

Heritage Bank

CHAIRMAN'S SPEECH – KERRY BETROS **Annual General Meeting** **27 October 2021**

Good afternoon and welcome to the Heritage Bank AGM for 2021.

I would like to begin by acknowledging the Giabal and Jarowair peoples, the Traditional Custodians of the land that we're meeting on today, and pay my respect to elders past, present and emerging.

It is my honour on behalf of the Board to again have the opportunity to report to members on the achievements of Heritage Bank this past financial year, and on what lies ahead for us.

We started the 2020/21 financial year with the shadow of COVID hanging heavily over our operations and the world as a whole. The outlook for the Australian economy was uncertain, as the pandemic continued to disrupt all aspects of life around the globe.

Within Heritage, COVID impacts were ever-present. Our office-based teams were still working largely from home, and our branches were operating in a very different way, with COVID-safe protocols dictating their activities. A return to normality seemed a very long way off.

Given the circumstances, we had enacted the prudent measure of taking a significant credit provision of \$7.585 million in June 2020, to prepare for the possibility that COVID would affect our

members' financial wellbeing in the year ahead. We braced ourselves for a challenging period of subdued economic activity ahead.

Happily, those fears of a COVID-driven downturn in our financial results proved unfounded. Our performance rebounded strongly with excellent growth in lending, retail deposits, and total consolidated assets, along with an outstanding profit result. In fact, we delivered a record pre-tax profit and a record volume of lending despite the COVID environment, which was a somewhat unexpected but very satisfying achievement.

Our CEO Peter Lock will provide more detail on our financial results shortly, but suffice to say our Bank finished the financial year in a very strong position.

This outcome reflected the resilience of Heritage Bank, our staff, our members, and the communities we serve.

I would like to sincerely thank all of our people for their unwavering commitment to looking after our members, despite all the difficulties that COVID has thrown at them. Everyone at Heritage has had their normal working arrangements disrupted, with our frontline branch staff in particular having to adopt new procedures and ways of operating. Our people have turned up day after day, and have been there for our members without fail. I would also like to acknowledge the lengths that we have gone to within Heritage to keep our people and our members safe. Health and wellbeing has been at the top of our priority list, and I'm proud to be part of an organisation that cares so deeply about its people.

Heritage's excellent financial performance was built on the back of a resilient Australia economy, which has coped with COVID far better than expected. What is unsure is whether the buoyancy in the Australian economy can continue without the strong Government financial assistance measures that many people have enjoyed, and with a continuation of lockdowns that the Delta strain of the COVID virus brought with it.

The ongoing occurrence of tighter restrictions in many states over recent times threatens to undermine the optimism that many people felt about an imminent return to normality. What is certain is that speeding up vaccination rates across the country is the key to our long term recovery, and Heritage continues to advocate strongly for greater action on this front.

In looking back at our performance in 2020/21, it's important that we also take the chance to look forward at the challenges and opportunities that lie ahead.

We continue to invest significantly in modernising and improving our digital capabilities. There's no doubt that the power of digital technology has already transformed the nature of banking, and will keep doing so at an exponential rate. There's no stopping the way our members have embraced online channels for everyday banking transactions. We have to keep improving those services to stay relevant. Digital technologies are also revolutionising back office operations as well. Modern core banking platforms can carry out tasks that were not even thought possible a few short years ago. We need to stay ahead of the curve and transform the technologies that power our

bank so we can deliver the services our members will demand in future.

What's most important as we become more digital is that we maintain the personal touch our members value so much. We call it becoming a "digital bank with a personal connection". That's why we will continue to invest in our branch network. We know that many of our members, especially those who have been with us for many years, continue to place high value on the personal service they receive in a branch. We firmly believe that branches will continue to play an important role in delivering services to our members, alongside our digital channels. In fact, we are on track to open a new branch at Macquarie Park in Sydney next month, and another at Tweed Heads in December. The way people do their banking has changed in recent times and will continue to change in future. We need to adapt to those changes and provide multiple channels, including branches and digital. For us, it's not one or the other – we intend providing both cutting edge digital banking options as well as a strong branch network for our members.

Of course, in looking forward, the most significant item on our horizon is the proposed merger with People's Choice Credit Union from Adelaide, which we announced in August.

If it goes ahead, the merger would be hugely important in ensuring Heritage continues to thrive and serve our members well into the future. This would be a true merger of equals, bringing together two organisations of a very similar size, who share a commitment to mutuality and serving our members. Our initial discussions indicate a merger would give us the increased size and scale needed to remain competitive in the banking sector, and to deliver more for members.

In considering the rationale for a merger, you only need to look at what's been happening in the customer-owned banking sector in recent times. In the last 20 years, the number of mutual financial institutions in Australia has fallen from around 200 to now number just 70, as more and more mergers have occurred. That's because it's extremely difficult for smaller organisations to survive in today's banking environment. The cost of things like technology upgrades and compliance requirements place enormous burdens on smaller organisations. Many have realised they needed to join forces and become larger to remain sustainable. That situation is unlikely to change soon. In fact, the pace of consolidation shows no signs of slowing, and larger mutuals are now also joining forces. Size and scale are absolutely crucial to our ongoing success, and that's what our proposed merger will deliver. Importantly, I want to stress that our proposal is not about merging for the sake of merging. People's Choice are a fantastic merger partner, aligned closely with us in terms of size, geographic reach, culture, and member focus. This would absolutely be a merger of equals that would strongly position us for the future.

A due diligence process is now taking place, and if that confirms that a merger would be in the best interests of members, the proposal will go to a member vote in the first half of next year. Without pre-empting the results of the due diligence process, I believe the merger will deliver significant benefits for our members. We have the chance to create a new national force for good in the Australian banking sector, making us stronger and more able to keep offering our members the benefits of our mutual proposition. That would build on our already proud legacy and significantly strengthen our future, so we can deliver more for our members.

Since we announced the merger proposal, we've had generally positive feedback from members, along with an interest in finding out more details about the proposal if we do decide to proceed. A small number of members have raised concerns, which is completely understandable given the passion they have for our organisation. The concerns fall mainly into two categories, and I will address both of them here today.

The first category was the worry that we would become too big as a result of the merger, and end up treating our members like the big banks treat theirs.

The good news is that there is absolutely no chance of us becoming a "big bank". The proposed merger would make us stronger and more competitive, but we would remain small enough to keep caring deeply about our members.

Let me put that into perspective for you. If we went ahead with the merger, the new organisation would have total assets of \$22 billion. By comparison, the Commonwealth Bank alone has total assets of around \$1,043 billion. That's more than **40 times** what our size would be. We'd also still be a lot smaller than the mid-size banks like Suncorp or BOQ, which would be around **four times** our size.

So, you can rest assured that we would be nothing like the big banks after the merger, absolutely remaining small enough to keep the personal touches that our members love about banking with us, but still having the extra size needed to be more competitive. In fact, the merger would improve our ability to keep delivering that

member-focussed service that is such an important part of our culture.

The second category of concerns raised was about whether the merger would mean any lessening of our commitment to the Toowoomba region, where Heritage had its origins 146 years ago. Again, I can confirm that Heritage has absolutely no plans to reduce our presence in Toowoomba, and a key component of any merger agreement is that we would maintain dual head offices in both Adelaide and Toowoomba.

In fact, today I can make the major announcement about our presence in Toowoomba.

It's my great pleasure to announce that Heritage is planning to build a new Head Office complex in the Toowoomba CBD. This is a decision that cements our long-term commitment to maintaining the city as our headquarters.

Our plan is to build a state-of-the-art campus-style complex in the heart of the city, featuring an iconic design that would make the building highly visible from across the Toowoomba CBD and become a city landmark.

We will soon appoint a development partner to work with us on this project. That partner's role will be to identify a suitable site, fully develop the plans, and undertake a procurement process to build the new Head Office.

In an innovative move, we intend placing the new building into a property trust, which would then provide an investment opportunity for members.

We'll be exploring possibilities for how that property trust could be structured, but the goal is to provide members with another benefit from being part of a financial institution that's committed to putting people first.

We have not yet selected a site for the new building but our aim is complete the build by 2025, in time to mark the 150th anniversary of the founding of the Toowoomba Permanent Building Society, the forerunner to Heritage Bank.

This will be a game-changer both for Heritage and for Toowoomba region, and I can confirm that we will proceed with these plans regardless of whether or not the merger proposal goes ahead.

This project is concrete proof that Toowoomba is the home of Heritage and we are not going anywhere.

I'd like to finish by thanking our CEO and Senior Executives, and all our staff, for their efforts throughout the year. They are the ones who live our culture and deliver the outstanding service that our members value so highly.

I also thank my Board colleagues for their support and commitment through what has been a year like no other. In particular, I would like to acknowledge the contribution of Mr David Thorpe, who retired from the Board in April this year, after nine years as a Director.

David made an outstanding contribution to Heritage. He was absolutely committed to the ideals of the customer-owned movement and that ethos shone through in his decision-making on the Board. Heritage benefitted immensely from his wise counsel and deep expertise in the financial industry, particularly in his leadership of our Risk and Compliance Committee

In closing, I would like to reiterate what an honour it is to be Chairman of a Bank that delivers so much for its members, its staff and its communities. It's humbling to know what a difference we make to the lives of so many people, and how much people care about what we do.

With a pathway back to a post-COVID life in sight, and with our merger discussions continuing, I am excited about our future and look forward to bigger and better things ahead.

Thank you.

Kerry Betros

Chairman of Directors