



## **CHAIRMAN'S SPEECH – KERRY BETROS**

### **Annual General Meeting**

**17 October 2018**

Good afternoon and welcome to the Heritage Bank AGM for 2018.

It is my honour on behalf of the Board to again have the opportunity to report to members on the achievements of Heritage Bank and our future prospects.

There is little doubt that this has been a challenging year for the banking sector in general. All of us have been shocked by the revelations stemming from the Royal Commission and the levels of fines and enforceable undertakings that have been levied against some of the biggest and most trusted financial brands in the country.

Our sector has been thrust into greater prominence in recent times, not only through the Royal Commission but also through numerous Government and regulatory inquiries. All of these impose additional cost, burden and impact on participants and ultimately customers. Unfortunately, for many Australians, this has begun to erode their trust in the listed financial services sector.

The banking sector runs on trust and it will no doubt take time for those institutions to regain that trust. It is clear from findings to date, that profit first motives had replaced acting in the best interest of the customer. A focus on short term financial performance outcomes has been shown to drive a completely different set of outcomes for those firms and consequently their customers.

While Heritage is of course part of Australia's banking industry, we do operate an entirely different model to that of listed institutions. Never has there been a more stark demonstration of what that difference is. Our long term motto – "People first" explains this perfectly. People before profit, community before profit, staff before profit. These are the platforms that Heritage bases our business on.

Make no mistake, we are a for profit enterprise, but our profit goes back to building a business we can all be proud of. A pride that is built on knowing that we do the right thing; on providing competitive and innovative products and services that enable our customers to achieve their ambitions, no matter how modest those ambitions may be. And, a pride in knowing we support our communities and provide career opportunities for over 800 Australians.

I am immensely proud of our Bank and the Mutual model under which it operates. We have a strong Bank that continues to deliver improved performance and outstanding value for our members.

From our origins here in Toowoomba in 1875, Heritage is now Australia's largest customer-owned bank with 60 branches in Queensland, broker distribution staff in Brisbane, Sydney, and Melbourne, approximately \$9.5 billion in assets, and around 800 staff.

We've achieved all that headquartered right here in Toowoomba and we have no plans to leave.

Nor do we have any plans to change our customer-owned status that has served us well for the last 143 years and has proven to be a model of banking that meets community expectations – a model that does truly differentiate us from the listed banks.

Our future is bright. We are a genuine alternative to the listed banks; equally as strong and secure, but forged from a business model that is much more focussed on the best interests of the customer.

So while the benefits of the customer-owned model have been proven, we now need to work hard to ensure its foundations are not undermined by a rush of regulatory zeal that takes a one size fits all approach to all banks and financial service providers, when a more measured and proportional response is best required.

For many years, the mutual sector has been calling on the Federal Government to take proactive steps to address the market dominance of the big four and create a more level playing field for smaller competitors such as Heritage.

The simple fact has been that the big four have enjoyed systemic advantages, such as their "too big to fail" status with investors and their more generous credit risk weighting measures.

It's heartening to see that steps are now being taken to recognise and address those barriers to more effective competition.

The most prominent of those steps has of course been the Royal Commission into the Banking Sector, which delivered its interim report late last month with the final report due in February next year.

Now that the shortcomings of the profit maximisation model have been exposed, people's eyes are opening to the benefits of the customer-owned model.

But there have also been other changes that should strengthen the Mutual sector. Earlier this month, the Federal Government introduced draft legislation that will bring into effect the recommendations of the Hammond Review into Reforms for Cooperatives, Mutuals and Member-owned Firms.

The Review has recommended a number of reforms that will improve the ability of customer-owned institutions to raise capital without demutualising.

The inability of Mutuals to raise equity has hamstrung our growth ambitions in the past. We have had to rely on retained earnings as our only source of capital, which has constrained our ability to raise large amounts to fund expansion and capital investment.

The legislative changes now being introduced will provide more options for us to invest for the changes required in a rapidly changing market, without sacrificing our mutual ethos.

In addition to the Hammond review, the Productivity Commission inquiry into Competition in the Australian Financial System has also clearly identified barriers to effective competition. The inquiry has found that regulatory agencies have favoured stability in the system at the expense of competition, and that the big banks have the ability to exercise market dominance at the expense of customers and consumers.

Importantly, we are not waiting to see what regulatory reforms fall out of these inquiries. As Australia's largest Mutual Bank we are actively engaged in ensuring our politicians, law makers and regulators know and understand our sector, the difference of our model to listed banks and the advantage we offer to our members, our staff and our communities.

While we are optimistic that the reforms will be positive for our sector, we are confident that Heritage has the operating model and strength of balance sheet to take advantage of any proposed changes.

Heritage offers both great financial value and a satisfying banking experience for our customers. Once again, independent analysis from research company Canstar found that Heritage customers were more than \$68 million a year better off in 2017/18 through banking with us rather than one of the big four banks.

In fact, over the last five financial years, according to Canstar, Heritage customers have received a total additional benefit of \$261 million by banking with us, rather than with one of the big four banks.

That's a compelling demonstration of the financial value that banking with a customer-owned institution delivers.

But it's not just about financial value. It's about providing a rewarding and satisfying banking experience as a whole. I'm proud that Heritage continues to deliver in that way as well. Our success in doing so can be gauged through the external awards and recognition that we received in the 2017/18 year.

We can all be particularly proud that Heritage scored the highest customer satisfaction rating in Australia in international analyst JD Power's Australian Retail Banking Satisfaction Survey in December last year.

It's the second year in a row that we have won the award.

In August, we also scored the highest customer satisfaction rating of any financial institution in the country in the monthly Roy Morgan Research survey.

That was the third time this year that we had topped the national results.

It's extremely gratifying that the efforts we put into cultivating a culture of service to our customers has made a difference.

Heritage's people first philosophy is more than a slogan, it's a way of operating that drives everything we do.

We are proud of our strong commitment to customer and community engagement, but the ability to do so relies on the strong financial performance of the Bank, and so I am pleased to be able to report that we have again delivered a very successful result.

We have announced a record profit result in 2017/18, with growth in our overall loan portfolio, our net interest margin, our retail deposits, our total assets, and in the capital that underpins our Bank.

Our CEO will provide more detail on our financial results shortly but suffice to say our Bank is in great shape. As I said, Heritage is profit-making but not profit-maximising. We put people ahead of profits, but I want to emphasise that operating profitably is an essential ingredient of our ongoing success

We need to be profitable to generate the capital we need to support our lending and to fund investments in improving our business.

I have spoken previously about the journey we are currently on to transform into a digital bank with a physical presence. Doing so requires a significant investment in technology and process improvements. This enables us to provide customers with great mobile apps, access to the NPP system and access to digital wallets to name a few examples.

To illustrate my point, we spent almost \$25 million in capital expenditure in 2017/18, much of it technology related. That was up from \$18 million the previous year, and \$10 million the year before that. Funding that level of investment requires strong financials and a healthy profit.

I am delighted that we have been able to achieve these outcomes and are continuing to grow our Bank without sacrificing our people first approach and our level of customer satisfaction. Which brings me to a special announcement:

Throughout our 143-year history, Heritage Bank has prided itself on giving back to the community in many different ways.

That's been a key part of the People first philosophy that makes us different.

We've now decided to take our community and charitable support activities to another level.

I am proud to announce what I'm sure will become a defining moment in our history - the launch of the Heritage Bank Charitable Foundation.

The Charitable Foundation will be the philanthropic arm of Heritage Bank.

It will be a standalone organisation that provides grants to worthy charitable organisations that are working to improve wellbeing and life outcomes for communities across Australia.

Heritage Bank is contributing \$2 million in seed funding in 2018/19 to establish the Foundation, and our intention is to make regular contributions in future years.

The Foundation will be a tangible mechanism through which we continue to build on the lasting legacy we have already created in the community. Importantly, the work of the Foundation is in addition to the existing and future community and sponsorship support the Bank provides.

The Foundation will be established as a Public Ancillary Trust, with its own Board, initially with five directors.

The Chairman will be the current Heritage Bank Company Secretary Mr Bill Armagnacq, and the Foundation's Board will also include Heritage's Chief Financial Officer Paul Williams and current Heritage Director Steve Davis. The other two Board members are yet to be appointed.

We're currently finalising the logistical and legal arrangements for the Foundation so it is not yet up and running. That means we're not yet ready to accept applications for grants and we do not have a date when the first grants will be given out.

When it is operational, the Foundation will be able to accept tax-deductible donations from members of the public.

We know just how generous our customers and our communities are, and we anticipate they will want to put their support behind the Foundation's activities as well.

That gives us scope to harness the goodwill of others in the community to support worthy causes in an even more meaningful way.

The Heritage Bank Charitable Foundation will embody our "People first" philosophy and make a positive contribution to the world we live in.

I am immensely proud to be the Chairman of Heritage Bank and the launch of the Charitable Foundation is one of my proudest moments in this role.

Finally, I must thank and congratulate our CEO and Senior Executives and all our staff. They are the ones who live our culture and bring to life our vision of being passionate about helping people, and are committed to delivering a great customer experience every time.

I also thank my Board colleagues for their support and commitment over the year.

It is an honour to be Chairman of this Bank, and to represent our customers, both past and present, who have helped make Heritage the successful and respected Bank it is today.

We look forward to continuing growth and success.

Thank you.  
Kerry Betros  
Chairman of Directors