

**CEO'S SPEECH – PETER LOCK**  
**Annual General Meeting**  
**17 October 2018**

Thank you Kerry. I would also like to extend a warm welcome and thank you all for taking the time to attend this afternoon.

I want to echo Kerry's comments about what an exciting time this is for Heritage Bank and what a remarkable story we have to tell.

We're immensely proud of our Toowoomba origins and that we continue to call this city home.

We want to be known as an icon of Toowoomba; a part of its DNA and a force that has shaped and will continue to positively shape the communities where we operate. The Chairman's announcement of the Foundation is a great example of our Bank making significant investments back to the communities that support us. But as the Chairman has said, this is only possible because of a continuing strong financial performance and a focus on our core vision and values.

Our vision is very simple, **passionate about helping people**. Helping them with everything from the basics of everyday living to the big financial commitments like buying a house or a business. There are very few of us who can achieve financial security and realise our dreams and aspirations without financial help. As bankers, we are proud of the role we play in delivering these outcomes. It's both important and rewarding, and for us, this pride and passion is further embedded in our mission of **delivering a great customer experience every time**.

We aim to give our customers the best experience we possibly can – consistently, across everything we do. That's what drives our strategy, our investment program and ultimately, our financial performance.

Our values of passion, courage, integrity and respect ensure our principles of putting People first; having the customer at the centre of everything we do, and empowering our people to deliver a great customer experience, combine to produce financial results that we can all be proud of.

Accordingly, I'm delighted to share with you the financial results for our 2017/18 operating year.

I'm pleased to report that Heritage Bank delivered a pre-tax record profit of \$64.2 million, up 14% on the previous period and a record after tax profit of \$45.04 million, up 13.7% on the previous year's \$39.6 million.

Our total consolidated assets grew 1.5% to reach \$9.524 billion with our overall loan portfolio growing 2.4%, significantly lower than the 11.6% growth in the previous year. Moderating our lending growth was a conscious decision taken to better manage our capital and prudential requirements. In part, this was also in response to APRA's

macroeconomic settings and regulatory caps introduced to curb investor lending. As a result of these actions, our loan approvals slowed and were down 27.4% this year to \$1.736 billion. We see this more moderate loan growth level representing a return to more normal lending volumes, particularly as the housing market cools, and investor confidence lowers.

Pleasingly the growth we did enjoy was not driven through discount pricing but through a superior customer value proposition, evidenced through our industry leading external customer satisfaction and advocacy scores. This flowed through to an improvement in our net interest margin year-on-year, and the consequent positive impact on our prudential ratios.

Our capital adequacy ratio at 30 June 2018 had increased to 14.11% from 13.44% and our liquidity ratio was 14.74%, both well above APRA prudential requirements and internal benchmark and triggers.

Lower lending growth flows through to a reduced need to grow commensurate deposit volumes. Despite lower lending demand, our retail deposit balance at 30 June 2018 grew 3.2% to \$6.575 billion, mainly through transaction and saving account balances. This compared to a growth of 19.2% for the corresponding prior period.

Expense management continues to be a focus as we balance the challenges of investment in our people and our systems with the need to offer competitive products and services, delivered through the customer's channel of choice. Pleasingly, our cost to income ratio reduced from 71.25% to 70.58% and the ratio of revenue to expense growth was a positive 1.06%.

Our commitment to community continues, and during 2017/18 we contributed over \$5.3 million back into events and projects throughout the communities where we operate. This includes our sponsorships of major and local events, charity events such as our charity golf day, and our seven community branches that have now contributed over \$43 million into their communities over their twenty years of operation.

Importantly, it's the teams of Heritage people that bring these events to life. Our staff are incredibly generous and enthusiastic giving of their time and passion, getting behind causes that make a real difference. Our customer report highlights the range and diversity of our community and staff involvement.

Total customer numbers showed a slight increase over the year with our main group, (customers who consider Heritage as their Main Financial Institution (MFIs) increasing slightly by 1.9%.

This is an area where we are now concentrating our strategic intent. Of our four main goals; attracting and growing new clients; building and maintaining our existing clients, creating ownership value and; attracting and growing passionate people; our first goal of attracting and growing needs to be more of a primary focus. This is particularly so in light of the discord and opportunity that currently exists with the customers of our listed competitors.

To this end we are embarking on a transformation journey to re-prioritise our investment strategy toward delivering a great customer experience for all clients and accelerating the acquisition of new members to our Bank.

We call this **Project 450** a bold ambition to transform and grow our current circa 300k customers to 450k over the next decade. This builds on our work under Destination Best Bank and the ongoing digital transformation of our Bank. Our industry high levels of customer satisfaction and advocacy are a key advantage here but we want more clients to experience the Heritage advantage.

I mentioned that we want to be known as an icon of Toowoomba but our ambitions do not end at the city's boundaries or indeed the State's borders.

We are already a national player in the mortgage market thanks to our network of mortgage broker partners and we know that our Heritage brand and our philosophy has enormous potential to grow right across Australia.

We are now in the initial stages of planning for a branch expansion into the NSW market, again emphasising our belief that branches are an integral part of building trust and establishing deeper banking relationships that form the foundations of a strong national brand.

Branches by themselves; however, won't deliver customer growth and this highlights the importance of developing a strong digital model. Our digital strategy goes hand in hand with our physical footprint, to deliver our customers a seamless customer experience. These two approaches are the essence of our "Digital with Physical" approach.

Despite our investment in digital platforms, we remain committed to our branch network and, in addition to opportunities outside of Queensland, we will continue to invest in new Queensland sites.

I am pleased to report that just last week we opened a brand new branch at Coomera on the Gold Coast, a new area for us. At the same time we will continue to assess our existing locations and will invest, improve or relocate sites where and when opportunities arise.

While the investment in our customer channels continues, we have also continued and increased our investment in technology to create the infrastructure for the new digital banking age. I'm pleased to report that we have made significant in-roads in this area over the last year.

We've adopted new agile methodologies in our IT projects area, with the help of consultants Red Hat and their Open Innovation Lab process. These projects were so successful that Red Hat showcased our achievements at their annual conference in San Francisco in front of 7,000 attendees. These processes have been used on a range of projects including the implementation of our New Payments Platform solution as well as the introduction of the Visa Token Service, which has enabled us to introduce Google Pay and soon other digital wallet services. The improvement in our project delivery capability in both time and expertise measures has been significant. Projects that previously have taken years, are now being completed by cross divisional teams in a matter of months. This has included initiatives such as implementing a new Financial Management System, and implementing the NextGen online loan application system to better support loans sourced via our mortgage broker partners.

We are learning the art of lean, open and agile and are now implementing these learnings across the Bank.

Robotics are a great case in point. We've become one of the leading financial institutions in the country in using robotics software to automate previously manual processing tasks. In 2017/18 we automated 24 previously manual tasks using robotic software. In the previous period we had just begun to explore and trial robotic concepts and our investment in this area has not only created better and simplified processes for staff and customers, but it has also created new learning and career opportunities for our teams. The introduction of Lean Six Sigma training has now produced a cohort of 23 internationally accredited Lean Six Sigma Green Belts who now work on a range of priority programs throughout the Bank.

Achieving this transformation is challenging but it also opens up exciting new possibilities for Heritage and helps build the foundations of our digital capabilities, particularly as they apply to our customers. We have the opportunity to be agile, innovative and responsive in a way that larger institutions simply cannot match.

The launch of our Hova payment band was a great example, where we were the first Australian Bank to issue wearable technology in the form of a waterproof lifestyle product that gave instant purchasing access through a debit or credit card with a flick of the wrist.

This was just another example of our leadership in the pre-paid cards and virtual payments sector, where we partner with iconic organisations such as Australia Post, Qantas, Optus and Mastercard offering many of the products that Australians now take for granted, for example when travelling overseas.

We are proud of our partnerships with these brands and we are delighted to introduce our newest partner Woolworths.

Woolworths and Heritage Bank have formed a new alliance to help foster and support Aussie farmers through the establishment of the Woolworths Organic Growth Fund. This fund, administered by Heritage will see up to \$30 million of loans and grants delivered to Australian farmers in support of organic food production. Heritage is proud to be associated with Woolworths in delivering such an innovative and generous program.

Heritage has achieved many things over the last year but we have also been operating in an increasingly tough regulatory and change environment. The regulatory changes and Government reforms that the Chairman mentioned are one of the factors that will help unlock our growth potential but they also create resource demands on the business.

It is important that the Federal Government gets those reforms right.

One key consideration, which has been at the centre of the Customer Owned Banking Association's #Morethan4 campaign, is the need for proportionate regulation.

This campaign recognises that there is more to Australia's financial sector than just the four main banks. There are real banking alternatives available now, and in fact

there are more than 4 million Australians who have already joined the Customer Owned Banking movement.

The right type of regulatory reform is a key factor in levelling the playing field and giving us the ability to be competitive against the listed banks. We encourage our members and supporters to get on board with the #Morethan4 campaign and advocate for reform that is proportionate to our situation.

We have a great team at Heritage and like the Chairman, I am very proud of the leadership, service and dedication that they provide to our staff and customers.

2017/18 saw a number of key changes to our senior executive team, adding further depth to the skills and experience of our leadership group.

Former Chief Financial Officer (CFO) Peter Cleary stepped down from the role due to ill-health and Paul Williams has been appointed CFO on a permanent basis, and has incorporated his responsibilities as Chief Strategy and Investment Officer into the CFO role.

Our General Manager Retail Paul Francis retired in April 2018, after 27 years at Heritage. Our Chief Operating Officer (COO) Kevin Potter moved into Paul's former role, while we appointed Arjan Bloemer to the COO position. Arjan has banking experience in the UK and in the Netherlands, and has worked with EY and Accenture in Australia.

In June 2018, we appointed Kerry Beebe to the newly created senior executive role of Chief Risk Officer. Kerry has 30 years' experience in the financial industry in Australia, Canada and the United States. Most recently she was Regional Chief Risk Officer of North America for Computershare.

Finally, former Head of Emerging Business Streams Peter Cavanagh left Heritage in June, after contributing significantly to the company in a 12-year career as part of the senior executive group.

We have a high-calibre executive team with a depth of industry and banking experience across the majors, regionals and the publicly listed sector. They are all bringing fresh perspectives and different approaches to their roles. That is vital for us in moving along our transformational journey and has created a new momentum and energy in our business.

In summary, our members can be justifiably proud of the excellent financial results that Heritage has delivered on their behalf. Our industry is facing significant change and evolution, and we have embraced the decisions that will ensure Heritage is in a position to meet and grow with those challenges.

I'd like to thank the Board and my Senior Executive team for their ongoing efforts on behalf of our members. We have a fantastic Bank and it's a great privilege and honour to be able to lead this organisation. I commend these results to you.

Thank you.  
Peter Lock  
Chief Executive Officer