



CEO'S SPEECH
Annual General Meeting, 22 October 2014

Good afternoon. It's my great pleasure to be here today and I join with our Chairman Mr Kerry Betros in welcoming you to the 2014 Annual General Meeting.

When a CEO stands up at an AGM after a very good year, you can be sure that the speech will be filled with statistics that reflect on the solid financial performance that the business has delivered. I will come to those financial results in a moment but I did consider what members in a mutual financial institution would expect in a CEO speech. Of course it is important to generate a reasonable profit but Heritage could fail our members if our only measure of performance was profit. Several relevant member indicators are preferential customer pricing and better service.

It is in this light that I can tell you, our members, that the better value you received in products and services last financial year was measured at \$48.3 million. We didn't calculate that figure. An independent agency, Canstar calculated that value by comparing our rates and fees to the rates and fees of the four major banks and projecting this value across all of our customers.

As a customer-owned financial institution, I can tell you that we demonstrated our performance throughout the year by maintaining 61 branches and 39 mini-branches, providing access to 3,000

ATMs, satisfying our customers telephone banking needs by an award winning Contact Centre, servicing a Nation-wide broker network and providing all of the typical card and electronic banking options that our customers desire.

Our quality service to customers is provided by a highly engaged workforce who proudly live our People first brand. According to Roy Morgan, we have achieved approximately 90% customer satisfaction for Main Financial Institution customers in recent times and strive to find ways to improve the service that we give to customers. We are investing in web chat technology to integrate the internet with our Contact Centre. We have determined that our electronic banking channel is core to our customer's needs and as a result, we have purchased the source code from our external supplier. We shall continue to update that system with changes coming in the next few weeks.

The Roy Morgan Customer Advocacy average level across 2013/14 was 24.97. The Customer Advocacy rating measures the likelihood that customers would advocate to refer friends and family to our Bank. In comparison, three of the four major banks had negative Customer Advocacy ratings.

When you are served at our branches and over the phone by our Contact Centre staff, you are treated to a customer experience rather than some banking transaction. Because our staff believe in the customer-owned banking difference, they enjoy their work and this underpins the experience that they give customers.

I'd like to tell you a story about how our staff go the extra mile for our customers. A Brisbane man Neil Johnson had been doing it tough for a number of years. After a workplace accident six years ago, he found himself out of a job. Neil and wife Mary wanted to buy a home. They'd applied for loans at a number of the bigger banks but had been knocked back, sometimes rudely. They'd just about given up hope of buying a home. But that all changed after they spoke to a Customer Service Officer at our Toombul Branch in Brisbane.

They sat down, looked at all possible options and eventually came up with a solution. A family friend was willing to help Neil and Mary out, and by joining forces the couple were able to qualify for a loan.

The approval process went smoothly and Neil and Mary recently moved into their new home. They could not be happier with their circumstances and with the help they received from Heritage.

That example is a perfect illustration of Heritage's People first difference. Our staff bend over backwards to understand our customers' individual circumstances and to find a way to meet their needs. It's not about treating people as transactions. It's about helping people achieve their financial goals.

But it is time for the CEO to cover the financial results from 2013/14 because they are very important. Whilst maximising profit is not a prime consideration, profit allows Heritage to invest back into our business and the retained earnings from profits is the primary mechanism for building prudential capital. The Australian Prudential

Regulation Authority requires capital to be set aside as a financial institution grows its Balance Sheet.

The pre-tax profit for the year ended 30 June 2014 was \$50.04 million. This was a 5.5% decrease on the previous year and finished a run of 14 consecutive record profits.

The after tax profit for 2013/14 was \$35.76 million, down 3.5% on the previous year.

However the previous year's results included a one-off gain on the sale of Visa shares. After excluding this item, the underlying pre-tax profit in 2013/14 actually increased by 0.1%, while the underlying after-tax profit increased by 2.2%.

The competitive pressures and desire to increase our tier 1 capital ratio impacted on Heritage's drive to grow assets. In this regard, Heritage grew its total consolidated assets marginally to \$8.519 billion, an increase of 0.1%. This was in a background where Heritage was required to enhance our capital ratios under the Basel III capital requirements. These are now well placed with total capital up from 12.81% at 30 June 2013 to 13.33% at 30 June 2014. At the same time, our tier 1 capital ratio grew from 11.07% at 30 June 2013 to 11.89% at 30 June 2014.

Another crucial measure of our sustained financial performance is our external corporate ratings. Our corporate ratings remain stable at A3/P2 from Moody's and BBB+/F2 from Fitch.

We grew our retail deposits by \$337 million to \$4.706 billion. We also lifted our liquidity ratio from 20.31% to 22.23% during the year. Our performance was aided by our decision to early-mature \$400 million of government guaranteed debt, which helped us manage margin and growth.

Alongside that, we recorded mortgage loan arrears greater than 30 days of just 0.39% at 30 June 2014, about a third of the industry average. In addition, impairment losses on loans were down by 27%. These are very worthy indicators of the quality of our lending and loan portfolios and our prudent risk appetite in the important area of credit risk management.

I would like to put on record the incredible efforts of the staff at Heritage Bank. The drive, energy and the resilience of our staff have been instrumental in allowing Heritage to meet the competition and at the same time, provide the high quality customer service across all channels. The People first culture is a key element in our sustained success. In our annual Heritage Viewpoint Survey, staff rated engagement at 91%. During the financial year, Heritage has been the recipient of a number of staff-related awards including:

- Australian Business Award for Recommended Employer
- The Australian HR Awards for Best Employee Value Proposition
- The ABA Recommended Employer award was for the fourth consecutive year.

We added 20 staff to our workforce in 2013/14. We plan to add a further 23 positions this year, mostly in the IT area.

As a sophisticated financial institution, during the year Heritage re-designed our computer network architecture and has implemented layers of additional security over corporate and customer data. At the same time, we moved our disaster recovery centre from Toowoomba to a site in the greater Brisbane metropolitan area. This has been a quantum improvement in the provision of technology to support our business. Heritage also implemented a new business continuity site in Toowoomba. These projects are a recognition of the importance of technology and computer security in managing banking business in the 21st century.

With the approval of the Board, Management has created and started to execute a Digital Blueprint framework to sustain our competitive advantage well into the future. This will involve investment in the core banking system, electronic banking, customer data analytics, financial management systems and the management of customer relationships and consistency of the customer experiences across all the channels which we provide.

We are transforming the business for the digital age without materially discarding the products, services and channels that have built Heritage to this point. We have responded, not just with technology changes, but with processes and procedural change as well. We are focusing our attention on doing that, to improve service to customers and keep pace with our customers' expectations.

We have also set up a Business Process Management team to look at cutting paperwork and streamlining processes across the business, to make dealing with Heritage simpler and easier from a customer perspective.

We continue to be innovative in relation to pre-paid cards and mobile payments technologies, having partnerships with Access Prepaid, Qantas, Optus and Australia Post. We have some other exciting opportunities which we are pursuing at this time. The benefits of these relationships include low cost funding and non-interest income which creates diversification but more importantly underpins our ability to give our customers a better deal.

We continue to support numerous events and activities across our branch footprint, particularly in Toowoomba. We recognise that growing our communities is a fundamental part of living *People first*.

Heritage continues to deliver great results. I congratulate our staff for their commitment to our customers and this organisation. I thank and congratulate my senior executive team for their leadership and high quality efforts over the financial year. I also thank our Chairman, Mr Kerry Betros, for his leadership, his calm but experienced style and the immense effort that he invests at Heritage Bank. I thank Kerry and all our Directors for their professional stewardship and sustained support throughout the year.

May I also extend, on behalf of management and staff at Heritage, our sincere appreciation to Professor Peter Swannell for the contribution he has made to Heritage since 2003.

I particularly want to thank Peter for his friendship and support throughout those years. Peter I wish you and Janice all the joy and happiness that retirement can bring.

Thank you.

JOHN MINZ

Chief Executive Officer