



## CHIEF EXECUTIVE OFFICER'S SPEECH Annual General Meeting, 23 October 2013

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 2013 Annual General Meeting.

I'd like to start off by reviewing just what sets Heritage Bank apart.

At Heritage we are 100% customer-owned and customer-focussed.

Every decision we make is about what's in the best interests of our customers. We strive to always keep that in mind. We're not in the home loan business or the term deposit business. We're in the business of helping our customers make their dreams come true.

Take the Scholl family from Aratula.

They live on a farm that's been in the family for five generations, but their old homestead had become rundown and uncomfortable for their four young children.

The husband had always dreamt of building a new home on the top block of the farm with magnificent views toward Cunningham's Gap.

But every bank they went to knocked their loan request back, and they'd just about given up hope. Then they talked to Heritage.

With a lot of work from both sides, we pulled together a business loan and a home loan package that enabled them to build their dream home as well as simplify their business finances.

That was around 12 months ago. The family is now about to move in to their new house and couldn't be happier.

That family is exactly why Heritage exists and why our People first approach sets us apart.

To be able to help dreams come true for our customers, Heritage has to remain strong and stable. We have delivered on that goal in financial terms by delivering a before tax profit of \$52.96 million in 2012/13, an increase of 19.4% over the previous year and our 14<sup>th</sup> consecutive record pre-tax profit.

That profit included a couple of one-off items but still represented an underlying increase of 12.6%.

Our other financial measures demonstrate the ongoing strength of our performance and the prudent approach that has typified Heritage's 138-year history.

We have grown our consolidated assets by 3.5% to \$8.51 billion. We have grown our retail deposits by \$336 million to \$4.37 billion which is an increase of 8.3% over balances as at 30 June 2012. Total loan approvals were \$1.34 billion. This was down 6.7% on the previous year but was a deliberate slowing to ensure we could meet our prudential requirements.

Discipline has been a crucial element in navigating our course. That discipline has resulted in cost management metrics that shored up the financial performance, with our cost-to-income ratio dropping from 70.7% to 68.6%.

These results are excellent, but the real benefit of our continuing financial strength is what it means for our customers. As a mutual, we are custodians of our customer's savings and our job is to manage their investments carefully. We not only provide great products, pricing and service, but we have built a valuable brand and a successful business that all our customers should be proud of.

As a mutual, we take a very responsible approach. Nothing illustrates that better than our 30-day mortgage loan arrears, which was just 0.31% of the portfolio at year's end. That's about one-third the industry average. We achieve that because we are at pains to ensure our customers do not over-extend themselves financially, and we work very closely with them if unexpected circumstances do create issues.

As CEO, I am incredibly proud of how well we deliver on our *People first* promise to our customers. Our Roy Morgan MFI customer satisfaction score at June 2013 was 90%, after a number of months where that rating had dipped and fluctuated. It says something about Heritage and our high standards that even a 90% satisfaction rating from our customers was still an area where we could

see room for improvement. We have a very high customer advocacy rate, with our customers extremely likely to recommend us to family and friends.

Our Chairman spoke earlier about the challenges ahead and the forces that are reshaping the banking environment. Access to full-service branches is important to Heritage and to our customers. Yet, at the same time, it's also true that on-line technologies are radically transforming the way people carry out their banking transactions. In fact, the number of transactions taking place via mobile devices is already higher than take place in our branches. So we are continuing to review our mix of banking channels to make sure we put our resources toward the channels that people need and use most.

During the year we took the difficult decision to close a number of mini branches that were situated in close proximity to full-service branches, including seven in Toowoomba. We understand that this was unpopular with some customers. However, the reality is that Heritage must continually evolve our mix of channels to meet changing customer needs and to remain relevant. We have to invest in our ever-changing voice and virtual channels as customers of all ages demand more in these areas. While the mini branch concept served us well in Toowoomba in the past, it's simply not viable going forward. We believe that the full service branch will remain our predominant face-to-face channel. Our branches are built and staffed to satisfy more of our customers' needs. While Heritage is sensitive to the impact that such difficult decisions have, we consider that it was the right thing to do in the context of building a set of sustainable and effective channels to serve our customers best.

We continue to expand the options for customers to do their business via the on-line channels. We implemented on-line account opening for customers who may not be able to easily get to a Heritage branch. We introduced SMS messaging to help our customers better manage their loan accounts. We also released new banking apps for Android and Apple mobile devices. We are putting more resources toward our Facebook page and we've expanded our efforts in a number of other social media channels to keep our customers informed.

At the same time, we have maintained customer access to more than 2900 ATMs Australia wide through our arrangement with the Westpac ATM network.

Our mortgage broker channel remains an important source of mortgage loans from diverse areas of Australia. We expanded our mortgage broker network nationwide at the start of 2012 and this

channel continues to grow in importance. Around 50% of our home loans now originate from mortgage brokers, so our future growth in customers and the banking products that they require are tied to this channel.

Also important to our future is maintaining the fantastic customer experience that makes us different from our competitors. That's always been a key ingredient in our customer proposition. We have sharpened our focus in this area with a number of initiatives. We recently established a new Customer Experience Committee with representatives from across the organisation. This Committee will review all feedback from customers and look for ways to improve their experience. We have also established a Business Process Management team, whose role is to identify and improve processes that affect the customer experience. In particular, we have also been doing an end-to-end review of our credit processes, looking for ways to save time and reduce paperwork for customers. We are now about to undertake a review of our personal loans process, again with the aim of making it quicker, simpler and easier for customers to do business with us. These initiatives reinforce our absolute commitment to customer service.

Along with that customer commitment also comes our focus on community. That's one of our core values. We understand that it's not just the financial products we offer customers that can make a difference to their lives. It's also the prosperity and sustainability of their communities. We actively seek out ways that we can make a positive difference and support the key events and activities that are important to those communities. We currently sponsor almost 40 events corporately and a further 65 through our branch network. We also operate seven community branch outlets as joint-ventures with people from local communities. These community branches have collectively put almost \$25 million back into their communities via community funding grants, wages and payments for other services.

As we look to the future, there will be another constant – our focus on the *People first* culture that we have built at Heritage. As a leadership team, we nurture that culture, but it's really up to our 800 staff members to bring that culture alive. I'm happy to say that we have an absolutely committed workforce that has taken ownership of that culture. Each year we do an organisational effectiveness survey of staff to gain feedback on a range of indicators. In 2013, we had a 94% participation rate in the voluntary survey. Of the 23 criteria, our staff rated Heritage as above world class in 15. That included things like teamwork, cohesion, communication, flexibility, and employer of choice. Overall 22 of the 23 criteria had scores that make them an organisational strength. That

result gives me great pride and great confidence that Heritage will continue to deliver *People first* outcomes for our customers, our staff and our communities.

In closing I would like to acknowledge the support of the highly experienced executive team that I work with and the professional guidance and governance of our Board.

Heritage continues to have a very strong future because we base our organisation on strong values, a strong culture and a strong commitment to the best interests of our customers.