



# 2018 Annual Report

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Gateway Bank

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*Lighthouses are a source of knowledge, safety and guidance. Their light is that of a trusted expert, followed through uncertain and difficult times. Similarly, Gateway Bank is currently navigating new waters, but we are still following our core values of excellent customer service and best practice in financial services. Despite this current period of change, Gateway Bank remains a trusted expert and a safe financial provider.*





# Chairman's Report

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## Elevating trust further

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In a year in which the behaviour of the Australian banking sector was under the spotlight, Gateway occupied the moral high ground, taking the primacy of the customer to a new level and offering Members a real alternative.

*Ladies and gentlemen*

This is the seventh occasion that I have written to you as Chairman, but the first time that I have reported to you since Gateway re-branded. For the first eight months of the year under review, we traded as Gateway Credit Union and then as Gateway Bank for the remainder of the year.

Even though we started the financial year as a credit union and ended as a bank, we are still a mutual financial institution. So, in that respect, nothing has changed. You remain an equal owner of Gateway and everything we do continues to be driven by what is in your best interests.

### **Keeping what's right**

As a customer-owned bank, we continue to be guided by the ideals of our Founding Fathers. We believe in prosperity for the many, not just the few. We believe in fairness, not greed. We use profits to benefit customers, not shareholders. And we always put the interests of Members first.

In short, it is business as usual at Gateway. We're still the same people with the same service ethos bringing you award-winning products and services. We have not thrown out the baby with the bathwater and remain committed to helping Members financially to achieve their hopes and dreams.

### **Setting the standards**

This modus operandi has served Gateway and other mutual banks very well. In a year in which the Royal Commission into Australia's banking sector generated sensational headlines about the behaviour of larger financial conglomerates, mutual financial institutions survived unscathed.

The tsunami of scrutiny that swept over the banking landscape did not uncover wrongdoings by customer-owned banks. I am proud to lead a business that upholds the highest ethical standards. Your board has an ongoing focus on conduct risk to ensure that our culture supports open and transparent relationships with all stakeholders.

### **Navigating the environment**

The financial services industry faced further challenges during fiscal 2018. Consumer concern about low wage growth and higher living expenses - combined with APRA's new lending regulations to slow residential mortgage growth - resulted in subdued demand for housing finance.

Low loan interest rates, higher wholesale funding costs and continued intense competition contributed to margin pressure. Moreover, increased regulatory changes and technological advances present a growing expense burden. Further details about our financial performance can be found in the CEO's report.



## National awards galore

Again this year, we received recognition of our status as a significant mutual bank in Australia by winning seven Canstar awards and four Mozo awards. These two prominent comparison websites independently research and rate thousands of banking products across multiple categories to identify the best value-for-money products in Australia.

Any product that receives a Canstar 5-star rating sits in the top 10 per cent of its respective category while Mozo award recipients are classified as "best in class". While we don't

actively seek recognition, this independent validation by Canstar and Mozo of our Member first approach is very gratifying.

## Focus on Members

These stellar results are testament to our commitment to deliver demonstrable value to Members. They also reinforce our reputation as a leading lender and a competitive provider of savings products. Moreover, the accolades underscore that we really do focus on the things that we know are important to our Members.

Simply stated, we help individuals and families - through the products and services we provide - make better decisions and grow stronger financially. This is at the core of everything that we do. Our *people helping people* philosophy is as relevant today as it was when we opened our doors in 1955.

## Board renewal process

This year was also notable for the departure of our longest serving director. In December 2017, John Flynn retired from the board after 29 years of exemplary service. John was an active participant in board deliberations and I thank him for his contribution to Gateway. John's place on the board was filled by Guy Harding who brings extensive experience in risk management\*.

It is crucial that we maintain the most effective blend of experience and contemporary vision on our board. To this end, you can expect to see a further injection of new blood around the board table over the next period to provide Gateway with the benefit of regular fresh input.

## Value added governance

Your board takes seriously its obligation to translate our values into policies and practices that guide and shape Gateway's business. It is also our responsibility as a board to provide critical oversight of our strategic direction and major financial decisions.

The board's primary role in governing a regulated financial institution is to ensure that we have strong risk practices to protect your assets. My fellow directors possess the right mix of skills and experience to provide effective oversight. They are to be commended for their professionalism and commitment.



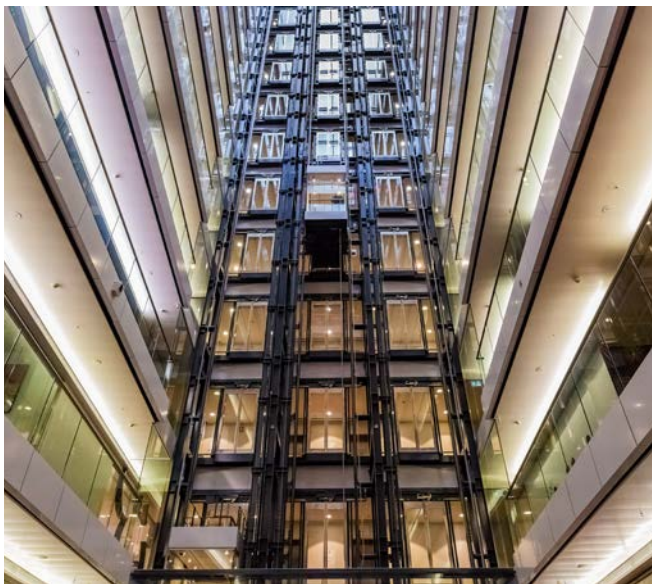
## Support our people

My special thanks are due, on behalf of the board, to each of our employees. I continue to be impressed by the energy and ability of our people and their day-to-day efforts in going the extra mile for Members. Our results across a range of metrics reflect their hard work and dedication.

The team is ably led by our CEO Paul Thomas and he, in turn, is supported by a capable management group. Paul has articulated a clear path for our future growth and relevance. At the same time, he has ensured that we remain anchored to and guided by our vision and values.

## The road ahead

As we look to the future, there is much that we do not know, but a few things are certain. Australia's population will grow, incomes will rise and people will strive for better lives. Affordable finance is essential to support this progress and Gateway will be there to assist.



Technology will continue to reshape financial services and many Australians will demand 24/7 online delivery. Others, of course, will want a more personalised service. We will not leave anyone behind in our pursuit of the future and will accommodate both high-tech and high-touch customers.

## A final promise

At a time when many are questioning the power and behaviour of some institutions within the financial services sector, Gateway is stepping forward as a responsible steward of consumer banking. We proudly carry forward a legacy of personal service that has defined Gateway for more than 60 years.

Delivering on our purpose requires relationships that are built upon trust and integrity. Just as important as what we do is how we do it, which is why our openness and transparency are a profound source of pride. The primacy of the customer is our focus. Nothing is more vital to us.

Let me close by expressing my gratitude to the treasured Members we serve. Be assured that we will never rest on our laurels when it comes to meeting your needs.

C M Hallinan  
Chairman

\*Shortly after Guy Harding's appointment, he took up a senior executive role in a competitor organisation and consequently resigned from the board in July 2018.



# CEO's Report

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## Transforming the business

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Against a backdrop of a cooling housing market, we developed a new playbook for achieving asset growth by revamping the loan portfolio. This was done in response to market headwinds - driven by competitive and regulatory pressures - which delivered low growth and low returns.



## Fellow Members

Competitive pressures and difficult challenges are themes every year in retail banking and 2018 was no exception. Change and disruption is the new normal in the world in which we operate and this business pattern is here to stay. The days of predictability are gone.

In the face of so much disruption, all organisations must periodically undertake a reality check. Yesterday's formula for success can quickly become obsolete. So, during the year under review, we took time out to rethink and refocus our strategy.

## Purpose driven change

The result of our introspection was some fine-tuning to our prevailing strategy. Our overarching strategic goal is to make Gateway a simpler, more resilient and even more customer focussed bank. To achieve this goal, we developed a reform agenda (see opposite) with six distinct but interrelated initiatives.

Two of these initiatives (restructure organisation and rebrand company) were completed by 30 June. As this report was going to print in mid-September, the third initiative - relocate premises - was successfully undertaken. Throughout this report, you will find photos of our new offices at 68 York Street, Sydney.

## Financial performance outcomes

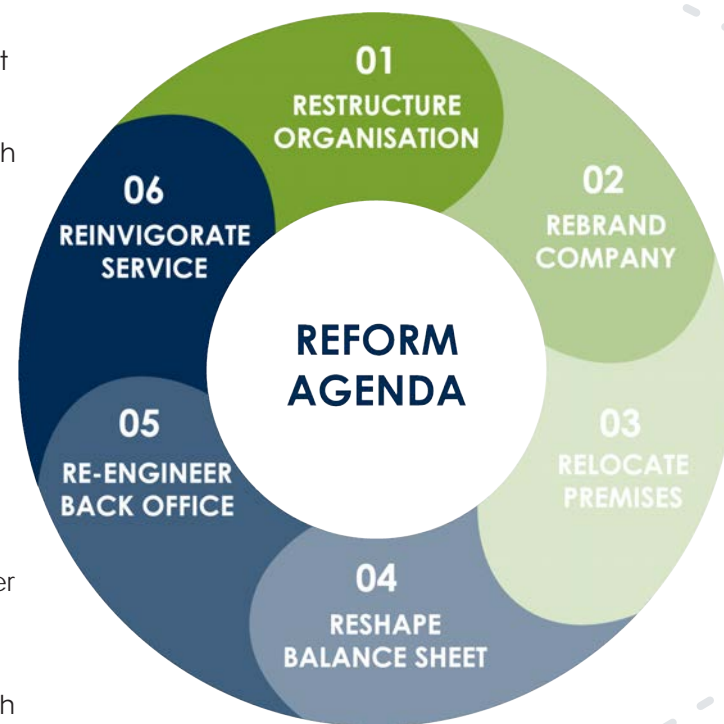
Initiatives four and five - reshape balance sheet and re-engineer back office respectively - remain works in progress. So, the full benefits of our reform agenda will not be felt until fiscal '19. This is reflected in our financial performance for fiscal '18 which is satisfactory as distinct from best practice.

Our profit before tax was \$3.692m and the growth in our balance sheet was flat. Both metrics are forecast to improve during fiscal '19 as a direct result of our ongoing reform activities. Profitable growth remains our most critical objective.

## Solid financial foundation

Under our customer-owned banking model, profit is fully retained in the business to sustain our exceptional financial strength. Our Capital Adequacy Ratio - a core measure of financial strength - stands at 20.36 per cent which is significantly above regulatory requirements, far superior to the four major banks and at the higher end for most mutual financial institutions.

Capital is vitally important to Gateway. It underpins our balance sheet, supports our growth and reflects sound and prudent management. The profits that we have accumulated since our inception in 1955 represent our capital holdings (or retained earnings).





## Reshape balance sheet

Home loans alone will not generate the profits needed to maintain prudent levels of capital. Competition in the mortgage market is fierce and is characterised by ongoing price battles and breakeven propositions. Therefore, we must find other asset classes in which to invest.

An asset class is simply a grouping of similar types of investments. Our newest asset class - peer-to-peer (P2P) lending - was introduced two years ago and needs to be augmented with other lending categories. These may include selected investments in commercial lending.

## Reward for risk

To be clear, it is not our intention to quit the ailing mortgage market. However, we have reached our risk appetite for lower margin business. Our focus now is to diversify into other areas of lending to reduce our risk concentration in housing and lift profitability by investing in higher yielding assets.

Exposure to new lending areas will arrest our declining net interest margin, restore our return on assets to a more commercially acceptable level and improve our cost-to-income ratio which remains stubbornly high. The days of putting most of our eggs in one asset basket are coming to an end.

## Re-engineer back office

As well as reshaping our balance sheet, we are concurrently re-engineering our back office. This is a very broad goal which will potentially touch all parts of the business. Again, while this project started during the current year, its benefits will not be evident until fiscal '19.

There are myriad ways an organisation can reshape its back office from simple process improvement to sophisticated artificial intelligence and everything in between. We intend to use automation to help us do our jobs better and provide an enhanced level of service to Members.

## Tangibly better service

We cannot simply fall back on our track-record when it comes to customer service, which is why our sixth and final initiative - reinvigorate service - is designed to take Member service to an even higher level. Our ultimate aim is to provide Members with a service experience that is second to none.

Retail banking is on the threshold of major change and we are putting a stake in the ground regarding customer centricity. This is an approach to banking based on trust and fairness which uses knowledge of customers to meet their needs. But customer-centricity alone will not guarantee success.

## Customer first culture

As every CEO knows, service excellence is not something that can be copied. If it were that simple, every business would just imitate the world's best at customer service. In reality, service is a reflection of an organisation's culture and the things that it holds sacred.

At Gateway, service has always been part of our DNA and is evident in the make-up of our staff. Our service DNA consists of the values and capabilities that enable and motivate us to rise above the level of service provided by our competitors.

## A team achievement

Satisfying our Members is a team effort and I salute our employees who rarely miss a beat. Each year we ask more of them and each year they respond. Virtually everything we do emanates from our employees who contribute to the successes we feature in each annual report.





It is an honour to lead such a talented team and I am particularly grateful to my executive colleagues for their support. All CEOs need the insights and pushback of trusted executives and I thank Lexi Airey (CCO), Peter Gilmore (CFO) and Gerald Nicholls (CRO) for keeping me on my toes.

### Leading through uncertainty

The past few years have been a challenging period for management and the board and bottom line results can obscure the real underlying progress that is being made. I thank the board for their oversight and stewardship of our reform agenda.

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 laud the Gateway board and, in particular, Catherine Hallinan for her strategic leadership and wise counsel.

### The known unknowns

We know that 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.

Clearly, the marketplace in which we operate will not stand still, nor can we. I am proud to have played a part in moving us forward and acknowledge the wonderful support that 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



# Board of Directors

## Guiding values

Guided by the ideals of our Founding Fathers and the interests of our Members, the Gateway Board has delivered demonstrable value and operated with openness and transparency.



### 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 and retired from the Board in December 2017. 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 December 2017)

#### Committee Memberships

- Risk (February 2015 to December 2017)
- Convenor Audit (February 2015 to December 2017)



**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 and of Diversa Trustees Ltd. 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)



**Guy Harding**  
Non-Executive Director  
MBA, DipFS, FCIB, SF Fin, FAIBF

**Experience and special responsibilities**

Guy joined the Board in March 2018 bringing with him banking and financial services experience gained in Europe, Asia Pacific and Australasia. Guy has held a number of Non-Executive positions on diverse boards throughout the region. Most recently he was the Chief Risk Officer for Commonwealth Bank of Australia responsible for the International Financial Services division. Guy resigned from the Board in July 2018.

**Committee Memberships**

- Risk (March 2018 to July 2018)
- Audit (March 2018 to July 2018)





### **Graham B Raward**

**Non-Executive Director**  
BComm., M Applied Finance

#### **Experience and special responsibilities**

Graham joined the Board in June 2006 and has over 45 years banking experience. Graham is 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)



### **Peter M Schiller**

**Non-Executive Director**  
MBA, Grad Dip. Banking & Fin.MAICD

#### **Experience and special responsibilities**

Peter joined the Board in July 2018 and has nearly 40 years banking experience in Executive Management roles in Risk, Relationship Management, IT and Audit with both the Commonwealth Bank of Australia and the ANZ Banking Group.

#### **Committee Memberships**

- Audit (July 2018 to present)
- Risk (July 2018 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)
- Convenor of the Audit Committee (January 2018 to present)

# Senior Leadership Team

## A new playbook

Leading through uncertainty, our Senior Leadership team has had to rethink and refocus our strategy to create a simpler and more resilient future.



**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



**Lexi D Airey**  
**Chief Customer Officer**  
BA (Hons), MSc, GAICD



*Launched the new  
Gateway 2go app*



*Launched our  
dedicated HomeHub*

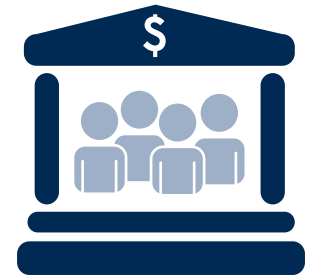


*Won 4 Mozo Awards*



*Generated 194 pieces  
of media coverage*

# Achievements & Community Pulse



*Became a  
customer-owned bank*



**87%** *Member  
satisfaction rating*



*Won 7  
Canstar Awards*



*Launched  
3 new partnerships*





# Purpose, Ambition & Values

## Purpose

To help people to 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.

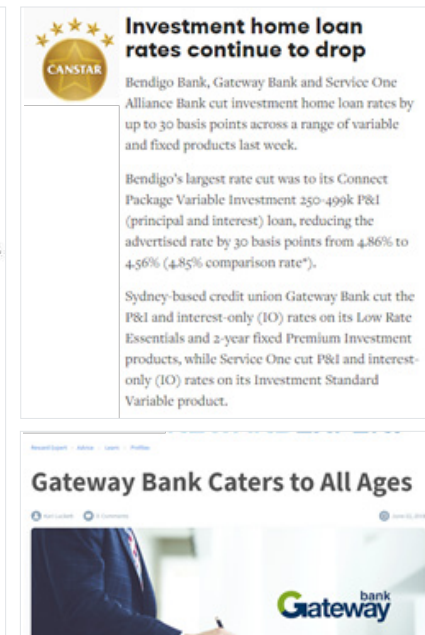
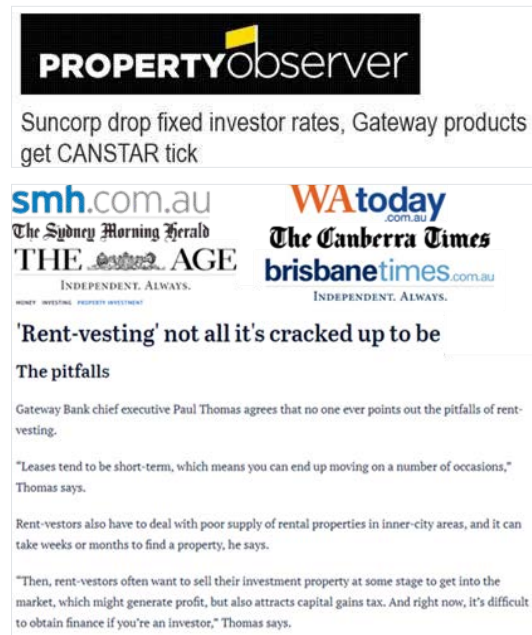
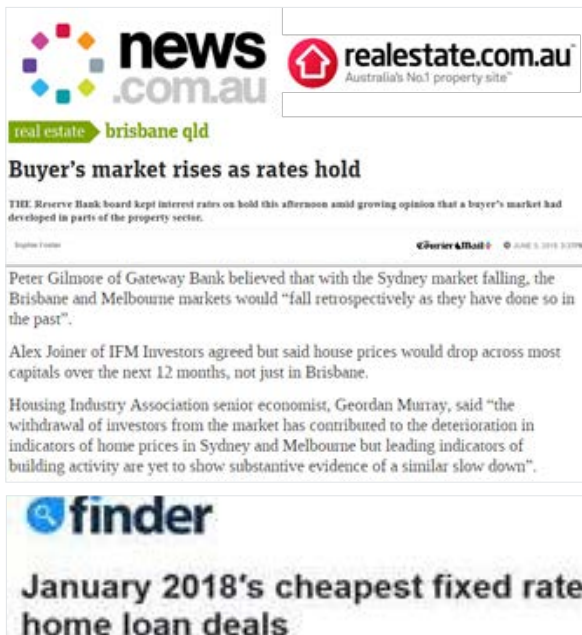
**Integrity:** We are fair and honest in all our interactions.

**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



## **Gateway Bank**

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