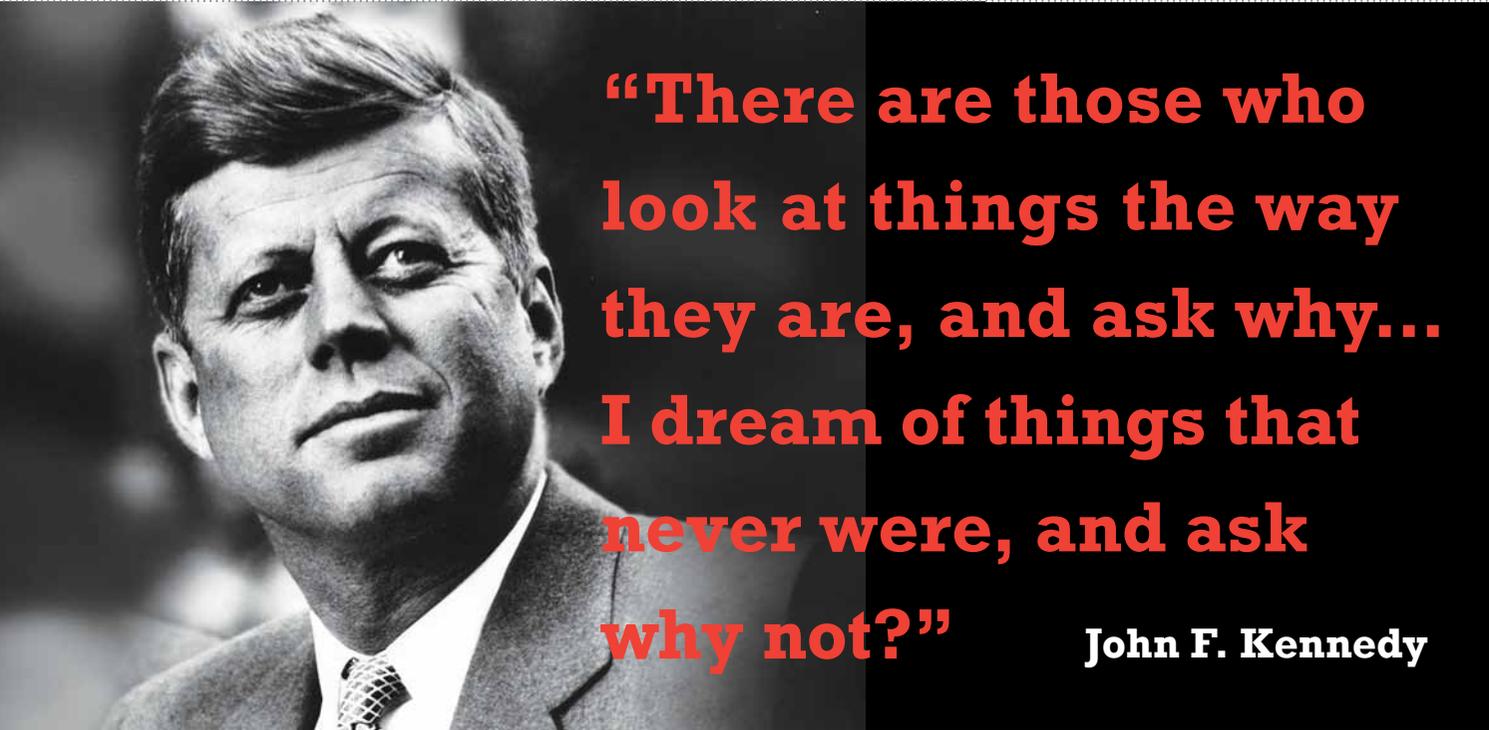
NON-EXECUTIVE DIRECTOR

Qualifications: GAICD.
Experience and special responsibilities: Rene joined the Board in February 2008. She is the General Manager, Member and Marketing Communications & Innovation at NRMA Motoring & Services. Rene has 12 years' banking experience and has been a Director of Sydney Ports Corporation (2006–2012).

Committee Memberships:

- Nominations & Remuneration
- Members' Equity Protection





KEY ACHIEVEMENTS



Gateway responded successfully to the many challenges it faced over the past year and the credit for that must go to the entire Gateway team. Every day our people bring our values to life as they serve Members.



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

KEY ACHIEVEMENTS THIS YEAR INCLUDED:

- Being judged the 2012 Credit Union of the Year (*Australian Banking & Finance Magazine*) demonstrating that Gateway is a standout performer among Australian credit unions.
- Recording our highest-ever Member satisfaction rating at 95 percent due to the quality and competitiveness of our products and the consistent quality of our Member service.
- Recording our highest-ever staff engagement rating at 91 percent.
- Recording our highest-ever growth in our mortgage book of 21 percent, compared to a 5 percent growth on average for Australian housing credit.
- Introduced a second mortgage distribution partner, Mortgage Choice, strengthening our ability to access new target markets.
- Developed and implemented electronic delivery platforms for our distribution partners to streamline processing efficiencies.

Left to right:

Paul Thomas CHIEF EXECUTIVE OFFICER

Gary English CHIEF OPERATING OFFICER

Peter Gilmore CHIEF FINANCIAL OFFICER



“It is a terrible thing to see and have no vision.”

Helen Keller

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.





**“We must
become the
change we
want to see
in the world.”**

Mahatma Gandhi

Gateway Credit Union Ltd

ABN 47 087 650 093 AFSL/ACL 238293

Branch/Head Office:

Level 16, 2 Market Street

Sydney NSW 2000

t: 1300 302 474 f: 02 9307 4299

e: memberservices@gatewaycu.com.au



Postal Address:

Gateway Credit Union Ltd

GPO Box 3176

Sydney NSW 2001

www.gatewaycu.com.au