

Proposed Changes to Gateway Bank's Constitution to Permit Issuance of Mutual Capital Instruments

Fact Sheet

What are Mutual Capital Instruments (MCIs)?

MCIs are a unique type of share available for issuance by mutual entities only. They allow mutual entities to raise capital whilst retaining their status as Mutual Banks.

Like other financial instruments, MCIs offer a rate of return and can be bought and sold. The Board of Gateway Bank (Gateway) would have discretion to decide the entitlements, requirements and obligations attached to any MCIs issued. MCIs can also be structured in a manner that meets the Australian Prudential Regulation Authority's (APRA) requirements for classification as regulatory capital, providing Gateway with further ability to align with evolving APRA prudential standards.

Currently, Gateway can only raise capital through retained profits. MCIs would provide Gateway with the option of an alternative way to raise capital should it become necessary or desirable to do so in future.

Why is Gateway proposing to change the Constitution to allow MCIs?

The proposed changes will allow Gateway the option to issue MCIs in the future, should the Board deem it is necessary or desirable to do so. MCIs would allow Gateway access to capital that would better equip us to invest, grow, innovate and compete, while remaining committed to our future as a Mutual Bank. The proposed changes do not affect Gateway's status as a Mutual Bank and does not constitute a move towards a demutualisation.

The Mutual Reforms herald a new era for Mutual entities in Australia and, with better access to capital, Gateway will be able to continue to invest, innovate, grow and compete, while maintaining our mutuality. Our Board and Gateway management have given careful consideration to the proposed changes. Gateway believes the changes are an important step which will provide greater flexibility in future to raise capital as a modern Mutual Bank, and Authorised Deposit-taking Institution (ADI) regulated by APRA, to continue to put the interests of our Members first.

Do the proposed changes mean Gateway is demutualising?

No, Gateway is committed to our future as a Mutual Bank and the proposed changes will clearly retain Gateway's status as a Mutual Bank now and into the future. Nothing in the proposed amendments or issuing of MCIs will mean that Gateway ceases to be a "Mutual entity" and the Mutual Reforms specifically provides for Mutuals to issue MCIs as a new type of capital without losing their Mutual status.

Is Gateway planning to issue MCIs?

Gateway has no current plans to issue MCIs; however the Board and Gateway management consider it is important to take advantage of the Mutual Reforms now to update Gateway's Constitution. This will give Gateway the flexibility to issue MCIs should it be necessary or desirable to do so in future – whether for regulatory capital or to seize business opportunities. Any decision to issue MCIs would need to be approved by the Board of Gateway who would need to determine that this decision was in the best interests of Gateway and our Members.

Is the introduction of MCIs in response to a particular financial need?

No. Gateway is in a sound financial position, and the introduction of MCIs is not in response to financial performance or a specific financial need. Instead, this is about strengthening our Mutual structure for the medium and long-term, providing the flexibility of an additional funding source and bringing us into line with the rest of the market.

Will holders of MCIs be Members of Gateway?

The Board may choose to issue MCIs to Members (customers of Gateway) and/or non-members. The MCI amendments will mean that each MCI Holder will be a "Member" of Gateway under the Corporations Act, but they will not hold a Member Share in the same way as a customer of Gateway. An MCI Holder is not a Member merely by virtue of holding an MCI (i.e. this means that they will not be entitled to the benefits that holders of Member Shares are entitled to – unless they also happen to hold a Member Share as a customer of Gateway).

Will holders of MCIs have voting rights?

The Board can decide the terms of issue for any MCIs when MCIs are issued. The Board has resolved to issue MCIs that do not carry any right to vote in a general meeting of Gateway. In addition, MCI Holders will not count towards quorum at a general meeting. If an MCI Holder is also a Member of Gateway, they will only be eligible to hold one vote (in respect of their voting rights as a Member) at general meetings.

Would MCI Holders get the same vote as Members if a demutualisation of Gateway is proposed in future?

Following the Mutual Reforms, "demutualisation" could mean two things: it would be either a "Demutualisation Resolution", which among other things may be triggered by a "Restructure"

under Appendix 6 of Gateway's Constitution or a constitutional amendment that results in Gateway ceasing to be a "Mutual entity" as defined in the Mutual Reforms Act. The Board of Gateway can decide the terms of issue for any MCIs when MCIs are issued. The Board has resolved to issue MCIs, which do not carry a vote on, among other things, a "Demutualisation Resolution" under Appendix 6 of Gateway's Constitution.

Would MCI Holders have priority over Members in a winding up of Gateway?

In the unlikely event that Gateway is wound up, MCI Holders would rank below all senior claims (including our depositors). After all senior creditors in a winding-up are paid; MCI Holders would be entitled to a claim on surplus assets and profits. However, MCI Holders cannot receive any more than the amount that was initially paid to Gateway for the MCIs. After MCI Holders have been paid their capped amount, any remaining surplus would be shared between Gateway's Members. If you paid a subscription price for your Member Share, you would be a 'senior creditor' in relation to the payment of that subscription price. This wording follows the current requirements of APRA for MCIs to be eligible as regulatory capital.

What amendments need to be made to the Constitution to allow MCIs?

Gateway is required to make specific amendments to the Constitution to match the requirements of the Corporations Act. You can read the full amendments available at www.gatewaybank.com.au/about-us/2021-annual-general-meeting/, but in summary the amendments must:

- include a statement saying that Gateway is a Mutual entity that intends to issue MCIs
- make it clear that the Board has the power to issue MCIs
- set out the rights and obligations of MCI holders

Where can I find out more?

Please email any specific questions you might have to agm@gatewaybank.com.au