

A photograph of a man and a young girl looking up at a tree with yellowing leaves. The man is on the left, smiling and looking up. The girl is on the right, also looking up and reaching towards a branch. The background is a bright, sunny day with many yellow leaves on the tree branches.

Annual Report 2015

As you turn the pages of this Annual Report, you will be taken on a narrative journey that reveals the path we followed over the past year. In our 60th year of serving Members, fiscal 2015 can be described as a year of challenge and transformation.

This report includes contributions from the Chairman and the CEO but speaks with one voice to deliver a clear and consistent message about the environment in which we operated. The visual look and feel of the report reflects our caring nature and our people helping people philosophy.

Members have always been, and always will be, the reason that we open our doors each day. We exist to help people financially achieve their hopes and dreams.

Cover image: Our choice of cover image reflects Gateway's constant focus on helping Members to reach out and grab their dreams.

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*Navigated
through
challenges*

Chairman's Report



Delivering For Members

Though confronted by a weak economy, Gateway recorded another solid performance. In a year when rates fell and competition rose, we navigated through the challenges posed by an ever-changing marketplace and ended the year on a high.

Ladies and gentlemen

If there's a message that comes through the pages of this annual report it's that in a range of areas Gateway has punched above its weight. During the year under review we achieved a number of best practice outcomes, making fiscal 2015 a milestone year for Gateway. Measures of this corporate success came in many forms.

In September, 2014 we passed the \$1 billion barrier in assets under management. In December, we won a Money magazine award for our Premium Home Loan product. In February, 2015 we celebrated our 60th birthday. In April, we won two Canstar awards. And in June, we won a Gold Award from Mozo Experts Choice Awards for one of our loan products.

How we operate

These achievements bear witness to the effectiveness of Gateway's co-operative business model. Gateway has no shareholders other than its Members. This model gives us all a personal stake in the credit union. For the board of directors, it means that our *people helping people* philosophy guides all of our endeavours and decisions.

For six decades, we have invested our Members' deposits directly back into loans for borrowing Members creating a virtuous cycle. At the core of what we do is the mobilisation of savings from depositors for on-lending to others. By acting as an intermediary between savers and borrowers, we improve the lives of Members and help them achieve their hopes and dreams.

Capturing special memories

On 4 February, 2015 Gateway celebrated 60 years of providing an alternative approach to retail banking. Under our model, people come first and the benefits of our financial strength are returned to Members. As part of our diamond birthday celebrations we asked Members to share with us their stories about their dealings with Gateway.

In response, many Members wrote to us with wonderful tales of how Gateway has helped them over the years. The heart-warming feedback we received from Members confirmed what I have long known – we are in the privileged position of making a difference in the lives of the people we serve. Member satisfaction, therefore, is the greatest reward we can receive.

Hot property market

Over the past year, we helped Members purchase cars, take holidays, fund weddings, finance education and undertake renovations. However, the majority of the money we lent was for home purchases and refinances. Our main product category is home loans and the Australian home loan market was in the spotlight during fiscal 2015.

Rising house prices in parts of Australia dominated the headlines during the financial year. Property prices surged in Sydney and rose to a lesser degree in Melbourne. Amid fears of a potential property bubble, the Reserve Bank of Australia (RBA) announced that it would work with other regulators to assess and contain risks that may arise from the housing market.

Home lending restrictions

The financial regulator (APRA) instructed regulated lenders to limit growth in their investment loan portfolios to less than 10 per cent per annum. Concurrently, the consumer watchdog (ASIC) began a review into the provision of interest-only loans. The ASIC crackdown on lending to property investors and the APRA focus on lending standards and practices dampened loan demand.

For some lenders, like Gateway, this resulted in subdued growth in loan portfolios for the year to 30 June, 2015. In Gateway's case, the tightening of credit criteria contributed to one of the lower growth levels in its loan portfolio in recent years. Nonetheless, we finished the year with a respectable 6.02 per cent rise in our loan book.

Growing regulatory impost

The new rules on lending are part of a concerted effort by regulators to bolster financial system stability and avoid a repeat of the GFC and this is laudable. No one in their right mind would challenge the goal of a more resilient banking sector. However, the quest for financial system stability needs to be balanced with the economic impact of over regulation.

There is a belief that for smaller institutions, like credit unions, the regulatory pendulum has swung too far. A decade ago, Gateway employed one lower-level compliance manager. Today, we have an entire division focussed on risk and compliance and it's headed by a Chief Risk Officer (CRO). Government regulations now require Gateway to employ a CRO.

Punching above our weight

Cost of compliance

For all businesses, compliance comes at a cost. According to accounting firm, Deloitte, government regulation costs the Australian economy a staggering \$94 billion a year. Deloitte estimates that one in every 11 employed Australians now works in the compliance sector. As I have just noted, this rise in compliance workers is borne out in Gateway.

Many respondents to the recent Murray Inquiry into Australia's financial system expressed frustration at the cost of banking regulation in Australia. Specifically, concern was expressed about overly prescriptive legislation and inadequate consultation with industry.

Strong profit result

When viewed against the regulatory environment which prevailed during the year under review, Gateway's bottom line result for fiscal 2015 is pleasing. On the income side of the ledger, we were required to slow our loan growth and this reduced revenue. On the expense side, we had to create new risk and compliance roles and this added to our staff costs.

Notwithstanding being caught in this pincer movement, we grew net profit before tax by 72.46 per cent to \$4.15m. This took our total Members' equity (capital) to \$94.95m. We remain ambitious and optimistic that we can continue to deliver for our Members.

People who lead

I thank my fellow directors for steering us through a challenging twelve months. Two key areas of focus for directors were strategic direction and risk management. The board worked collegiately to produce sound and prudent outcomes. During the year, we said farewell to Jennifer Wicks

as a director and welcomed her replacement, Robyn FitzRoy.

As is always the case, the heavy lifting with regard to strategy and policy implementation fell to our staff. This involved extensive changes in the organisation, which is never easy, and it was managed very effectively. We have a committed team of people who are ably led by our CEO, Paul Thomas. Paul, in turn, has the support of a top executive team who always go the extra mile for Members. To Paul and his talented staff we say a big "thank you".

Appreciation to owners

I opened this report by acknowledging Members and it is fitting that I mention them again in my closing remarks. Everything we do starts and stops with Members. With a history that spans 60 years, Gateway is an institution that has both longevity and adaptability in meeting the changing needs of Members.

We face the year ahead with great optimism, recognising that it will be a challenging time as interest margins remain under pressure and competition increases. With the continued support of our loyal Members, I know that we will triumph. I look forward to reporting our progress to you a year from now.



C M Hallinan
Chairman



*Change
and grow as
a business*

CEO's Report



Navigating Choppy Waters

A compelling strategy and vision successfully guided us through a year which threw up many obstacles. Instead of despairing at the “new normal” of slower growth and higher regulation, we looked at these squalls as opportunities to learn, change and grow as a business.

Fellow Members

There is a lot more that happens each year at Gateway than what is recorded on the balance sheet. Beyond the numbers, there are invariably issues below the waterline of public view that impact our operations. For the year under review, an issue which should not be airbrushed from Member visibility is the increasing cost of financial regulation.

New banking laws in Australia since the Global Financial Crisis have fallen unduly heavily on smaller financial institutions. Many credit unions and building societies are reeling under the burden of substantial extra regulations. Australia's "Big Four" banks have also become increasingly vocal about the growing regulatory load.

Increasing regulatory regime

For Gateway, the estimated direct cost of complying with new regulations and directives conservatively wiped \$1m off our bottom line for fiscal 2015. What must be added to this figure to obtain the true cost of compliance are myriad indirect costs such as management time, curtailed business opportunities and increased staff turnover.

As the Chairman noted in her report, we applaud efforts to bolster financial system security, but not at the cost of stifling competition and innovation. Around the world, the operations of financial institutions are being shaped by hypothetical situations devised by regulators in stress tests. But these worse case occurrences cease being theoretical if you have to actually manage to these adverse economic scenarios.

Interest rates fall

In addition to managing an increasingly complex regulatory regime, we had to contend with abnormally low monetary policy settings. The RBA cut interest rates twice during fiscal 2015 to buttress the economy, taking the cash rate to an all-time record low of 2 per cent. A low interest rate environment is typically associated with decreased profitability for financial institutions.

This is particularly the case for smaller institutions. As a result of falling rates, we charged less for loans and received less on investments and this created a margin squeeze. Given this, I echo the Chairman's sentiments that we produced a credible bottom line performance in the face of external factors over which we had no control.

Clean loan book

Something that we have much greater control over is asset quality and this remains an area of strength for Gateway. Our asset quality metrics improved over the year with lower impaired assets and a reduction in 30+ day delinquencies. We are proud that we have never foreclosed on a mortgage in our 60 year history, nor booked a loss on a mortgage secured loan.

In line with APRA's approach to curbing risk in the housing market, we introduced tougher credit assessment criteria and tighter serviceability standards during the latter half of fiscal 2015. These measures had the effect of slowing loan demand. However, they were prudent changes to ensure that borrowers will be able to meet their repayments when interest rates start to rise.

Key stakeholders happy

Speaking of rising, we continue to excel at satisfying the needs of Members and creating a positive work environment for staff. Yet again, Members told us that we do a very good job in helping them achieve their hopes and dreams. It was gratifying to learn that an increasing number of Members see us as their prime financial partner and trusted adviser.

Member satisfaction is driven by staff satisfaction which is why I actually see the latter as more important than the former. From many years of experience, I know that if employees are treated with respect and feel happy they, in turn, will treat customers with respect. I'm delighted to report that in our latest staff survey we recorded our highest ever staff engagement score at 92 per cent.

Threat from technology

For staff and Members, technology is a hot topic. Banking is being disrupted by the digital revolution sweeping through the financial services sector. The old branch model of retail banking is giving way to mobile and Internet banking. Banks and credit unions are being challenged by start-ups that are using technology to find new ways to solve old problems.

These "FinTech" companies are giving customers greater control over how they spend, move and manage their money. The term FinTech is a contraction of the words "financial" and "technology". FinTech has spawned a whole new industry which is reinventing business models using customer centric design.

Future of banking

Peer-to-peer lending, crowd funding, online trading and virtual currencies are all relatively new innovations that are gaining market acceptance. FinTech companies are also helping people manage their entire financial lives with online tools. There is now talk of the “de-banked” consumer who doesn't need a bank.

Gateway is doing its best to keep abreast of FinTech developments and the new breed of hyper-competitive players that are challenging conventions. We accept that technology will continue to shape financial business models over the next decade. It's a case of adapt or perish as only the fittest will survive – we do not intend to become a dinosaur.

Expanded executive team

One of the reasons we introduced a new organisational structure was to make us more responsive to changes in the marketplace. We created the new role of Chief Customer Officer and made other organisational changes to bring all customer-focussed activities into the one business area. Lexi Airey started with us in October 2014 as our first ever Chief Customer Officer.

Another change we made was to appoint our former Chief Operating Officer, Gary English, to the new role of Chief Risk Officer. Our long standing Chief Financial Officer, Peter Gilmore, retained his title in the re-structure but picked up an expanded portfolio of duties. Together, Lexi, Gary, Peter and I comprise Gateway's Senior Leadership Team (SLT).

Praise the team

I would like to thank my SLT colleagues for their dedication and commitment throughout the year. They are a talented and tight-knit group who serve the organisation well. I must also thank the staff who do a magnificent job in looking after the interest of Members. Our employees strive to provide Members with a level of service which is second to none.

Not to be forgotten is the work of our directors who are able stewards of the organisation. The board is capably led by our Chairman, Catherine Hallinan, who leads by example. She is a tireless advocate for Members and a keen strategic thinker who makes everyone feel valued. Her sound knowledge of how the organisation works adds value to both the board and management.

With personal thanks

Catherine is the third Chairman I have served under at Gateway. I chalked up 10 years' service as CEO in March, 2015 and have led Gateway through a very turbulent decade. When I look back on what we have done, I am struck by the enormity of the projects we have undertaken and the depth of the transformation which has occurred in the business.

We cannot declare victory and move on as the need for change is relentless. The marketplace in which we operate does not stand still, nor can we. I am proud to have played a part in moving us forward and acknowledge the wonderful support I have received along the way. Thank you to my dedicated board, my talented staff and our loyal Members.

With thanks.



Paul J Thomas
Chief Executive Officer

*Making
everyone
feel valued*

Purpose, Ambition and Values

Purpose

To help people financially achieve their hopes and dreams

Ambition

To be the most trusted financial partner in Australia

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.

A romantic couple is shown in profile, dancing and holding hands on a paved surface. The man is on the left, wearing a light blue t-shirt and dark pants. The woman is on the right, wearing a light-colored cardigan over a white top and sunglasses. They are both smiling and looking at each other. In the background, a vintage car is partially visible on the left, and the horizon is visible under a warm, golden sunset sky. A white rectangular box with a thin border is superimposed over the lower half of the image, containing the text.

*Helping
members achieve
their hopes &
dreams*

Board of Directors

Demonstrating dedication and commitment throughout the year, our directors have ultimate responsibility for the stewardship of Gateway.



Catherine M Hallinan

Chairman

BA (Hons), MBA, F Fin.,
FAICD, FAMI

Experience and special responsibilities

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

- Deputy Chairman
(March 2010 to May 2012)

Committee Memberships

- Nominations & Remuneration
(July 2014 to present)
- Risk (March 2014 to present)
- Audit (March 2014 to present)



John B Flynn

Deputy Chairman

FAMI

Experience and special responsibilities

John joined the Board in January 1989. John is currently a Finance Consultant with over 44 years' finance experience including 37 years with the Commonwealth Bank of Australia.

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

Committee Memberships

- Risk
(February 2015 to present)
- Convenor Nominations & Remuneration
(March 2014 to January 2015)
- Convenor Audit
(February 2015 to present)



Steven R Carritt

Non-Executive Director

BA (Accounting)

Experience and special responsibilities

Steven joined the Board in July 1992. Steven 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)
- Deputy Chairman
(January 2003 to December 2004)

Committee Memberships

- Convenor Risk
(March 2014 to present)



Robyn L FitzRoy
Non-Executive Director
BA, MA, FAICD

Experience and special responsibilities

Robyn joined the Board in January 2015. She is also a director of Habitat for Humanity Australia. She has over 20 years' experience in the financial services industry and is a former Executive Director of Macquarie Bank. Robyn is a management consultant specialising in governance and is a former non-executive director of CUSCAL. She also is an accredited facilitator and author of courses for the Australian Institute of Company Directors.

Committee Memberships

- Audit
(February 2015 to present)
- Nominations & Remuneration
(February 2015 to present)



Malcolm S Graham
Non-Executive Director
MA, F Fin., FAMI

Experience and special responsibilities

Mal joined the Board in July 1992 and has over 40 years' banking and finance experience. 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 Audit
(March 2014 to January 2015)
- Audit
(February 2015 to present)
- Nominations & Remuneration
(March 2014 to January 2015)
- Convenor Nominations & Remuneration
(February 2015 to present)



Graham B Raward
Non-Executive Director
BComm., M Applied Finance

Experience and special responsibilities

Graham joined the Board in June 2006 and has more than 42 years' banking experience. Graham is an Executive Manager, Group Funding of the Commonwealth Bank of Australia.

- Deputy Chairman
(May 2012 to February 2013)

Committee Memberships

- Risk (March 2014 to present)



Irene H van der Loos

Non-Executive Director

GAICD

Experience and special responsibilities

Rene joined the Board in February 2008 and 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 to 2012).

Committee Memberships

- Nominations & Remuneration (April 2008 to present)
- Audit (March 2014 to present)



Jennifer M Wicks

(resigned 2 September 2014)

Non-Executive Director

BA, GMQ, GAICD

Experience and special responsibilities

Jennifer joined the Board in February 2008. Jennifer is the Portfolio Director, Group Operations, Property and Procurement at Westpac Banking Corporation, and has over 25 years' financial services experience.

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

Committee Memberships

- Convenor Members' Equity Protection (March 2014 to September 2014)
- Risk (March 2014 to September 2014)

Peter W G Gilmore

Company Secretary

Chief Financial Officer

Appointed Company Secretary November 2006



*Dedicated
and
committed*

Senior Leadership Team



Paul J Thomas
Chief Executive Officer
MBA (Dist), MAICD, FAMI



Gary D English
Chief Risk Officer
M Mgt, FAMI



Peter W G Gilmore
Chief Financial Officer
B Bus, CPA



Alexis D Airey
Chief Customer Officer
BA (Hons), MSc

Year in Numbers

33,000

number of Members that we serve



6.02%



growth in our loan book

6



external awards received

92%

Member satisfaction



92%

staff satisfaction

2,564



loans approved by Gateway



41,172

Gateway Member
calls to our call centre

72.46%

growth in profit



\$1,000,000,000

value of assets under management

59,444

Gateway Visa
Debit Card fee
free ATM
transactions
(Within Australia)



FREE

60

years of service





*Responsive
to change*

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