



Gateway Credit Union

Annual Report 2017



The theme for this year's Annual Report is growing, thriving, changing. Just like in nature, we seek sustainable solutions to challenges by emulating time-tested patterns and strategies.





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Delivering sustainable benefits

In a challenging environment of slow economic growth and low interest rates, we delivered satisfactory financial results, picked up a string of awards, grew our capital holdings, re-engineered critical member-facing processes and took our first steps to becoming a bank.

Chairman's Report

Ladies and gentlemen

As I reflect on the past year at Gateway, I have such a sense of pride. For the second year running, I am delighted to inform you that we are the *Credit Union of the Year*. Out of 57 credit unions around Australia, we were ranked number one again by Mozo for offering the best value financial products.

Mozo is an independent comparison website that helps Australians compare banking products to find the best deal for their needs. Mozo also undertakes its own comparisons and makes *Experts Choice* awards in several product categories.

Industry accolades galore

During fiscal 2017, Gateway won more individual product category awards than any other credit union. Given this, we were awarded Mozo's *Experts Choice Australia's Best* award in the credit union category. Mozo conferred this same prestigious award on us during fiscal 2016.

Scooping back-to-back, best-in-class awards is no mean feat and capped an impressive 12 months of multiple award wins for Gateway. We collected a total of six Mozo product category awards. On top of this, we were the recipient of a further five awards from another comparison website, Canstar.

Putting members first

While we don't actively seek recognition, this independent validation by Mozo and Canstar of our Member-first approach is very gratifying. The individual product category awards reinforce our reputation as a leading lender and a competitive provider of savings products.

Beyond winning awards, we also undertook a raft of activities, below the waterline of public view, to improve the Member experience. Chief among these was a complete review of the mortgage application and approval process and this resulted in a more streamlined service.

New trading name

Our focus on doing that which is in the best interests of Members is unrelenting. It was this focus that resulted in us - towards the end of fiscal 2017 - taking the first step on the road to changing our name to Gateway Bank Ltd. We obtained permission from the banking regulator, APRA, to begin the process of converting to a mutual (customer-owned) bank.

Following that, we wrote to all Members on 3 July 2017 advising them of our intention to put the necessary special resolutions for this name change to our AGM on 21 November 2017. If the resolutions are approved by Members, it is our intention to start trading as Gateway Bank Ltd from 1 March 2018.



First class service

We aspire to create such a great banking experience that you will never want to bank anywhere else. Becoming a customer-owned bank will give us the ability to strengthen our relevance and competitiveness in the financial services sector and better serve our Members. Keeping the name 'Gateway' carries forward a known and trusted brand and provides us with a link to our past.

It is also important to note what becoming a bank does not do. It does not change the ownership of our organisation by its Members, nor change its governance, including Member-elected directors. And it does not alter the values and principles of co-operation and mutuality upon which we were founded.

Strong capital base

One of the criteria to becoming a customer-owned bank is holding a minimum of \$50m in capital. During the year under review, our capital holdings passed the \$100m mark. This is a significant milestone in our history and we have one of the strongest capital ratios among financial institutions in Australia.

Our level of capital underpins our balance sheet and reflects sound and prudent management. APRA requires all Australian banks, building societies and credit unions to hold minimum levels of capital and our holdings far exceed APRA's minimum requirements.

Good financial performance

As a mutual organisation, we don't have external shareholders and so we build capital exclusively through retained earnings (profits). Our profit before tax finished the year at \$3.2m. This represents a 15.3 per cent fall on the fiscal '16 profit outcome.

While a dip in profit is never desirable, it arose largely from the low and/or falling interest rate environment. Impacting fiscal 2017, the RBA lowered the cash rate by 0.25 per cent in May 2016 and August 2016 and this, along with heavy discounting of loans and maturing of higher-priced fixed-rate loans to lower rates, squeezed our net interest margin.

Mortgage loan portfolio

There was also pressure on growth in the loan book. As I reported to you last year, we decided in the latter part of fiscal 2016 to adjust the flow of loan originations. We deliberately moderated loans introduced by brokers in favour of loans sourced direct from Members.

We knew that this re-balancing of the loan book would result in reduced settlement volumes during fiscal 2017. Indeed, we budgeted for a fall in loan balances. However, we recorded a slight increase in loans outstanding (0.98 per cent) which was an acceptable outcome in the circumstances.

Investor loan crackdown

Gateway also had to comply with strict lending restrictions put in place by APRA. These regulatory "speed limits" were designed to prevent the housing market from overheating. APRA sought to "de-risk" lending portfolios in a low interest rate environment.

In December 2014, APRA capped the growth in investor loans to 10 per cent pa. It applied a second handbrake in March 2017, requiring all regulated lenders to limit interest-only mortgage lending to 30 per cent of total new mortgage lending. While Gateway operated within these limits and understood the need to prevent property prices from spiralling higher, they did impact our loan growth.

Robust corporate governance

Slowing down the pace of investor activity was overseen by the Gateway board. Under law, your directors are ultimately responsible for the operation of the credit union, including *compliance* with regulatory requirements. The other key role of your board is to oversee organisational *performance*.

The governance processes we have in place enable directors to effectively fulfil their twin responsibilities of performance and conformance. I thank my fellow directors for their professionalism and dedication and acknowledge their technical prowess. As guardians of fairness, transparency and accountability they have carried out their roles with distinction.

Thank the team

While the board governs the organisation, our CEO, Paul Thomas, and his executive team manage the day-to-day operations.

Paul very capably leads our organisation, strategically and operationally. The Senior Leadership Team has a very broad span of responsibilities, individually and as a team. They work together with commitment and collegiality to deliver for Members, today and in the future. On behalf of the Board, I thank them for their contribution.


Our success as a business depends heavily on our employees. We have always set high standards for our staff and they continue to deliver, year-after-year. We take this opportunity to thank them for their efforts.

The road ahead

I feel I have a well-founded cause for optimism for our future. I believe that the path we are taking in becoming a customer-owned bank will serve Members well. We will continue to evolve as a business and strive to raise all aspects of our performance in the interests of Members.

We have never lost sight of who we are or the important role we play in our Members' lives. Members will remain at the heart of every decision we make. We will remain a dependable and competent partner for our Members in helping them financially to achieve their hopes and dreams.

Thank you for your continuing support of Gateway.



C M Hallinan
Chairman





Building organisational resilience

We began the year against a background of uncertainty but finished the year in the spotlight as Credit Union of the Year. In between, we grew revenues, managed expenses and tangibly demonstrated to Members the benefits embedded in our business model.

CEO's Report

Fellow Members

There is no one fundamental measure of performance for a credit union. Unlike the determinants of success of other financial institutions, a credit union's ultimate goal is to maximize Member satisfaction, subject to specific financial performance constraints - not the other way around.

Providing tangible value to Members coupled with a superior level of service are the drivers of Member satisfaction. In both of those areas during the year under review, we delivered high performance outcomes for our Members, who, of course, are also our owners.

Crucial business metrics

With regard to providing value for money, the Chairman has already outlined the multiple product awards we received during fiscal '17. I can offer no better proof of our commitment to Members than the independent validation of our better rates and lower fees by two consumer comparison sites.

We also outpaced our big bank competitors in customer satisfaction. Respondents to our latest Member satisfaction survey gave us high marks for service, friendliness and responsiveness. Our overall Member satisfaction score was 87 per cent which tracks well ahead of the "Big Four" banks.

Employee pulse check

We work diligently to build strong relationships with Members and that important work is spearheaded by our front-line staff. Research shows that there is a correlation between happy customers and happy employees. Happy employees are more likely to deliver excellent customer service.

At Gateway, we know that this link is real which is why we invest heavily in our people. The service they provide gives us a point of differentiation in the marketplace. Employees at high-performance workplaces are highly engaged and our staff engagement score is a staggering 95 per cent - world's best practice.

Partnering for success

Cultivating an empowered workplace is a great business strategy as is forming strategic alliances with like-minded organisations. Having a business ally on your side provides access to new markets as is the case with our partnership with peer-to-peer (P2P) lender, SocietyOne.

SocietyOne's online lending platform connects investors to borrowers (their peers) giving them both a better deal than they could obtain from a traditional bank. We teamed up with SocietyOne in July 2016 as an (institutional) investor and exceeded funding targets during the program's pilot phase.

Bad debt ratio

Pleasingly, the default rates on the SocietyOne consumer loans we funded were within forecast default rates by risk grade. A risk mitigant that is peculiar to P2P lending is that each loan is “fractionalised” or split among many investors. It’s like crowdfunding which only requires small amounts from many investors.

The credit risk performance on our mortgage book continued to be strong, with an improvement in the risk profile of the portfolio. This was the result of a reduction in loan-to-valuation ratios, a pull back on investor lending, maintenance of the credit quality of new business and stable arrears levels.

Name change proposal

We are a prudent lender and believe that our desire to hang out our shingle as Gateway Bank Ltd is also prudent - as a strategic initiative. As a smaller financial institution, using the term ‘bank’ will help us build greater trust with a broader audience by concisely explaining what we do – banking.

To be clear, there are two kinds of banks in the world - those owned by customers and those owned by shareholders. We want to become a customer-owned bank and will therefore continue to be owned by our Members and not some outside group of external shareholders.

Our raison d’être

Members are central to every decision we make and this is rearticulated in our new three-year strategic plan. At the core of our 20/20 strategic vision is helping Members financially to achieve their hopes and dreams. This drives us to continuously improve our business for the benefit of Members.

The strategic priorities outlined in our 2017-2020 plan reflect our commitment to continue pushing forward on our transformation agenda. However, in changing, we must stay the same which is why we will continue to deliver a values-based differentiated Member experience.

Through members’ eyes

Service is part of our DNA and so is adding value to Members. Every day, we listen to Members to better understand their wants and needs. We recognise that our Members are at various stages of their lives with differing financial needs. Thus, we do not adopt a one-size-fits-all approach.

Over the past year, we turned up the volume on feedback from borrowing Members. We invited a cross-section of Members to tell us how we could improve the mortgage application process. The discussions we held uncovered some “pain points” in applying for a home loan.





Improve organisational efficiency

These “bumps” have now been eliminated to the benefit of both Members and the credit union. The mantra of business today is “quicker, cheaper, better” and we need to embrace these traits if we are to stay relevant in an ever-competitive world.

Technology is helping make us more efficient but it will never take away the need for human interaction. A mobile banking app can offer only a finite amount of help or reassurance. Members still need to discuss issues with a banking professional who can offer advice.

Thank the staff

Banking is all about relationships which is why the quality of our talent is a vital competitive advantage for us. Our employees contribute to the successes we feature in each annual report. They create the milestones we acknowledge and the Member satisfaction we applaud.

Our employees are the heart and soul of Gateway and to them I say a heartfelt “thank you”. I particularly single out my executive colleagues - Lexi Airey (CCO), Peter Gilmore (CFO) and Gerald Nicholls (CRO) - for special mention. They provide much of the intellectual firepower that propels us forward.

Leading through uncertainty

Another group requiring recognition is the Gateway board. Our directors protect value by helping Gateway avoid unnecessary risks and they build value by ensuring we embrace opportunities. To this end, they ask probing questions about market conditions, customers, competitors and technology.

I commend the board for their oversight of the organisation. They strive for best practice in corporate governance and are capably led by Catherine Hallinan as Chairman. Her leadership is exemplary and her commitment to the organisation is undoubted.

Seizing tomorrow's opportunities

We live in rapidly changing times, especially for businesses. In casting an eye to the future, it's clear that our operating environment will become even more chaotic. As CEO, my job is to find order in this disorder and to turn the many challenges we face into opportunities.

Gateway has a sound track record of being able to navigate choppy seas, so I look to the future with enthusiasm. With the loyal support of our Members, the fine stewardship of our directors and the passionate commitment of our employees, we will continue to forge ahead with confidence.

With thanks.



Paul J. Thomas
Chief Executive Officer





Board of Directors

Protecting Value

Assessing Members' needs, market conditions, competitors and technology, the Gateway Board makes decisions to sustainably grow the business, while remaining true to our values.



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, Lawcover Insurance Pty Limited, Lawcover Pty Limited and St. Catherine's Aged Care Services. She 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 45 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 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 the Self Managed Super Fund Association. 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

- Convenor Nominations & Remuneration (December 2015 to present)
- Risk (January 17 to present)



Malcolm S Graham

Non-Executive Director

MA, F Fin., FAMI, MAICD

Experience and special responsibilities

Mal joined the Board in July 1992 and has over 40 years banking and finance experience. Mal was formally a non-executive director of Australian Mutuals Institute (2007 - February 2016).

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

Committee Memberships

- Audit (February 2015 to present)
- Nominations & Remuneration (March 2014 to December 2016)
- Risk (January 2017 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 over 43 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 December 2016)
- Audit (January 2017 to present)
- Nominations & Remuneration (January 2017 to present)



Irene H van der Loos

Non-Executive Director

GAICD

Experience and special responsibilities

Rene joined the Board in February 2008 and was most recently General Manager, Living Well Navigator & Emerging Businesses at NRMA Motoring & Services. Rene has 14 years banking experience and was formerly a Director of Sydney Ports Corporation (2006 – 2012).

Committee Memberships

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

Senior Leadership Team

Embracing Opportunities

With the ability to strategically think 'big picture', our Senior Leadership Team cultivates ideas that grow and shape the future direction of the business.



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



Gerald M Nicholls
Chief Risk Officer
B Bus



Peter W G Gilmore
Chief Financial Officer
B Bus, FCPA



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



Mozo awarded Gateway with six awards for our Dollaroo Account, Edge Account, Debit Card Facilities, Personal Loans, and Premium Package Home Loans



We launched a new product that rewards home loan customers with a bonus back into their child's education fund and introduced a 5 year Fixed Home Loan.



For the second year running, we won the honour of being Australia's Best Credit Union, as voted by Mozo.



We are committed to understand and support our Members during difficult times. Gateway helped over 130 Members in need of assistance, including those unfortunately affected by Cyclone Debbie.

Achievements & Community Pulse



We won five Canstar Awards for our outstanding Premium Package Home Loans, Car Loans, Personal Loans, and Edge Account



We generated 80 pieces of media coverage, that equated to a circulation of roughly 40 million.



Customer Journey Improvements: You asked, we listened... you can track your pizza, now you can track your loan applications. We now provide automatic and personalised SMS notifications.

Purpose, Ambition & 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.

Gateway in the News

mortgagebusiness

Mutual launches innovative home loan offer

Friday, 03 February 2017

James Mitchell

An Australian credit union has partnered with Australian Scholarships Group to provide an innovative home loan offer amid rising tuition fees.

BUDGETING

FINANCIAL HABITS OF AUSTRALIANS LIKENED TO PROFESSIONAL TENNIS IN NEW GUIDE

Sophie Edworthy News Corp Australia Network
January 22, 2017 12:08pm

THE New Year is in full swing and so is the iconic Australian Open tennis tournament.

In order to ace your finances in 2017 it's important to work out some good money techniques that will ensure you leave yourself in better shape in the coming months.

Gateway Credit Union has released a guide that likens the financial habits of Australians to different styles of tennis preferred by professional athletes.

PROPERTYobserver

HOME FINDING FINANCING FORWARD PLANNING

PROPERTY NEWS AND
MARKETS

STAFF REPORTER | 12 SEPTEMBER 2017

Suncorp drop fixed investor rates,
Gateway products get CANSTAR tick

BRUTAL TRUTH ON HOUSING AFFORDABILITY

THE DEBATE ON housing affordability is simplistic, according to the chief executive of Gateway Credit Union, with "government ambivalence" and a deeper cultural crisis dividing a future Australia between "haves and have nots". This is the assessment made by Paul Thomas, who runs the \$1 billion Gateway Credit Union.

In client note, Thomas refers to a recent survey by not-for-profit Demographia, which places Australia third (behind Hong Kong and New Zealand) as the most expensive housing market in the world. Thomas said the results "paint a dire picture" in terms of housing affordability.

"Decent housing in our major cities is notoriously unaffordable," Thomas said. "Demographia rates only four Australian regions as 'affordable' - Karatha, Port Headland, Kalbarrie and Gladstone."

The survey, which compares average home prices to median income in 406 cities across nine countries, has found a home in Sydney's outer 12.2 times the median income while Melbourne is

9.5 times the median income. Adelaide, Brisbane and Perth are also "severely unaffordable", coming in at 6.6, 6.2 and 6.1 times the median income respectively.

Blame game

So, who is to blame for this housing affordability crisis? Thomas "ins of alleged culprits recklessly driving up home prices" is long.

"It includes wealthy baby boomers, greedy property investors, naive offshore buyers, aggressive property lenders and apathetic policy makers," he claimed.

According to the Gateway CEO, government's ambivalence to address negative gearing, the refusal by state governments to release new land, and the slow pace of local councils in approving residential development, should be added to the list.

The Reserve Bank of Australia does not escape criticism with its ultra-low interest rate settings seen by some as misguided. And, of

course, no rational debate would be complete without pointing the finger at rising immigration for our woes, even if it's difficult," he said.

But, according to Thomas, the blame-game is a lot closer to home. He said Australians "love to borrow" with local households now the most indebted in the world. "We buy, we sell and we speculate in our efforts to climb the property ladder," he said.

Super-size me

"We take on super-sized mortgages so that we can out-bid each other at auctions. Like the board game, Monopoly, Aussies love to throw the dice on property."

According to Thomas, the total value of the housing sector in Australia is now worth \$6.5 trillion - investors own about one-third of this housing stock. Obviously, there is vested interest in home ownership. "For young Australians including the millennials, the dream of home



Paul Thomas

ownership remains a "nightmare" and many today are struggling to even buy a bed-sitter apartment. "We are becoming a nation of 'haves' and 'have-nots' and housing is the dividing line. Home owners are vastly wealthier than renters," Thomas said.

"With younger people and lower income families seemingly locked out of the housing market one thing is clear: There is no one-size-fits-all solution to the home affordability crunch." ABF

Money

Perfect match: which home loan feature is for you?

Paul Thomas February 14, 2017 0 Comment home loans



Finding the right home loan is like finding the right partner, writes Gateway Credit Union CEO Paul Thomas. What are you looking for?

finder.com.au

Money Insurance Energy Tech & Telco Shopping Travel Free Credit Score
Credit Cards Personal Loans Home Loans Banking & Investments Money Transfers Travel Money

finder.com.au > Home Loan Finder

Gateway Credit Union offers kids saving bonus for home loans customers



A new partnership between Gateway Credit Union and Australian Scholarships Group helps parents save for their children's future.

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