

CEO'S SPEECH – PETER LOCK

Annual General Meeting

30 October 2019

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

Heritage Bank once again recorded strong financial results in 2018/19, while continuing the ongoing transformation process that is reshaping our Bank to better meet the needs of our members. We've invested heavily in recent years in laying the foundations for our transformation, particularly in our technology areas. We're now building on those foundations to continue our evolution across all other aspects of our operations.

It is essential that Heritage remains financially strong to continue this transformation process, and I'm pleased to say that we have done so in 2018/19. As the Chairman noted earlier, this year, we passed the milestone of \$10 billion in total consolidated assets ending the financial year with assets of \$10.088 billion, up 5.9% on the previous year. Reaching that milestone consolidates our position as the largest customer-owned Bank in Australia and reinforces our ongoing strength and growth.

2018/19 presented a challenging and difficult operating environment. Pleasingly, we have recorded a solid profit result for our members while accelerating the investment in our ongoing transformation. Our after tax profit of \$43.28 million was 3.9% lower than the record profit achieved in the previous year. Similarly, our pre-tax profit of \$61.71 million was also 3.9% lower than the record \$64.21 million for 2017/18.

These are strong numbers, and pleasingly the growth we achieved across the majority of our key performance metrics was significantly improved compared to the previous year, despite the subdued operating market.

Loan approvals totalled \$1.880 billion in 2018/19, up 8.3% on the \$1.736 billion achieved the previous year. Our loan book grew by \$396.15 million in the year, a 109.8% uplift on the \$188.80 million recorded in the prior period. This represented a return to budgeted loan volumes with growth exceeding the system average.

Our retail deposits grew by \$364 million to reach \$6.938 billion as at 30 June 2019, a 5.5% increase, again exceeding the system average. In addition, we grew our customer numbers by approximately 1.8%.

We also lifted our capital adequacy ratio to 14.42% as at 30 June, up from 14.11% and we increased our liquidity ratio to 15.50% from 14.74%.

These are an excellent set of results, strengthening the key financial foundations of our Bank, and importantly and pleasingly achieved despite the considerable headwinds facing the banking industry.

The falling interest rate market saw us dealing with the lowest interest rates in history, a challenge that is continuing now and is likely to do so for some time. This was coupled with sharp falls in household property prices in Sydney and Melbourne, including a rapidly deteriorating apartment market, a generally flat economic performance across the country, the uncertainty of a Federal election, falling consumer confidence and the effects of a long reaching drought.

In addition, we faced an array of new regulation and compliance both actual and draft as the ramifications of the Royal Commission began to play out. Regardless of the intent of these

regulatory and legislative proposals, they have mainly, been drafted with a one-size-fits-all approach that fails to address or acknowledge the difference between the listed banking sector and the mutual customer-owned sector. A great deal of time and energy has been and continues to be, devoted to ensuring our sector is not disadvantaged and that proportionate regulation is considered to encourage a level playing field. This has been captured in our Customer Owned Banking Association's campaign of "more than four", reminding our regulators and politicians that there are more than four million people who choose customer-owned banks and more than four banks to consider when drafting any changes to regulation and banking laws.

As the country's largest mutual Bank, we have an active role to play in this debate. So against this backdrop we are extremely proud of producing such strong results and that we continue doing so while maintaining our high levels of customer service and satisfaction.

As a customer-owned Bank, our focus is always on the best interests of our members, not solely on maximising profits. Make no mistake, being profitable is important for our long-term sustainability and development, and our profit is the cornerstone of our capital. However, the difference between us and the big banks is that all our profits stay with us, invested back into the business, to help improve our technology, products, services and staff skills, so we can deliver an even better banking experience for our members. We don't have the conflicted model of shareholders and customers – our customers are our owners – that's the customer-owned advantage.

I spoke earlier about the transformation process that is underway at Heritage, particularly in our use of technology. To help us achieve that evolution, we have established a new Transformation Office, with responsibility for driving the key projects at Heritage that will transform the way we operate.

Our Chief People Officer Darren Stephens, has been seconded into the temporary role of Chief Transformation Officer, while Margo Dewar has been promoted to fill Darren's substantive role. The Transformation Office will help us accelerate progress on those key projects that will have

the most impact on reshaping our business, creating more efficient and quicker processes and making us easier to do business with.

We must continue to place more emphasis on adopting and applying new technologies in our business. This is a multi-faceted process. It involves investing in our website, our banking apps and our online banking capabilities, particularly for transactional activities. In addition, it involves a complete revision of our core banking platform and IT capabilities as we prepare for the new age of technology and banking systems. We know people increasingly want to carry out their everyday transactions quickly and simply from the convenience of their mobile phone and enjoy a customised and seamless experience across every channel they chose when they are interacting with us. We have to make it easy for them to do so.

We also work together with third-party providers to ensure we keep pace with technology changes occurring externally. That's why this year we have introduced a range of digital wallet services that allow members to make purchases at contactless payment terminals using their compatible smartphone or wearable device. This included Google Pay, Samsung Pay, Fitbit Pay and Garmin Pay.

We also introduced the ability for our customers to create a PayID and send or receive money in real time via the New Payments Platform (NPP). We are working to introduce even more digital wallet services in 2019/20.

I spoke of digital technology being essential in making our processes more efficient, to deliver a better experience for our customers. This financial year we conducted a Proof of Concept process on a potential new loans origination platform. This process tested the ability of the loans origination platform to integrate with our core banking system. Currently, our staff have to move in and out of multiple systems and programs to complete all the different components of a loan application. Often this requires doubling up on data entry in different programs. A new origination platform brings all those systems and programs together and requires data entry in one place. Combined with an auto-decisioning engine, this type of platform will significantly shorten the loans application process and make the process much easier for staff and customers alike. Our aim is to introduce the first stage of this platform in this financial year.

Delivering for our members means maintaining a balance between the digital capabilities that are radically reshaping the banking landscape while continuing to provide the personal touch that many of our customers prize so highly.

So, while digital advances are important, we remain committed to our branch network. This is our “digital Bank with a physical footprint” strategy at work. We know our members want to sit down face-to-face with an expert to discuss the biggest financial decisions of their lives. We know people want the comfort of being able to deal directly with a real person in times of need and we know that physical branches support our brand proposition - 144 years of putting people first. That’s why we opened a new branch at Coomera last year and announced our plans to open new branches in Sydney. I’m hugely excited about the opening of our new branch at Castle Hill in Sydney tomorrow, and our second new branch at Parramatta in early December. We are bucking the industry trend by opening new branches, while other banks are closing theirs. I have great faith in the power of our brand and our people, and the package that we can offer to the people of Sydney and eventually Melbourne as well. When the two Sydney branches open, we will have 60 branches in total. That’s probably a good number for us. What could change over time is the geographic spread of those branches, across Queensland, New South Wales and Victoria. As with any retailer, we will continually review the exact locations of the branches, to make sure we are in the right spots, but rest assured we will maintain and invest in a branch network for our members.

We will also continue to review exactly how our branches operate. This year we introduced a new structure in our branch network, with Area Branch Managers now looking after a cluster of branches, supported by specialist lenders and leaders at individual branches. Our aim is to develop specialists who can focus on developing expertise in particular functions, rather than generalists who cover all functions. For instance, that means we will have lending specialists in branches who focus solely on our members’ lending needs, so they become experts in that area. We are also adding a team of mobile lenders to our networks in Queensland and Sydney who can go and visit our members in their homes or wherever they find most convenient. Coupled with this has been our move to 24 hour 7 day a week from our award winning call centre. This is a first for our sector and a better proposition than the majors – call us any time to talk about anything and we will be there – all locally based here in Toowoomba.

People first is more than a slogan – for us it’s a passion. That’s why we are delighted to be recognised as the Australian Bank of the Year in the Roy Morgan Customer Satisfaction Awards for 2018. This award speaks volumes about our commitment to our customers and is based on the monthly surveys of banking customers that Roy Morgan carries out across the country. We ended the financial year with a Net Promoter Score of 31, much higher than the average NPS of the four big banks which was negative 8.7. The NPS score is based on the likelihood that a customer would recommend their bank to someone else. Our high score indicates that our members are proud to do their banking with Heritage. Pleasingly this recognition continues and we are currently the highest rated Bank in Queensland and have won Roy Morgan’s Bank of the Month award for both August and September.

A key reason for our high satisfaction and advocacy scores is that we genuinely act in the best interests of our members and our communities. We demonstrated this in many ways throughout the past year. For example, we introduced online redraw capabilities, which means members can tap into payments in advance they’ve made on their eligible home or personal loan, from the convenience of their computer or mobile phone. We removed most transaction fees from our savings and transaction accounts. We piloted a digital savvy senior workshop, inviting customers to come into our branches to learn about using online banking services. Our IT team has also launched a local chapter of “SecTalks” in Toowoomba, a forum open to the public which discusses IT security issues.

We continue to forge strong corporate partnerships and this year, we were thrilled to partner with Woolworths in launching the Woolworths Organic Growth Fund. Through the Fund, Woolworths is providing up to \$30 million over a five year period in grants and interest-free loans to encourage Australian farmers to produce more organic goods. Woolworths chose Heritage to be the financial administrator for this program and our partnership reflects the reputation that Heritage enjoys for its professionalism and for its community focus. We’re delighted to be working with Woolworths on this project and we look forward to collaborating with them on other projects in future.

The success of Heritage is built on the contributions of our employees. I'm extremely proud of the team who work for us and who go above and beyond expectations to provide our members with a first-class banking experience. We recognise our people through the Heritage Heroes program, which involves our team members nominating their peers for awards across a number of categories that reinforce our values. I'm delighted to say we gave out 365 Heritage Heroes awards in 2018/19 – an average of one a day. The program culminates in our annual Platinum Awards night, which recognises the best of the best. It's great to see the pride that our people feel when they receive one of these awards, it is a really special occasion.

We continue to invest and refine our employee proposition and this year we have introduced a number of new initiatives that support our staff and what they do. In early 2019, we launched a Code of Conduct, which sets out the expectations for how we act, solve problems and make decisions. Our Code provides a set of seven guiding principles to help bring our vision, mission, and values to life. This Code is much more than just a set of words in a booklet. It's an essential piece of our culture and puts into words the ethical foundation on which we are based.

Another important initiative launched this year was our Respect Means Protect program. At Heritage, we're passionate about protecting the health, safety and wellbeing of our staff, our customers and everyone we come in contact with. The Respect Means Protect program is all about making workplace health and safety a more central consideration in everything we do. This is a cause I'm totally committed to, and I'm proud of the increased focus we are now placing on health and wellbeing.

The Chairman spoke earlier about the Heritage Bank Charitable Foundation, and I'm excited about how that can help us lift our community contribution to another level. I want to emphasise that establishing the Foundation will not come at the expense of our existing community support and sponsorship activities. We'll continue to support the events and activities that make our communities even better places to live. Earlier this year we celebrated the 20th anniversary of launching our first Community Branch model at Crows Nest in 1999. This unique model, which involves a joint-venture between Heritage and the local community, is fantastic. It not only retains a local banking presence, it financially supports local

communities. We now have seven of these Community Branches, and together that have put almost \$50 million back into their communities in the last 20 years.

At Heritage, we are extremely proud of our long history, but we are also very aware that we must evolve as a business to meet the future needs of our members and the environment we live in. We will continue to put our members at the very forefront of our thinking and our actions and will continue to investigate ways of operating more efficiently and environmentally. We are taking active steps to reduce our energy consumption and carbon footprint whilst ensuring our activities are undertaken with good governance and remain socially responsible.

Our teams continue to be passionate about helping our members achieve their financial dreams and are committed to building a Bank that we can all be proud of.

The operating environment for the coming year is already proving to be challenging. We are facing an uncertain economic outlook and a forecast economic environment of sustained low interest rates. We will continue to act in the best interest of all of our customers – borrowers and depositors as we navigate this path while continuing to invest in the projects and systems that will underpin our future.

In closing, I'd like to thank our team for their dedication and passion in living our People first values and to the Chairman and the Board for their direction and support.

Thank you.

Peter Lock

Chief Executive Officer