

Heritage Bank

CEO'S SPEECH – PETER LOCK
ANNUAL GENERAL MEETING
13 OCTOBER 2022

Thank you Kerry.

I want to start today by acknowledging the remarkable efforts and mindset of the people who make up the Heritage team. They are the ones who bring to life our culture and our values every day, and who deliver outstanding services to our members. Specifically, I'd like to thank them for their resilience over the last couple of years and for their passion in delivering the personalised, friendly, and genuine service that makes Heritage so special.

This commitment from our teams is evident through the continued strong levels of customer satisfaction the bank enjoys. This is measured through the monthly Roy Morgan Customer Satisfaction and Net Promoter scores, and Heritage is consistently rated among the highest in the country.

There is an old adage that passionate people delivering great service will drive great financial outcomes and this has certainly proven to be once again correct.

A full breakdown of our financial performance against all key metrics is available on our webpage, where our CFO and I present a video on the 2021/22 results. I encourage you to have a look at that, but I'd like to go through some of those highlights now.

As the CEO, I am extremely proud of the results that our team delivered, against the backdrop of the various challenges thrown up during the pandemic, both social and economic. Coming off a period of long-term low interest rates we are now moving into a rising interest rate market fueled by past fiscal stimulus that has created global inflationary pressure that has been absent from the market for some time. As the Chairman noted, we are facing quite a different set of challenges than this time last year.

Notwithstanding these issues, the Bank produced solid and well-rounded results for the year, striving to balance the needs of both of our lending and deposit members.

We recorded a pre-tax profit of \$58.1 million compared to \$64.4 million in the prior year with an after-tax profit of \$40.539 million, down 9.5% from the previous year's record figure.

This year's results do include some one-off items of approximately \$3 million relating to our proposed merger with People's Choice and when these are taken into account the underlying profit was only down 5.1% from previous years.

We achieved a record \$2.857 billion in home loan approvals in 2021/22, up around 16% on the previous year. That included an uplift in loans coming through the mortgage broker channel, which were up more than 40% which compensated for lower activity through our branch networks, principally due to pandemic restrictions.

Lending growth was \$436 million at approximately 5% compared to \$263 million at 3% for the prior period. Growth was somewhat contained by the accelerated repayment of loans driven by lower rates and surplus cash holdings of members whose spending patterns had been impacted by the

pandemic. We expect to see this slow in a rising interest rate environment coupled with increased cost of living pressures; however, at this stage we see no impact to the quality of our loan book.

In fact, our mortgage loans arrears rate greater than 30 days at just 0.23% at year's end, which is extremely low by industry standards.

Retail deposits continued their strong growth trajectory and grew by \$450 million to reach \$9.833 billion as we sort to provide competitive returns in a low interest rate environment. Importantly our deposit mix remains strong with retail deposits accounting for 86% of our funding mix.

Strong growth across all of the business helped push our total consolidated assets to a record \$12.324 billion at year's end, up 3.2% from the \$11.9 billion recorded for the prior year.

We continue to pursue strong capital management as we balance the outcomes for all members together with the management of our capital investment programs. Our capital adequacy ratio again improved from 14.28% to 14.62% While our liquidity ratio remained high, we have been more active in managing this down from the higher levels held during COVID periods. Liquidity was 18.99% compared to 24.30% in the prior period and heading back toward our target ranges.

Overall, our performance was very strong, moderating slightly from the record levels of the previous year, but remaining at a high standard. They have been delivered in a tight labour market with the rising cost of wages and the ongoing investment required for digital transformation and branch network expansion. Importantly they have also been delivered while planning for a significant merger without being distracted from our core business.

We have maintained our long history of sound financial stewardship, and the bank continues to be very well positioned with a strong balance sheet and capital position as it prepares for the proposed merger with People's Choice.

Before I finish with the numbers, I'd like to outline one more set, which demonstrates one of the core benefits of the mutual banking model.

Each year we have CANSTAR do an independent analysis to compare how much better off our members are by banking with us rather than with one of the big banks.

In 2021/22, that figure was **more than \$93 million** – a benefit of more than \$58 million on lending products, and more than \$34 million on deposit products.

They are pretty amazing numbers and demonstrate the mutual difference in action, providing tangible financial benefits to members, in addition to great service and commitment to our communities.

That focus on the interests of members is what makes the customer-owned banking model such a great alternative.

The problem has been that not enough people in Australia really understand the mutual sector and the value that the customer-owned model provides.

I believe our proposed merger with People's Choice can help turn that around.

We have the chance to create a \$23 billion national, mutual bank that can offer a true customer-owned alternative to the big listed banks.

We would have a branch footprint covering most of Australia, with 95 retail sites, 720,000 customers and over 1,800 staff.

And all of that with a Head Office in Toowoomba.

Best of all, our business has a single purpose of serving the needs of those 720,000 customers.

The people of Australia deserve a strong and viable alternative to the big bank model.

We don't want the big four to get bigger at the expense of everyone else.

Our merger proposal is not just good for our members and our future as Heritage, but also for the future of choice in the banking sector as a whole.

I also want to echo Kerry's comments on why People's Choice is the perfect fit for us.

I am absolutely sure that coming together with People's Choice will not change the essence of Heritage and what makes us special. In fact, I believe it will help us deliver even more for members and for the community.

People's Choice are remarkably similar to us, not just in size but also in their philosophy and people-first approach.

The reality is that growing our size and scale will be increasingly important in future.

And when you look at possible merger partners, People's Choice is the standout. Merging with them simply makes sense.

This is the next logical step in our evolution, just as the decision for Toowoomba Permanent and Darling Downs Permanent to merge back in 1982 was the right move back then.

That decision created what is now Heritage Bank and paved the way to the success that we enjoy today.

I'm sure that moving forward in partnership with People's Choice now is the right decision for us to enjoy continued success in the future.

I'd now like to talk about a number of other notable achievements and initiatives at Heritage in the 2021/22 year.

One of the defining features of the mutual banking model is its commitment to prioritising the needs of members and community, not maximising profits to benefit shareholders.

That's why an increasing area of focus for Heritage in 2021/22 was on doing more to protect our members from fraud and scams, particularly those members in vulnerable situations.

Fraudsters continue to devise a range of scams that can catch people out and put their savings at risk. We have set up a special team at Heritage that acts to stop fraud happening in the first place, with

improved real-time monitoring technology in place and increased vigilance around loss prevention.

We are also placing much more emphasis on educating members about scam risks, through all our communication channels, with special emphasis on helping members who are more vulnerable to these activities.

Another issue of increasing importance is our approach to environmental, social and governance factors. Acting responsibly and ethically has always been inherent in our activities, but members now expect us to be more transparent on our actions in response to issues such as climate change, and diversity and inclusiveness.

In 2021/22 we took another step forward in our sustainability journey by appointing our first-ever Manager ESG and Sustainability, to focus and improve our actions in this area. Our Head Office is now run 100% on renewable energy, we are moving toward becoming carbon neutral and gaining our Climate Active certification.

Heritage continued to maintain our position as a leader in the Australian payments sector, especially in virtual and pre-paid cards. In fact, Heritage is the market leader within the pre-paid card sector in Australia, maintaining business relationships with iconic national companies including Qantas. In 2021/22, we announced a new partnership with global branded payments leader Blackhawk Network to support its extensive gift card portfolio in Australia. In addition, we have developed digital pre-paid solutions supporting market-leading global participants in the Buy Now Pay Later sector.

We maintained our strong commitment to the community in 2021/22. I'm pleased to say the Heritage Bank Charitable Foundation has gone from strength to strength, handing out more than \$260,000 in grants during the year, and creating three new sub-funds under its umbrella. Heritage Bank donated an additional \$1 million to the Charitable Foundation in 2021/22, to accelerate the capacity of our philanthropic partner to help people in need in our community.

The Heritage Bank Charity Golf Day reached a remarkable milestone in 2021/22, surpassing the \$1million mark in total funds raised in its 24-year history. That's an amazing result for this event, which is organised and run by a group of staff volunteers.

Heritage continues to provide support to members of the migrant and refugee community, particularly in our efforts to help improve financial literacy. Our Community Liaison Member Growth Officers combine 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 and seek to improve overall financial literacy in these communities.

Our commitment to our people also continued in 2021/22. We consolidated our Brisbane office presence into a prime riverfront location at Eagle Street in the Brisbane CBD, next to the historic Customs House. The new location achieves cost savings and provides a larger, united office space for our teams in Brisbane. The tenancy has also been fitted out to cater for a post-COVID hybrid working model.

This year Heritage became the first banking institution in Australia to provide all team members with free access to mental health and wellbeing platform Unmind. Unmind is a cultural change platform accessed via an

app that features expert tools that take a whole-person, whole-organisation approach to mental health and wellbeing.

These are just a few of the initiatives we have in place and full details are outlined in our Member Report.

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 again acknowledge that none of what we have achieved would be possible without the dedication of our people.

It's my honour and privilege to lead this organisation, which does so much for its members, its people and its communities.

Over the past 147 years we have built something special, and as custodian of that legacy, I look forward to helping ensure we can keep meeting the needs of members for another 147 years at least.

Thank you.

Peter Lock
Chief Executive Officer