

**CEO'S SPEECH**  
**Annual General Meeting**  
**18 October 2017**

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

This is an exciting time for Heritage Bank, and I'm pleased to be sharing our latest results with you today.

We've been in the business of helping people achieve their financial goals for 142 years now, but in that time we've never faced a period of such rapid and comprehensive change in the banking industry. There is an unprecedented amount of political posturing and an increased level of regulation that is now being directed toward the banking sector – some of this is welcomed; however, some of the proposals we consider ill-fitting to the customer owned banking sector. The Chairman has mentioned some of these and while the consultation process (or lack thereof) can be a little frustrating, we continue to engage with government to ensure the customer owned model is understood and correctly treated.

On top of this, innovation and digital transformation is revolutionising our industry.

There is little doubt that the advance of digital technologies is quickly transforming the way people do their banking. We see this in the drop in our transaction numbers through the use of our branch network and ATMs, as our customers transition through to our apps and the use of new innovations in wearable technologies such as our new HOVA.

Adapting to this new landscape is a huge challenge, but it's one that also opens up huge opportunities for Heritage.

To meet that challenge, and leverage those opportunities, we need to remain financially strong.

As a customer owned financial institution, we rely on the profits we make to provide capital to invest in growing our business.

That means our goals are not restricted to providing great service, products and pricing to customers; it also means running a Bank that is strong and profitable.

Achieving that balance, and generating a modest level of profit, is the only way we can meet the challenges of the investment that is required for the new digital era.

One of our main four goals is to create a Bank to be proud of. This means that we concentrate on creating owner value, and we demonstrate this in many ways. It means building a strong and well capitalised balance sheet, and consistently delivering through sustainable profits that underpin that strength. It means recognising and nurturing our relationships with the communities in which we operate, our suppliers, our customers, our staff and our regulators. We see our role as custodians of the Bank – it's our job to ensure we continue to build on these qualities and foundations, and pass on to the next generations an even stronger Bank.

This can only happen if we have a clear strategy and direction, with a focus on performance and execution of key priorities. I'm pleased to report that our financial performance in 2016/17 delivered against these priorities with extremely solid performance across all of our key metrics. In many

cases, this was a record year for our Bank, and it tells a great story about the strength of our brand and the capability of our workforce to deliver on our goals.

Since late 2015, we have been on a deliberate growth trajectory, looking to build our assets through our lending, our retail deposits and of course our customer numbers. In 2016/17, we certainly did that.

Another of our four goals is to attract and grow new customers to our Bank. New customers underpin our future strength and this year saw us achieve a 2.76% growth in customer numbers. All our customers are important, but it's the clients that consider Heritage as their Bank that are the most important. These customers are better connected with us, they probably recognise that we share common values and connections with our communities, and they understand that we are different from the big banks. We know these clients do more business with us. We call these customers "My Bank" customers and we have grown this base 3.9% this year.

Gaining more "My Bank" clients ultimately improves the Bank's position and will strengthen the foundations of our Bank. This strategy is already showing financial results.

For 2016/17 our pre-tax profit was up 10% to \$56.31 million, a record for us and well up from our previous high of \$51.1m in 2015/16. Likewise our after-tax profit was up 9.6% to \$39.6 million also a record up from last years \$36.1 million.

This year's profit was boosted by the successful sale of our financial planning business, one of our structural changes implemented during the year; however, adjusting for the sale still results in our underlying profit showing a 3.3% increase year on year.

This result was driven by an increase in our retail deposits by \$978 million to reach \$6.13 billion, representing 19% growth in the 12-month period. This reflects the strength and power of our 60 strong branch network and our refocused efforts on meeting customers' needs.

The growth in our deposit base helped underpin our strong lending growth. For 2016/17, our loan approvals were up 34.3% on the previous year to reach \$2.391 billion.

This level of growth saw our total consolidated assets increase by 11.1% to reach \$9.379 billion at the end of the year, up from \$8.441 billion in 2016.

So, this means that in the early months of 2017, we surpassed the milestone of \$9 billion in assets.

This level of asset growth was around two-and-a-half time's system growth. This was an outstanding achievement from our teams, in a highly competitive environment, driven by increased discipline and focus in the separate channels of digital, branches and broker distribution.

These results were not driven through discount pricing – our net interest margin remained steady year on year. Likewise, there has been no change to our credit settings or risk appetite. We are simply concentrating on becoming easier to do business with. We are looking at improving our service and hence our volumes by removing unnecessary friction in our lending process, not through a lessening of our credit criteria.

This is demonstrated through our mortgage loan arrears; arrears greater than 30 days was just 0.32% at 30 June 2017. This remains well below industry standards, in fact we sit at one third of the industry average, which illustrates the continued strength of our loan book and the robustness of our credit practices.

We have had an extremely successful year, which all of our members should be proud of, and this result consolidates our position as Australia's largest Customer Owned Bank.

Both the Chairman and I have spoken about the transformation journey that we are undertaking, to ensure we remain a Bank that is relevant and responsive to the changing needs of our customers.

We have called our goal "Destination Best Bank".

To get there, we are going through three phases. The first is called Better Bank, and it's the one we are completing at the moment. This phase is about setting up the fundamentals of our transformation from a physical Bank with a digital presence, to become more of a digital Bank with a physical presence. It's about planning how we will change, and setting up the organisational structure we need in this new environment.

The second phase; Even Better Bank, sees the start of investment in new systems and infrastructure. We have now commenced this phase and already we are seeing some amazing results, for example, transforming mundane manual tasks through the use of robotics and freeing up our teams to concentrate on other value added tasks. We have identified over

100 areas where we can eliminate poor processes and speed up our delivery to provide a better customer experience. In the process, we are teaching our teams new skills and reweighting our focus toward the customer experience rather than our internal systems.

The final phase in the program is Destination Best Bank, when our transformation into the digitally-based Bank of the future takes shape. We recognise this journey is continuous, I don't think we will ever say it's complete because our customers' needs will continue to evolve and so must we.

I do want to emphasise though, that through this journey, the fundamentals of our People first philosophy won't change. We remain absolutely committed to giving our customers the best banking experience we can, but this transformation is essential for us to provide the People first experience in a digital context.

In short, if we don't evolve, we will be left behind! - What we won't do however; is leave our customers behind.



We recognise that not everything has to be digital and we have many customers who choose us because of our more traditional approach. This isn't changing and in fact is enshrined in another of our goals; building and maintaining our existing clients. We like to think of this goal as reflecting our value of respect. We're not a Bank that's fascinated by shiny new things at the expense of our existing clients. Branches remain core to our business and we continue this investment, transforming a further 12 branches into our new format last year, and we continue to look at new sites and new geographies as part of our ongoing growth agenda.

It's an exciting time for Heritage and we have a team that's up to the challenge of change. We made significant changes to our Senior Executive team during this period, welcoming Mr Darren Stephens as Chief People Officer, Mr Wayne Marchant as Chief Information Officer, and Mr Kevin Potter as Chief Operating Officer. In August we also appointed Mr Chris Watts to the role of Head of Credit Operations.

These are all high-calibre executives with a depth of industry and banking experience across the majors, regionals and the publicly listed sector and they are all bringing fresh perspectives and different approaches to their roles. Renewal within our Senior Executive team is important for us in moving along our transformational journey as is the continual training and

development of our teams. This supports our fourth strategic goal of attracting and growing passionate people.

I spoke earlier of some of the structural changes we have made to our operations this year. We have taken a strategic decision to focus more clearly on the key elements of our retail banking business.

At last year's AGM we announced our decision to close all but three of the remaining mini branch agencies that we had in southern Queensland. This was a difficult decision but we believe it was performed with respect and importantly we ensured all of our clients had alternate banking arrangements available to them.

We also made the decision to sell our financial planning business to Bridges Financial Services. We have had a long association with Bridges having previously run a referral model through them prior to us building our own Wealth business. Looking forward, we saw a more complex regulatory environment evolving in this business line, coupled with the difficulty of building scale to complement our core business growth plans. The sale was a successful and largely seamless transition for our staff and customers. The sale was completed in December 2016 and the subsequent reversion of our relationship back to a referral business has gone smoothly.

During the period, we also took the decision to shut down Heritage Training Services, a business we had set up to provide external training services to the market. This business was not delivering on its original business plan and we believed our resources were better deployed to concentrate on our core business.

We also reviewed our broker business and took the decision to centralise our three mortgage processing teams in Sydney, Melbourne and Brisbane into one team in our Brisbane office. This means we have experienced staff in the one location processing loans from across Australia. We are now in the process of implementing new technology to improve our overall service proposition in this channel.

This change is only part of a package of improvements we have implemented to support our mortgage broker partners.

We have a long history; twenty years in the broker market and we recognise that brokers play an important role for us in achieving our national growth ambitions.

All of these decisions were essential to our ongoing evolution as a modern, sustainable and strong financial institution.

I'd like to talk briefly about innovation.

Heritage may not have the deep pockets or the scale of the major banks, but what we do have in our favour is agility, innovation and energy.

A great example of this attitude is our wearable payment band HOVA, which we have just launched to the market.

HOVA works via an embedded card chip that allows you to authorise transactions just by swiping the band across a contactless payment terminal.

What's unique about HOVA is that it's the first wearable payment device in Australia to link directly to a user's transaction account. Unlike other wearables that link to a reloadable card, you don't need to continually transfer money to the HOVA to continue to enjoy it.

I love the HOVA and it turns heads wherever it's used. We've beaten all the other banks to the punch with a unique product that we've developed and launched ourselves in a really short space of time.

During the year we also launched a new Family Guarantee loan to meet growing demand for a loan structure that enables parents to help their children into the property market. The Family Guarantee allows parents to use the equity they have in their own home as security to help their children take out a home loan. It works by splitting the total amount across two loans – one loan secured by the property being purchased, and the second loan partially secured by the parents' property as guarantors. It's an innovative solution to a growing customer need and it's been really well received.

These are just a couple of examples of the innovation that Heritage is known for, and we will continue to ensure it remains part of our Bank in the future.

In closing, I would like to congratulate our teams for their commitment to our customers and this organisation. I would like to thank the Senior Executive team, and the Board of Directors, for their leadership and support. And I would also like to thank our customers for continuing to place their trust in Heritage Bank to be the custodian of their financial affairs.

This is a truly exciting time for Heritage Bank as we build on our achievements of the last 142 years to forge a new model of success for the future.

Thank you.

Peter Lock

CEO