

Heritage Bank

CEO'S SPEECH – PETER LOCK

Annual General Meeting

27 October 2021

Thank you, Kerry.

I want to start by echoing the Chairman's comments about the outstanding efforts of our people in such a difficult operating environment in 2020/21. When COVID first arrived in Australia in early 2020, I don't think many of us realised just how long we would be grappling with its impacts, particularly in the workplace. Here we are, close to two years later, and COVID still dominates our thinking. Working under COVID restrictions has been tough, with our branch staff having to cope with strict hygiene protocols such as wearing masks, and our office-based staff working from home for long periods. Making things even tougher has been continual changes to the restrictions across different states, and across different regions. I want to particularly recognise the efforts of our branch staff, and our teams in Sydney and Melbourne, who have had to endure especially tough restrictions and lockdown rules for long periods. Our people have demonstrated true grit, resilience and commitment in continuing to serve our members, and I applaud their efforts.

It's now my great pleasure to provide a more detailed review of how Heritage performed in the 2020/21 financial year. This was a highly

unusual financial year, delivering results that were both unexpected and positive, given the COVID backdrop. While this was an unusual year, our performance was extremely satisfying and reflected our agility and adaptability in delivering for our members despite the trying circumstances.

A full breakdown of our results is available in our Member's Report, together with a video presentation located in the Member Centre section of our website.

As the Chairman said, we produced an excellent set of financial results in 2020/21. Our pre-tax profit of \$64.4 million was a record, up 24.6% on the previous year. Our after-tax profit of \$44.810 million was just marginally short of also being a record, and was up 23.5% on the previous year. Our total consolidated assets at 30 June 2021 were \$11.943 billion, which was up 11.2% and has now passed the \$12 billion mark.

Our lending volumes increased significantly, with total loan approvals at a record amount of \$2.464 billion in 2020/21, up 31.6% on the previous year. Our retail deposits also grew strongly, up 18.7% to \$9.383 billion at year end. That represented double system growth. Pleasingly, our 30-day mortgage arrears rate remained extremely low at just 0.45%.

The capital adequacy ratio at year's end was 14.28%, which was slightly down on the previous year resulting from a temporary adjustment due to

an administrative error that has now been rectified. Our capital adequacy ratio currently sits at 15.11%, an excellent result that reflects our ongoing strategic goal of lifting our core Tier 1 capital levels. Our 30 June 2021 liquidity ratio at 24.30% reflected the high level of deposits received during the pandemic reflecting both the government stimulus and our commitment to supporting our deposit membership base with competitive returns.

These are a strong set of financial results that reflect a well-run business that was able to quickly adapt and pivot in response to changing circumstances. The high levels of liquidity, along with strong capital standings, give us added capacity to grow our lending in the current financial year. Growing our business and increasing our member numbers continues to be a key strategic goal for us, and we are well placed to achieve that thanks to our solid foundations. We grew our total number of members by almost 10,000 in 2020/21, which was an increase of 3%. That was more than double the growth rate we achieved in the previous year. Our people first proposition is definitely resonating with potential members who are attracted by our proposition of putting member's interests first.

So, what were the factors that helped us record such an outstanding set of results?

The emergency measures that the Federal Government put in place to offset COVID have injected significant amounts of cash into the economy.

With limited travel possible, and with lingering concerns about what COVID meant for the future, many people chose to put more money into savings or pay down their loans.

At the same time, we have been experiencing interest rates at historic lows. That has made buying a home even more affordable and popular for many people, with real estate markets booming across the country. We've had record levels of inquiries about home loans across our business, as well as a massive influx of deposits. All that has translated into excellent results for us and strong levels of growth.

As government assistance programs run out and we start to emerge from the worst of the COVID impacts, we are yet to know exactly how our world has changed, and what this will mean for the Australian economy. It's clear that we will not simply snap back to pre-COVID life. The world will be different in future and it will take a little while to understand exactly how this will impact on our economy and on Heritage specifically. We need to be ready for a degree of uncertainty ahead, as we move into a post-COVID world.

What will continue to be true for us, as the Chairman mentioned, is the need for us to transform our business and become a more digital bank. I want to stress that this is not about becoming less personal or less member-focussed. It's about using technology to serve our members even better than we have in the past. I'm pleased to say we took significant steps forward in 2020/21 in transforming our business to better serve our members. We signed a new contract with Vocus to significantly upgrade

data connectivity across the business. We announced a partnership with global information services firm Experian Australia to introduce a new loans origination platform that will cut the processing time for the average home loan application by up to 80 per cent. We announced a five-year deal with specialist customer communications provider Chandler that will revolutionise how we send letters, statements, product information and other communication items to members. We launched Apple Pay for our members, becoming one of the few financial institutions in the country to offer the full range of digital wallets.

We also started planning work on a replacement of our core banking system, to overhaul our 40-year-old core platform and develop a modern solution that delivers for members and for staff. This is an absolutely vital project that will underpin our aspirations to become a digital bank with a personal connection. We've progressed to the point where we have identified a preferred core platform.

The proposed merger with People's Choice may accelerate progress in this space, as they currently operate on this same platform. It's likely a merged entity would adopt this solution, so that would likely fast track our progress. The preliminary work we have already carried out would be a huge help in that integration process, but also has us well placed to continue with our core banking upgrade if the merger does not proceed. That's a great position to be in strategically, with both options covered.

All of these initiatives build on work we've carried out in the past five years to create a foundation for future growth. I want to stress again that this

transformation process will in no way lessen the commitment we have to the people-first philosophy at Heritage. We are not about technology for technology's sake. Everything we do is centred on what's best for our members, and that will continue to drive how we operate in future.

In 2020/21, we devoted significant energy and resources to meeting the wide range of regulatory reforms being introduced by the Federal Government. This included the Consumer Data Right initiative – also known as Open Banking. Heritage was one of only a few non-major banks to meet the deadline of 1 July 2021 for enabling members to share with accredited data recipients specific authorised data about their individual personal and credit card accounts. We also did a significant amount of work to meet our requirements to introduce a new Internal Dispute Resolution system under RG 271; to meet Design and Distribution obligations under RG 274; and to meet our requirements under new anti-hawking laws.

Of course, these new initiatives were on top of all the existing regulatory and compliance requirements we already needed to meet. That imposes quite a burden on an organisation of our size, but is simply part and parcel of doing business as a financial institution in Australia today. Similarly, we have also strengthened our support for risk management at Heritage, as part of our commitment to excellent corporate governance. We've always had a very strong approach to risk management at Heritage, and we continue to improve our resourcing and systems to support that approach. Having a strong risk culture, robust governance frameworks and a prudent approach to risk management is a core

foundation of our bank and we look to embed this through all of our daily activities.

Also embedded strongly within our culture is our commitment to sustainable, responsible and ethical business practices, as set out in our ESG Policy. As a mutual financial institution, acting responsibly and ethically has always been inherent in our operations. We have always acted with the greater good of our community in mind. We understand that we have a responsibility to foster sustainability and to focus on outcomes beyond financial metrics. We have now taken steps to better define and track the ESG activities that have always been a part of the way we do business. In 2020/21, we documented a series of key actions under our ESG Policy, and then more formally incorporated them into our rolling Business Plan. We have also spelt out these key ESG activities in our Member Report for Financial Year 2020/21, to improve transparency around our key areas of focus. I do want to emphasise that acting in a sustainable way is not something new to Heritage. It's always been an integral part of our philosophy.

One of the other things that sets Heritage apart is our genuine commitment to the communities we serve. It's a philosophy that we're very proud of, and one of the attributes that make Heritage such a well-loved organisation. I wanted to take the opportunity today to give a few examples of how we put that philosophy into action in the past twelve months.

A continuing manifestation of our community commitment is the operation of our seven community branches. They operate on a partnership model, as joint ventures between Heritage and a community company with local representation. Under the model, half the profits are given to the community company to provide grants for worthwhile local organisations and causes. These Community Branches have cumulatively injected a total of more than \$50 million back into their local communities since we first opened at Crows Nest in 1999. This figure is made up of community grants, sponsorships, wages, rent, payments for services such as cleaning, and other costs. I would especially like to congratulate our Nanango Community Branch which will celebrate its 20th anniversary in December and has been a huge contributor to many community initiatives during that period.

We adopted a new approach to our sponsorship program in 2020/21, unifying all our activities under the over-arching theme of “Helping Hands”. Heritage has long been renowned for its support of many events and causes across the communities it serves, but this support has been provided without an overall coordinating purpose. The new approach to sponsorship activities ensures that Heritage’s support goes to those people in our society most in need of a “helping hand”.

In December 2020, we launched a new national partnership with leading food rescue organisation OzHarvest, as one of our first initiatives under the “Helping Hands” approach. Our partnership supports OzHarvest’s national food rescue operations, helping to deliver an additional 200,000 meals a year, which equates to saving nearly 70,000 kilograms of food from landfill, and preventing 140,000 kilograms of greenhouse emissions

from going into the atmosphere. We're thrilled with how this partnership is progressing and look forward to building on its success in future.

Heritage's efforts to help improve financial literacy within migrant and refugee communities also took a step forward in 2020/21 with our first-ever Migrant Banking Mortgage Seminar – presented in Arabic. It was the pilot for a planned series of seminars designed to help people from migrant communities to better understand the Australian banking system. The seminar was hosted by Waleed Samoua and Basel Deghlawe both migrants from Syria, who joined Heritage in early 2020 in newly created roles offering personalised, culturally respectful and inclusive banking services. Since then, Waleed and Basel have combined their fluency in Arabic, understanding of Middle Eastern culture, and knowledge of the banking and finance industry to help refugees and migrants feel more at ease when dealing with banks.

In 2020/21 we announced a partnership with the University of Southern Queensland to establish the Heritage Bank Peter Cleary Memorial Scholarship, in honour of our much-loved former finance executive. The scholarship assists a second-year student from rural or remote Queensland doing a business or commerce degree at USQ. Heritage will donate \$100,000 to help establish the endowment fund over the next three years. USQ will donate \$200,000 in that time, bringing the total in the endowment fund to \$300,000. That fund will finance the annual scholarship in perpetuity.

We also launched a second scholarship at USQ this year, aimed specifically at members of south-east Queensland's growing refugee

community to study in the field of psychology and counselling. The \$6,000 scholarship is available to a full-time student starting an undergraduate degree in psychology or counselling at USQ, particularly a school-leaver from a refugee community experiencing financial hardship. At Heritage we value diversity and inclusiveness, and recognise how difficult it can be for refugees to transition to a new way of life. Many face financial and language hardships that make attending university a real challenge. This scholarship aims to make the dream of university education a reality for someone who may otherwise be unable to enrol.

Another example of how we give back to the community comes through our support for the Heritage Bank Charitable Foundation. We established the Foundation back in 2018 as a way to magnify Heritage's already considerable philanthropic efforts. I'm delighted to say that the Foundation gave out its inaugural round of grants in 2020/21, providing a total of \$90,000 in grants to nine charitable organisations, who all do a fantastic job giving a helping hand to those who need it most. I'm even more delighted to announce that Heritage recently donated a further \$1 million to the Foundation, to assist in building up its corpus. This significantly grows the size of the Foundation's funding pool, which will generate increased future grants. This donation sends a clear message to the community that Heritage is serious in its commitment to creating a highly effective and successful Foundation.

Of course, as a mutual financial institution, we exist primarily to serve our members. I'm delighted to say we delivered on that front as well in 2020/21. We pride ourselves on providing our members with a satisfying banking experience. Our Roy Morgan monthly Customer Satisfaction

score as at 30 June 2021 was 92.7%, among the best in the country. Our Net Promoter Score (NPS) – the likelihood that our members would recommend us to others – was 41.6 again among the highest in the country. That speaks to our genuine customer orientation.

Because our members are our main focus, we always aim to provide financial benefits to them as well. Rather than seeking massive profits, our goal is to give members a better overall deal. That's backed up by independent analysis from research company CANSTAR, which found that in 2020/21, our members were almost \$59 million a year better off through banking with Heritage rather than one of the big four banks. Our members gained a \$31.4 million benefit in rates and fees on our lending products, and a \$27.5 million benefit because of better interest rates and fees on deposit products.

Even more impressive, if you look back at the last five financial years, our members are a total of approximately \$315 million better off because they've banked with us, and not with a big four. That's a very real demonstration of the benefits of banking with Heritage, and taking advantage of the mutual model.

In 2020/21, Heritage adopted a Member Charter, for the first time ever. This Charter clearly sets out our commitments to our members. It explains how we treat our members, the promises we make to them, the standards that we will meet, and the motivations that drive our operations. The Member Charter is another way that we are improving the transparency of how we operate, so we can be accountable for

delivering the highest standards of service to our members. It can be found on our website and in our Member Report.

I would also like to briefly touch on our proposed merger with People's Choice. I firmly believe that not only is the merger beneficial for Heritage and its members, it is also essential in securing a bright future for this proud organisation. The reality we face in the banking industry is that increased size and scale will be crucial factors in determining future success. It will become increasingly difficult for smaller financial institutions to afford the significant investments in technology and compliance needed to remain competitive. That's why we have seen so many mergers of mutual financial institutions in recent years. No doubt that trend will continue. The proposed merger with People's Choice means we will remain in control of our destiny, joining with an organisation of similar size and culture to secure our future and safeguard our legacy.

We believe this merger is an opportunity to change the landscape of Australian banking. We have the chance to build a new, national mutual that can offer a genuine alternative to the big banks. We can create a force for good that opens up the benefits of member-owned banking to more and more people around the country. It's a truly historic and exciting opportunity to lead the expansion of a better way of doing banking – for the benefit of members, rather than shareholders

As the Chairman said, we are still in the middle of the due diligence process, and our Board is yet to give the go ahead for the proposal to go

to a member vote. What that means for Heritage right now – is that we continue to press forward with our current activities, in order to deliver on our commitment to providing our members with excellent products and service. That includes progressing with our key transformation projects to ensure we don't lose momentum while the merger proposal plays out.

I want to assure everyone that we are not taking our foot off the accelerator at all and we will continue to do what's needed to be done to maintain the exceptional standards of service that our members are accustomed to. We still have a business to run and members to serve, and that will remain our top priority.

Finally, I want to thank my colleagues in the Senior Executive Group, and the members of the Board for their guidance and stewardship of Heritage. I also need to acknowledge that none of what we have achieved would be possible without the dedication of our people, who are absolutely resolute in their commitment to putting people first.

And of course, thanks to our members, both existing and new, who continue to put their faith and trust in Heritage. We are very aware of your expectations as we strive to deliver and run a bank that you can proud to be a part of.

Thank you.

Peter Lock

Chief Executive Officer