



CHAIRMAN'S SPEECH

Annual General Meeting

18 October 2017

Good afternoon and welcome to the Heritage Bank AGM for 2017.

It is my honour on behalf of the Board to again have the opportunity to report to our members about the year that we have had, and also to look forward to what lies ahead for us.

It should make us all proud to be able to say that from our origins here in Toowoomba in 1875, Heritage is Australia's largest customer-owned Bank with 60 branches in Queensland, broker distribution staff in Brisbane, Sydney, Melbourne, Adelaide and Perth, approximately \$9.5 billion in assets, and around 800 staff. To be able to do this headquartered in Toowoomba and to have no plans to leave, is an incredible achievement.

Nor do we have any plans to change our customer-owned status. That has served us well for the last 142 years and continues to differentiate us from the listed banks.

As a mutual, our attention is focused on delivering value for our customers. We're not listed on the ASX and we don't have to pay dividends to shareholders. As a result, maximising value for customers, rather than maximising profit, is our top priority.

Our success in doing that is backed up by independent analysis from research company CANSTAR. They found that Heritage customers were more than \$54 million a year better off in 2016/17 through banking with us rather than one of the big four banks.

In fact, over the last five financial years, Heritage customers have received a total additional benefit of \$234 million by banking with us, rather than with one of the big banks.

That's a compelling demonstration of the financial value that banking with a customer-owned institution delivers.

But it's not just about financial value. It's about providing a rewarding and satisfying banking experience as a whole. I'm proud that Heritage continues to deliver in that way as well. Our success in doing so can be gauged through the external awards and recognition that we received in the 2016/17 year.

We can all be particularly proud that Heritage scored the highest customer satisfaction rating in Australia in international analyst JD Power's first ever Australian Retail Banking Satisfaction Survey last December.

Last year we also won Canstar Blue's award for Most Satisfied Customers award in the Challenger Bank category, and the Mozo People's Choice Award for overall Customer Satisfaction.

We were also named the Regional Bank of the Year in the AFR Smart Investor Blue Ribbon Awards, and Employer of Choice in the 2016 Australian Business Awards, for the sixth year in a row.

These awards are a tribute to the efforts of everyone at Heritage to deliver on our vision of being passionate about helping people.

I'm also pleased to be able to say that this passion extends to recognising our responsibility to give back to the communities that we are a part of.

In 2016/17, we put more than \$600,000 into sponsoring and supporting community events, as well as raising \$70,000 for

charities through our annual golf day and calendar sales. Throughout the year, we supported around 200 separate events in the regions where we operate, such as Ipswich, Brisbane, Bundaberg, Stanthorpe, Redlands, Gold Coast, Gatton, Warwick, Dalby and of course many major events in Toowoomba.

Our support also extends past sponsorship and into areas where we believe we can make a difference. I'm extremely proud of our teams that get behind local issues because they see a need and they care. These aren't causes brought to their attention by the Board – they are local issues that our teams are passionate about and they rally around the cause. Let me share just a few of these examples:

Our Victoria Point and Cleveland branches raised more than \$15,000 to support the Campaign for Samuel, in aid of the 10 year old grandson of a Heritage member of 50 years. Samuel suffered a sudden and life changing illness, and went from being a vibrant and energetic ten year old to suddenly being confined to a wheelchair and ventilator. Our contribution to the campaign helped with the renovations to the family home, allowing Samuel to come home to his Mum, Dad and big sister.

We donated a van to support the Vanguard Laundry project to create jobs for people living with a disability – this has been such a successful project that we have now supported a second van for the Laundry.

Our branches also partnered with Metro Care in the Loads of Love appeal, which made Christmas brighter for 1000 families in southern Queensland by collecting 14.500 tonnes of food and donations. This all began as a humble sausage sizzle a couple of years ago and has grown into our major support campaign over Christmas.

When the tragic events occurred in May, involving our local police force and the loss of one of their officers in the line of duty, we were able to organise a fundraising campaign for his family. A member of the public made the comment to me that this was just the sort of thing that you would expect Heritage to do.

These are just some of the many examples of how Heritage works with and helps our communities, and how our People first philosophy brightens many people's lives.

While we are proud of this strong customer and community engagement, it relies on the strong financial performance of the Bank, and so I am pleased to be able to report that we have again delivered a very successful result.

We recorded strong growth in our profit, in our loan approvals, in the retail deposits that we hold, and in our total assets, the quality of which continues to perform well above industry averages.

Our CEO will provide more detail on these figures shortly, but I am proud to say that the excellent financial results speak volumes about the strength of our brand and our success in delivering great service to our customers.

Heritage has delivered those results as part of a deliberate growth strategy to position ourselves for ongoing success in an increasingly digital world.

We have initiated a multi-year program to transform Heritage into a digitally-led Bank that will continue to meet changing customer needs.

Heritage historically developed as a branch-based Bank that added a digital presence. We are now shifting to think of ourselves more as a digital Bank with a branch presence.

Not only must we provide first-class customer-facing services, such as our website and mobile phone app, but we must also streamline our back-office processes. Digital technologies provide amazing opportunities to eliminate paper-based processes and to simplify interactions with customers. We must continue reshaping our business to take advantage of these opportunities which will begin to transform our Bank for the future generations of Heritage customers. Importantly, we won't lose sight of our existing customers, providing them with the services and products that they are accustomed to.

These issues are a challenge for all banks and require a significant investment in technology. For customer owned banks like Heritage it's even more of a challenge because the current regulatory environment delivers an advantage to the larger banks that we believe is unfair and dampens real competition and choice.

Despite this structural disadvantage, there is reason for optimism for Heritage and the customer-owned banking sector as a whole, thanks

to the Federal Government heeding our calls and taking a number of actions to help create a fairer playing field in the banking industry.

The new “bank levy” announced in the Federal Budget recognises the unfair advantage that the “too big to fail” status provides to the major banks.

The Treasurer also announced in the Budget a Productivity Commission (PC) inquiry that is looking at a whole range of issues which have created inequalities in our banking sector. Heritage has made a detailed submission to the Commission, which is due to report in July next year.

We are also eagerly awaiting the results of the Hammond review into current capital constraints facing the mutual sector. We support suggested reforms that would enable mutuals to more readily access capital to support their growth and development. As a mutual, we rely almost entirely on the profits we make to provide the capital we need to support our lending, and our growth and development.

These are all positive outcomes and should open up new opportunities for Heritage, but we believe there are still significant reforms to be made that recognise the difference between the shareholder and

customer owned banking models. Importantly, the government and its regulators can't take a "one size fits all" approach to our industry. Nor should it look to implement legalisation that has been designed for other jurisdictions without proper consultation and consideration of the burden of compliance.

Sensible legislation and a cooperative and consultative approach will ensure our industry and in particular our Customer Owned Banking Sector continues to be regarded as amongst the strongest and best regulated in the world.

It is an exciting time for the Bank as we embark on a series of investments and administrative changes. Part of these changes are reflected in the resolutions that are before you today as your Directors recommend the removal of the existing retirement allowance provisions. This moves our remuneration policy in line with contemporary best practice, whilst allowing the Board to appoint an additional Director if we feel we need some extra specialist skills and attributes especially to assist in our digital transformation.

Finally, I must again thank and congratulate our Senior Executives and all our staff. They are the ones who live our culture and bring

to live our vision of being passionate about helping people, and are committed to delivering a great customer experience every time.

I particularly acknowledge the efforts of our CEO Peter, who has undertaken the very significant and demanding task of guiding Heritage into the modern banking era with skill and expertise, but at all times treating our people and our customers with respect and understanding.

I also thank my Board colleagues for their support and commitment over the year.

It is an honour to be Chairman of this Bank, and to represent our customers, both past and present, who have helped make Heritage the successful and respected Bank it is today.

We look forward to continuing growth and success.

Thank you.

Kerry Betros

Chairman of Directors