

Gateway Credit Union Annual Report 2010

Reflections



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Cover Image:

**Reflecting on the year that was, we move ahead with confidence into calmer waters**

## Gateway Credit Union Annual Report 2010

ahead with confidence into calmer waters  
 Reflecting on the year that was, we move  
 ahead with confidence into calmer waters

## Reflections

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 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, AFAMI
Chief Operating Officer	Mr G D English, M Mgt, MAMI
Chief Financial Officer	Mr P W G Gilmore, B Bus, CPA
Information	Gateway Credit Union Ltd ABN 47 087 650 093 AFSL 238293



## CHAIRMAN'S REPORT

**A year of achievement**

Amid the change and uncertainty of the past year, Gateway remained true to its roots. We are proud of our Member-owned, co-operative structure and have reshaped the Credit Union to be even more flexible and responsive to the needs of Members. We are driven to deliver exceptional service and the finest quality products.

**LADIES AND GENTLEMEN**

This is my first report to you as Board Chair since taking up my appointment in February 2010. I am conscious of the responsibility I now bear and of the strong leadership and dedication of my predecessor, Steve Carritt. In his role as Chairman, Steve served Gateway with distinction and leaves a record of achievement.

While it's normal to leave tributes to the end, I want to thank Steve at the outset for his vision and stewardship. He steered us through the treacherous waters of the Global Financial Crisis (GFC) and we drew heavily on his specialist treasury skills. I am delighted we have retained Steve's services as a Director - he continues to provide wise counsel and advice to the Board.

**SCALING NEW HEIGHTS**

Much has changed since our last annual report was published. The GFC has come and gone and Gateway has come through as a stronger organisation. We have completed one of the most successful years in our recent history and are in good shape to take advantage of the opportunities which will emerge from the changed financial services landscape.

I certainly would not claim that our accomplishments for the year under review are a direct result of my appointment. The reality, of course, is that many of the initiatives were underway long before I became Chair. However, as the 'new kid on the block', so to speak, I have the pleasant task of sharing with you the highlights of our journey.



Jennifer M Wicks  
Chair

## CHAIRMAN'S REPORT

### A year of achievement

#### IN THE SPOTLIGHT

Fiscal 2010 can be characterised as a year when Gateway moved out of the shadows. Among our many triumphs, Gateway's Everyday Savings Account picked up an award in two categories as the Best of the Best for 2010 by *Money Magazine*, we received a 5-star rating from Canstar Cannex for our Everyday Savings Account and we were a finalist in the Credit Union of the Year category at the annual Australian Banking and Finance Awards.

What's important about these awards is the breadth of work they showcase and the independent recognition they provide. 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.

#### DELIVERING ON EXPECTATIONS

The financial report for Gateway this year is a positive story. We have grown both our deposits and our loans, and our profit level has recovered well to a profit before tax of over \$4m. CEO, Paul Thomas, will highlight our results in his report. For my part, I want to underscore that this report is also about how we have performed in serving Members, our most important stakeholder group, and the very reason for our existence.

Based on formal and informal feedback we know that Members are very satisfied with our service. This is the most important accolade we can receive. Nonetheless, I can see opportunities for us to improve what we do. I have been in business long enough to know that the eyes and ears of our Members are the ones which matter most.

#### FOCUS ON FUNDAMENTALS

We will have an even greater emphasis over the next twelve months on listening to and acting on Member feedback. We are driven by a desire to simplify the Member experience and to add real value. We understand that many Members are time poor and we'll be responding to this by streamlining and automating our processes to provide even faster turnaround in key areas like loan approvals.

Our Members place high value on accurate information and want to be served by employees who know our products inside and out. Further, Members want their queries answered correctly in the initial contact and we'll be tracking our success at first call resolution. We have, and will continue, to invest heavily in staff training and development to deliver these Member outcomes.

**CHAIRMAN'S REPORT****A year of achievement****PROMOTING THE BRAND**

Over the past five years Gateway has grown from an institution with little brand awareness to one which is gaining recognition beyond its traditional Membership base. Achieving what is called 'brand cut-through' in a competitive market is not easy but it's strategically important that we take the Gateway message to a broader audience.

In a crowded or confusing market, consumers tend to choose a product brand they know and stick to it and this certainly holds true in financial services. Becoming a better known and trusted brand is the most effective way for us to gain market share from the banks and it is for this reason we are now advertising on radio.

**BEST PRACTICE GOVERNANCE**

My appointment as Chair effectively completed a three-year Board restructure overseen by my predecessor, Steve Carritt. The restructure was designed to expand the Board's skill base and provide a greater level of independence. The transition to new Board leadership was seamless and included Catherine Hallinan's appointment as my Deputy.

Ours is an effective Board, a talented and experienced team with the vision to help shape our future. I thank my fellow Directors for the leadership they have provided and for the breadth of experience they bring to Gateway. We are committed to the highest standards in corporate governance and will continue to operate as an open and transparent Board.

**WITH PERSONAL APPRECIATION**

May I conclude my inaugural report by thanking our CEO, Paul Thomas, who has given tirelessly throughout the year. No one can doubt his dedication and commitment. Paul is ably assisted by his Senior Leadership Team colleagues who are no less dedicated. The Leadership Team, in turn, is supported by our wonderful employees who, every day, go the extra mile for Members.

Finally, I express my appreciation to our Members for their unwavering support and loyalty. We are proud of our service reputation and strive to provide Members with a level of service which is second to none. Rest assured we will never take your custom for granted.

With sincere gratitude



Jennifer M. Wicks

**CHAIR**



## CEO'S REPORT

### Passion for success

Fiscal 2010 marked significant progress towards achieving a number of important objectives. We are steering Gateway in a new strategic direction to reposition us for long-term sustainability. Our aim is to make Gateway the best Credit Union in Australia. We are going for gold and are well on our way.



Paul J Thomas  
Chief Executive Officer

### FELLOW MEMBERS

Welcome to the first ever electronic version of Gateway's annual report. We have joined a long list of organisations that no longer print and distribute their annual report. We were deliberately slow in embracing electronic media as the primary means of communicating our annual results as we know some Members prefer to receive a printed copy in their letterbox.

Over recent years, however, the demand for printed copies has fallen appreciably. Moreover, the not insignificant burden on the environment of producing and posting printed copies was at odds with our desire, as a good corporate citizen, to reduce our environmental footprint. I trust you enjoy reading this online version of our 2010 annual report.

### A STEADY COURSE

While some things have clearly changed over the past 12 months, others have not. As Jennifer Wicks has already pointed out, our focus on Members is the one constant. This has driven us throughout the year to new heights resulting in independent, external commentators marking Gateway as a high achiever.

But that success has not come without sacrifice. Like every business we need to manage our costs in line with our income. Coming out of the Global Financial Crisis (GFC) our margins were compressed and income from loans was soft. So we took some hard but necessary decisions to reduce costs - without impacting Members - including imposing a salary freeze from the CEO down.



## CEO'S REPORT

### Passion for success

#### STRONG BALANCE SHEET

The results of our austerity measures are evident in our finance performance. Total expenses of \$12.667m represent a year-on-year fall of 2.6 per cent. Even more impressive is the 15.4 per cent fall in bad debts written off. The delinquency ratio finished the year at 0.23 per cent – an exceptional outcome!

Given the tight cost control, our profit before tax was \$4.009m - a 94.1 per cent increase on the prior year and a credible turnaround in a difficult trading environment. When our net profit was added to accumulated reserves, our capital adequacy ratio finished the year at a best practice 27.01 per cent. Deposits grew by 3.85 per cent while loans increased by 3.88 per cent.

#### CAPTURING THE OPPORTUNITIES

Growing our loan book remains a priority and we intend to do this with the help of third-party loan distributors. We signed our first distribution agreement in December 2009 with Mark Bouris and his team at Yellow Brick Road (YBR). YBR is now originating loans on behalf of Gateway and the strategic alliance is a win-win for both organisations.

For YBR, it's added to their product offering. For Gateway, it's giving us easier access to target markets. For both organisations, it's created synergies and competitive advantage. We are vigilant about the quality of new business and this will not alter under the alliance. Importantly, the alliance is bringing much needed competition to the market.

#### PROUDLY SPEAKING OUT

The Big Four banks have become the proverbial 800 pound gorillas in the market place but we intend to be the monkey on their backs. I believe there is value in encouraging competition to maintain downward pressure on fees, charges and rates. During the year, I expressed this view publicly in various forums and in interviews with the printed media.

Gateway is now recognised as an advocate for the Credit Union movement and is asked to comment on issues impacting the mutual sector. One way we get our message out is via my weekly blogs. These online editorials are a combination of economic commentary, thought leadership and helpful hints. An example of one of my blog postings is included on page 17 of this report.

### DIVERSIFIED FUNDING STRATEGY

Now that the worst of the GFC is behind us, our focus is squarely back on growth. Ironically, at the very time that we have the necessary people and processes in place to drive growth, a new challenge has arisen – funding. One of the consequences of the GFC is an on-going war for retail deposits.

Banks have been chasing a greater proportion of their money from retail customers as the cost of borrowing from wholesale markets has soared. We have put in place a new funding strategy which will see us gain access to alternative funding sources. Reducing our reliance on retail funding has enabled us to reposition the business for a new phase of growth and long-term sustainability.

### NEW ORGANISATIONAL STRUCTURE

Another important decision we made during the year under review was to change the way we deploy our resources to better integrate and co-ordinate the various activities we undertake on behalf of Members. Our more simplified structure has created a new chemistry and teamwork across the organisation.

The slimmed-down Senior Leadership Team now consists of three executives. As CEO, I am responsible for our overall strategic direction and performance. As COO, Gary English manages day-to-day operations across channels to ensure best-of-breed outcomes for Members. As CFO, Peter Gilmore monitors and reports on the financial health of the business and drives our risk management processes.

### APPRECIATION TO STAKEHOLDERS

I thank Gary and Peter for their unflinching commitment to executing our long-term strategy. I also express my sincere gratitude to the entire Gateway team. Our people are our competitive advantage and this also applies to our Board.

In particular, I thank Steve Carritt, who was my Chairman for the first half of fiscal 2010. It has been an absolute pleasure working with Steve over the past five years. He is a true Credit Union believer and I applaud his dedication and commitment to Members.

I welcome and thank my new Chair, Jennifer Wicks. She has embraced her new leadership role with vigour. Together, we are committed to driving Gateway forward.

As always, I save my biggest thanks to our loyal Members. It is a privilege to lead Gateway and to serve you.



Paul J. Thomas

**CHIEF EXECUTIVE OFFICER**



GARY ENGLISH



Chief Operating Officer

PETER GILMORE



Chief Financial Officer

As the year progressed it became very clear that the sustained period of market uncertainty we have endured over recent times was far from over. Often in times like these, opportunities also emerge and the Gateway Senior Leadership Team has continued to refine and develop strategies to leverage current conditions rather than simply wait for 'normal' times to return. Solid and sustainable growth will underpin these plans and, as always, the interests of Members remain paramount. We believe the outcomes we are achieving are consistent with this strategy and will serve Gateway well into the future.

### KEY ACHIEVEMENTS THIS YEAR INCLUDED

- Working to increase Gateway's public profile through a greater presence in electronic media, particularly online
- Consistently maintaining very competitive pricing for our lending and deposit products throughout the year
- Implemented operating efficiencies to drive down cost and maximise value provided back to Members
- Named once again as a Credit Union of the Year Award finalist in the Australian Banking & Finance Awards
- Our Everyday Savings Account won two categories in *Money* Magazine's 2010 Best of The Best Awards
- Introduced Foreign Exchange services for Members in partnership with American Express
- Continued to strengthen our online, card and data security protection measures with excellent results
- Launched a partnership with wealth management business, Yellow Brick Road, to distribute co-branded lending products nationally
- Continued our community support programs for a range of charities including CUFA (Credit Union Foundation of Australia).

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:

- Risk & Audit (until May 2010)
- Members Equity Protection
- Nominations & Remuneration (from May 2010)

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 has over 28 years' bank and finance experience and was formerly General Manager, Investment Management & Life Zurich Financial Services Australia Limited.

Committee Memberships:

- Convener of Members Equity Protection
- Risk & Audit (from May 2010)

STEVEN R CARRITT



**Non-executive Director**

Qualifications: BA (Accounting).  
Experience and special responsibilities:  
Steve joined the Board in July 1992 and was Chair from January 2005 to February 2010. He is the General Manager ALM – Group Treasury for the Commonwealth Bank of Australia. He has over 35 years' bank experience.

Committee Memberships:

- Members Equity Protection
- Nominations & Remuneration (until May 2010)

JOHN B FLYNN



MALCOLM S GRAHAM



GRAHAM B RAWARD



IRENE H VAN DER LOOS

**Non-executive Director**

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 Commonwealth Bank of Australia.

## Committee Memberships:

- Risk & Audit
- Deputy Chair (January 1998 to December 2002)

**Non-executive Director**

Qualifications: MA (Management), F Fin., FAMI.  
Experience and special responsibilities:  
Mal joined the Board in July 1992 and has over 35 years' bank and finance experience and currently holds the position of National Manager, Mortgage Funds for ING Australia Ltd.

## Committee Memberships:

- Convener of Risk & Audit (until May 2010)
- Risk & Audit
- Nominations & Remuneration
- Deputy Chair (March 2008 to February 2009)
- Chair (January 1998 to December 2004)
- Deputy Chair (March 1994 to January 1998)

**Non-executive Director**

Qualifications: B. Comm., M Applied Finance.  
Experience and special responsibilities:  
Graham joined the Board in June 2006 and has over 37 years' bank experience. He is the Executive Manager, Group Funding of the Commonwealth Bank of Australia.

## Committee Memberships:

- Risk & Audit
- Convener of Risk & Audit (from May 2010)
- Members Equity Protection

**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 10 years' bank experience.

## Committee Memberships:

- Convener of Nominations & Remuneration



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.



## CEO BLOG

[www.gatewaycu.com.au/CEOBlog](http://www.gatewaycu.com.au/CEOBlog)

Each week Gateway's CEO, Paul Thomas, writes an online editorial called a blog. By way of example, here is a copy of the blog Paul posted on financial literacy.

Like many people, I lament falling education standards. I don't expect today's students to recite from one of Shakespeare's plays or have an in-depth knowledge of the Treaty of Versailles. But I do expect school leavers to have better literacy and numeracy skills.

While students graduate with some understanding of Reading, wRiting and aRithmetic, they have virtually no understanding of the three Rs of investing – Risk, Return and Relativity. Indeed, most students lack even rudimentary skills in personal financial management. Yet they face a world where easy access to credit could see them accumulate unmanageable debt before they turn 21.

With personal financial decisions becoming increasingly complicated, students and young adults must be taught how to take control of their finances to improve their lives. Schools should start with the basics by showing students how to prepare a budget, compare loan and deposit accounts and prevent identity theft.

Research shows that individuals who learn about money management invariably fare better than those who don't. Which is why there's a correlation between financial literacy and socio-economic status. (Note: I'd argue that poor

financial literacy contributed to low-income and ill-informed borrowers taking out toxic sub-prime loans.) So, it's incumbent on all of us to stop poor money habits before they start.

Financial institutions have a role to play here and Credit Unions are stepping up to the plate. Financial education is one way that Credit Unions can fulfil their mission and help enrich the lives of their Members and the broader community.

In conjunction with the Credit Union Foundation of Australia (CUFA), Gateway is helping its junior Members (and even some older Members!) to improve their money management skills via an online financial literacy tool. CUFA developed the tool and it's freely available on the Gateway website.

Gateway is also working with CUFA in Cambodia as one of the sponsors of the Cambodian Children's Financial Literacy Program. We are helping teach a new generation of Cambodians the importance of thrift and the wise use of credit in an attempt to break the vicious cycle of poverty.



Paul J. Thomas

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