



Gateway Credit Union Annual Report 2011

“Coming together is a beginning;
keeping together is progress;
working together is success.”

Henry Ford





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Chair	Ms J M Wicks, BA, GMQ, GAICD
Deputy Chair	Ms C M Hallinan, BA (Hons), MBA, F Fin., GAICD
Directors	Mr S R Carritt, BA (Accounting) Mr J B Flynn, FAMI Mr M S Graham, MA (Management), F Fin., 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, FAMI
Chief Operating Officer	Mr G D English, M Mgt, MAMI
Chief Financial Officer	Mr P W G Gilmore, B Bus, CPA

CHAIRMAN'S REPORT

A year of achievement

Fiscal 2011 was an extremely important and successful year for Gateway. We significantly outperformed most of our competitors in both lending and asset growth. We strengthened our competitive position and deepened our operational capabilities. And we diversified our funding base and broadened our distribution network.

LADIES AND GENTLEMEN

One of the hallmarks of a successful business is its ability to adapt to changing environments. Coming out of the GFC (Global Financial Crisis) we reacted quickly and effectively in transforming how we manufacture and distribute our products and services. Our revamped business model has enabled us to tap new markets and this has paid handsome dividends.

I am pleased to report that for the year under review, Gateway has been a standout performer among Australian credit unions and, indeed, the broader financial services

industry. While others have struggled to grow their business and gain market share, we have recorded our strongest balance sheet growth since 2000.

MEETING THE CHALLENGES

Our results reflect progress on many fronts and validate our strategy. The results also 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.

We continue to execute our strategy and are achieving progress against each of our four broad strategic goals. These goals - expand funding, build capability, facilitate mergers and develop people - are the centrepiece of our five-year strategic plan called *Creating the Future 2010-2015*. We are well on track to deliver on our plan's growth ambitions.



FIRST CLASS PERFORMANCE

The 19.1 per cent growth we recorded in our mortgage book is all the more remarkable when considered against a backdrop of a sluggish credit market. Australian households have a more cautious approach to debt post the GFC. During fiscal 2011, lending for homes in Australia slumped to its lowest level in thirty five years at 6 per cent.

BUILDING SOMETHING GREAT

Our strong lending growth was one of the reasons we were again a finalist in the prestigious Credit Union of the Year Awards. We've been a finalist every year for the past ten years in these awards, which is testament to our staying power. Being nominated again for best credit union fell on the heels of two other accolades – one of Gateway's savings products was recognised as 'Best of the Best' for 2011 by *Money* Magazine and another savings product was awarded a CANSTAR CANNEX five star rating.

As I said in my report to Members last year, external awards provide independent recognition of the breadth of work we undertake. Gateway is a standard-bearer in the credit union sector in Australia and the awards are a clear endorsement of our market position and confirm the robustness of our product offerings, strategic direction and financial strength.

EFFICIENCY IN OPERATIONS

Of course, we can never rest on our laurels and our drive to transform Gateway into a truly scalable business continues. In essence, scalability is about doing more with less by improving the efficiency of business operations. All businesses have finite resources which can be scaled by increasing their productivity via process re-engineering and the automation of repetitive tasks.

For this reason, we continue to invest in new technology and continuous process improvement. We know that we have some way to go, but having greater operational scale will enable us to spread our costs over a larger base, thereby pushing down unit costs. We see this as a strategic imperative if we are to survive on ever diminishing margins as a result of increasing competition.



RESPECTING OUR ROOTS

In transforming Gateway we have been careful not to throw out the baby with the bathwater. That's why we continue to operate under the mantra, *constantly changing while forever staying the same*. As we strip out complexity, hone our commercial skills and make the business more agile, we maintain a sound grip on our co-operative past.

Gateway evolved from a simple idea - that people could pool their money and make loans to each other. That was over fifty five years ago and that co-operative ideal has fuelled the growth of Gateway for over a half a century. Today, Gateway is one of Australia's major credit unions. Our total assets under management finished the year at \$725.4m - an impressive annual growth of 10.9 per cent.

DOING WHAT'S RIGHT

In pursuing growth, we never skirt the law or fly below the social radar. Rather, we operate to the highest standards and this is evident in the way we do business and how we treat our Members, our people, our suppliers and the broader community. Our values, ethics and principles collectively define our Corporate Social Responsibility.

Gateway is not a listed entity but the Board benchmarks its performance and behaviour against relevant ASX Best Practice Guidelines. Everything we do as a Board is governed by the imperative of upholding Gateway's corporate reputation and character at the highest level. We believe our commitment to good governance is an indicator of our management capability and quality.

PEOPLE WHO LEAD

It is a pleasure each year to pay tribute to all those who have worked diligently to make such notable progress. For the Board and the Senior Leadership Team it has been a particularly busy and demanding year. I am struck by the enormity of the projects we undertook, illustrating the unrelenting demand for change and thank my fellow Directors for their exemplary stewardship.

The stability and commitment of Gateway's Senior Leadership Team is a key driver of our long-term business success. I particularly thank our CEO, Paul Thomas, who has been the guiding force in reshaping Gateway into a focused and agile business. My appreciation, of course, extends to the entire Gateway team for their unfailing dedication and commitment.



FACING THE FUTURE

The term “new normal” is now being increasingly used by business commentators. It describes a time of slower growth as consumers and businesses take time to recover from the GFC. We expect to see a continuance of the lower demand for home lending and more subdued consumer spending during fiscal 2012.

While the road ahead will not be easy, we face it with confidence. We are well positioned to capitalise on our success and are optimistic of growing our market share even further. With the continuing support of Members, we are determined to build upon our strong leadership position. Thank you for your ongoing custom - it is a privilege to serve you.

With sincere gratitude.



Jennifer M. Wicks

CHAIR



CEO'S REPORT

A year of transformation

The year under review was a period of considerable achievement for Gateway. It was a defining year in which we demonstrated we have the right strategy, the right culture and the right business model to deliver long-term sustainable value to Members. We continue to go from strength to strength.

FELLOW MEMBERS

In an exceptional year by any standard, fiscal 2011 showed the value of staying focused on core strengths. Member service, innovation and continuous improvement are not tactics at Gateway but a way of life. Against a backdrop of significant macro-economic challenges we used our strengths to produce counter-cyclical results and grew strongly in a falling market.

We seized a window of opportunity presented by the changed financial services landscape to increase distribution in a period of subdued credit growth. We made demonstrable headway in extending our reach into high-growth, third-party markets via a broker network. This deepened our eastern seaboard footprint, enabling us to significantly increase loan volumes.

DOUBLE DIGIT GROWTH

The uplift in lending delivered us an impressive set of results. The mortgage book grew by 19.1 per cent - more than three times system growth! The total loan portfolio grew by 15.1 per cent. Total assets grew by 10.9 per cent. The actual number of mortgage loans settled increased by 15 per cent. These results are even more remarkable when one recognises we had no economic tailwind propelling us.

Of greater significance, perhaps, is the fall in bad debts. In a period of rapid loan growth it is common for lending standards to drop and loan delinquencies to rise. Our performance is the antithesis of this with the percentage of loans 30 days or more in arrears ending the year at 0.24 per cent of total loans outstanding.

DEPOSIT COMPETITION BATTLE

The strong growth in loan assets drove our need to find new sources of funding. Prior to the GFC (Global Financial Crisis), having sufficient funding in place was a given, however, since the GFC, funding is on everyone's anxiety radar. As the banks scrambled for new ways to fund their loan books, the war for retail deposits intensified.

While retail deposits have historically been the lifeblood of credit unions, an increasing number are expanding their funding base. In Gateway's case, we have also traditionally relied on Member deposits to fund loans. But during the year we put in place funding arrangements with external counterparties for wholesale funding.

NEW FUNDING LINES

We intend to raise wholesale funding via debt issues and/or securitisation. As a first step, we have created a legal entity, called a Special Purpose Vehicle (SPV), to facilitate the securitisation of selected home loans. The SPV's master trust structure has been designed to allow multiple series trusts to tap different funding sources to ensure ongoing funding supply.

The ability to issue separate series trusts will enable us to source the lowest funding options to deliver competitive home loans to Members. We propose to bulk sell loans into the SPV which, in turn, will raise funds to purchase the assets. During fiscal 2011 we stockpiled loans on our balance sheet for sale to the first series trust. This will occur post balance sheet date.

A WINNING PARTNERSHIP

The marked growth in loans originated through our partnership with Yellow Brick Road (YBR) has been the key driver of our need for supplementary off balance sheet funding. We formally entered into our strategic alliance with YBR in December 2009 and it has truly been a win-win for both organisations. For Gateway, it's given us easier access to target markets.

The venture with YBR has created a highly successful business model where we manufacture products and they distribute them. We are actively pursuing other third-party relationships as we seek to replicate this model as part of our ongoing growth strategy. Further creative partnerships will bring fresh approaches and ideas to maintain momentum.

RESHAPING THE BUSINESS

Operationally, we are now very different to the business we were a few years ago. Our repositioning is being driven by the need for greater distribution. Our medium term goal is to combine the network of YBR 'broker branches' with mobile distribution from another loan originator complemented by our own robust online offering.

We are confident this blending of high-tech and high-touch service delivery will generate additional loan demand and enable us to capitalise on each customer interaction. We are committed to providing Members and potential Members with more channel choice and believe it's a case of "build it and they will come".

BUILDING EMPLOYEE ENGAGEMENT

Something we have built at Gateway is a great team. The key to sustainable, competitive advantage is having the right people with the required skills and capabilities. I'm very fortunate to lead a talented team of dedicated professionals who strive every day to provide Members with a level of service which is second to none.

I particularly wish to record my heartfelt thanks to my executive colleagues - Gary English (COO) and Peter Gilmore (CFO). Gateway's success is heavily reliant on the contribution of a high performing and committed executive team. Teamwork at the top is crucial in any business and I value the strength and quality of the partnership that Gary, Peter and I have built.

THE KNOWN UNKNOWNNS

We know the world has become predictable in its unpredictability, so we move ahead with a combination of small steps and large strides. What lies ahead is more competition but we cannot say with certainty where this will come from. History tells us that ambitious new players often enter markets when least expected.

Beyond that, who knows what would happen if an irresistible new force (like a revamped mutual sector) meets an immovable object (like the Big Four banks). The banks may be juggernauts but mutuals are making progress in becoming the fifth force in Australian banking. Gateway is playing its part in taking credit union services to a broader number of Australians.

SEIZING TOMORROW'S OPPORTUNITIES

Gateway is a business that puts its Members at the heart of every decision. Our core ideology of *people helping people* underpins all we do and drives our achievements and goals. We continue to forge ahead with confidence and will work hard to deliver innovative product solutions in order to differentiate our value proposition in the marketplace.

Only by focusing on the needs of our Members and offering products and services that address those needs can we expect to be successful. We are casting a critical eye over everything we do to raise the performance bar and have good reason to be optimistic about the future. As CEO, I am delighted with our progress during fiscal 2011 and thank you for your support.



Paul J. Thomas

CHIEF EXECUTIVE OFFICER



BOARD OF DIRECTORS





1. Jennifer M Wicks

CHAIR

Qualifications: BA, GMQ, GAICD.

Experience and special responsibilities:

Jennifer joined the Board in February 2008 and was appointed Deputy Chair in March 2009. In February 2010, Jennifer was appointed to the Chair. She is a Management Consultant with over 20 years' financial services experience.

Committee Memberships:

- Members' Equity Protection
- Nominations & Remuneration

2. Catherine M Hallinan

DEPUTY CHAIR

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

Experience and special responsibilities:

Catherine joined the Board in June 2006 and was appointed Deputy Chair in March 2010. She is also a director of HCF Life Limited and has over 28 years' experience in banking, finance and management consulting.

Committee Memberships:

- Convener of Members' Equity Protection
- Risk & Audit

3. Steven R Carritt

NON-EXECUTIVE DIRECTOR

Qualifications: BA (Accounting).

Experience and special responsibilities:

Steven joined the Board in July 1992. He is the General Manager ALM – Group Treasury for the Commonwealth Bank of Australia. He has over 35 years' banking experience.

- Chair (January 2005 to February 2010)

Committee Memberships:

- Members' Equity Protection

4. 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 36 years with the Commonwealth Bank of Australia.

- Deputy Chair (January 1998 to December 2002)

Committee Memberships:

- Risk & Audit

5. 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 38 years' banking experience. He is the Executive Manager, Group Funding of the Commonwealth Bank of Australia.

Committee Memberships:

- Convener of Risk & Audit
- Members' Equity Protection

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 38 years' banking and finance experience and 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:

- Risk & Audit
- Nominations & Remuneration

7. Irene H van der Loos

NON-EXECUTIVE DIRECTOR

Qualifications: Diploma, AICD.

Experience and special responsibilities:

Rene joined the Board in February 2008. She is the General Manager Marketing of NRMA Motoring & Services and Director of Sydney Ports Corporation (2006–2012). Rene has 11 years' banking experience.

Committee Memberships:

- Convener of Nominations & Remuneration

KEY ACHIEVEMENTS



During the year we continued to work on delivering the key components of our strategic plan. The results to date speak for themselves.

KEY ACHIEVEMENTS THIS YEAR INCLUDED

- ┌ Successful implementation of the initial phases of our longer term strategic objectives as evidenced by:
 - expansion of our distribution base through a series of selective alliances;
 - above system growth in both lending and deposits;
 - diversification and development of our funding capacity with the support of appropriate counterparties; and
 - continuing improvements in the key areas of Member and employee satisfaction.
- ┌ An increase in Gateway's public profile through a greater presence in print and electronic media, particularly online and PR.
- ┌ Named once again as a Credit Union of the Year Award finalist in the Australian Banking & Finance Awards.
- ┌ Winner of two categories in *Money Magazine's* 2011 'Best of The Best' Awards for our Everyday Savings Account.
- ┌ Further improvement in process and operational efficiencies aided by ongoing investment in technology.
- ┌ Continuing our community support programs for a range of charities including CUFA (Credit Union Foundation of Australia).

Paul Thomas (left)
CHIEF EXECUTIVE OFFICER

Gary English (centre)
CHIEF OPERATING OFFICER

Peter Gilmore (right)
CHIEF FINANCIAL OFFICER

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.

www.gatewaycu.com.au



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