

# Heritage Bank

**CEO'S SPEECH – PETER LOCK**  
**Annual General Meeting**  
**28 October 2020**

Thank you Kerry.

To state the obvious, 2020 has been a year like no other. The world has been living through troubled times and Heritage has not been immune. COVID-19 is affecting us all in one way or another, and the recovery process will be long and gradual. In these circumstances, it would be easy to dwell on the negatives, and take a doom and gloom attitude. But that's simply not what we are about at Heritage Bank. I am optimistic about the future and confident that we are well positioned to ride out the ups and downs of COVID, and emerge strongly on the other side. As the Chairman said, Heritage has been through many economic cycles in our 145-year history, and has always remained strong and secure. We've come through hardships such as two world wars, the Spanish Flu pandemic, the Great Depression, and the GFC. Importantly, it's the strength of our organisation and our operating model that will see us bounce back from the COVID downturn as well.

I'd like to start with a quick overview of our financial results for 2019/20. As the Chairman foreshadowed, we started the financial year very strongly and we were on track for an increased profit result before COVID arrived. Even after the pandemic hit, our financial metrics held up well, demonstrating the sound fundamentals underlying our business. However, we also recognised that the full impact of COVID on our performance would only start playing out over a longer timeframe. As the pandemic drags on, and government assistance starts to reduce, Australia as a whole will likely see longer-lasting impacts.

That's why in June 2020, we took a provision of \$7.585 million (net of tax) for COVID-related impacts. That provision was on top of around \$400,000 we had incurred in extra COVID costs for items such as additional cleaning, sanitisation supplies and equipment for staff to work from home.

The end result was that our after-tax profit in 2019/20 came in at \$36.259 million, down 16.2% on the previous year. However, setting aside the COVID-related credit provision and expenses, our underlying after-tax profit would have been \$44.270 million, up 2.3% on the previous year. When you consider the context, that's a fantastic performance in a very difficult operating environment.

Having taken that COVID provision, our fundamental strength means we're well positioned to handle the ongoing effects that COVID will have on the Australian economy.

In fact, there were many positives in Heritage's 2019/20 financial results, and I will quickly run through the highlights now:

- Our loan approvals held steady at \$1.873 billion, just 0.4% lower than the previous year.
- Total consolidated assets were \$10.739 billion at 30 June 2020, up 6.5% on the previous year.
- Retail deposits ended the financial year at \$7.907 billion, up 8.8% on the balance at the previous year's end.
- Our Net Interest Margin held steady at 1.89%, while capital adequacy and liquidity ratios both increased.
- Mortgage loan arrears greater than 30 days dropped to 0.40%, well below industry average levels.

We've continued to perform well in the months since the initial COVID shock hit hard, and I'm confident we will deliver another good result for the year ahead. That's not to say things are back to normal. We are being very cautious and watching our expenses extremely carefully as we navigate through the COVID recovery.

Heritage has always been known for our people first approach and for our commitment to the communities we serve. That has never been more evident than during the pandemic, the drought and the bushfire crisis that occurred at the start of the year. We quickly implemented hardship relief packages for people impacted by both events. That included deferment of mortgage repayments, fee waivers, early redemption of Term Deposits and special support loans for SME businesses.

We also implemented a couple of special measures that speak to our customer-centric approach. We set up two hotlines in our Contact Centre during the pandemic. One was for seniors, recognising that they may have needed extra help in adjusting to using digital channels. The other was for emergency services and healthcare workers, recognising that these were the people right at the frontline of the fight against COVID. We also opened a number of our branches earlier in the morning to provide time for seniors to do their banking away from crowds. In the wake of devastating bushfires in the Crows Nest area at the start of the year, we held a community day there simply to give the local people the chance to relax and enjoy some free food, drinks and entertainment. Care for our members and our communities is part of what makes Heritage different.

That community-centred approach is also part of our DNA as a mutual. The customer-owned model is based on the idea of people working together and pooling resources to further their collective interests. It's about delivering the greater good for everyone and for the community as a whole. That inherent commitment to better social outcomes was also a driver for us to this year adopt a new Environmental, Social and Governance Policy framework at Heritage. While we inherently act with positive ESG outcomes in mind, we have not previously spelt out our commitments explicitly. However, we understand that stakeholders are increasingly judging the performance of organisations such as Heritage on their ESG outcomes, as well as traditional financial metrics. We now have an ESG position statement on our website that spells out our approach to issues such as environmental sustainability, human rights, and ethical governance. That's a great step forward and we intend to build on this in coming years.

The Chairman spoke earlier about the acceleration of the shift to digital and the need for us to respond. In the past three or four years we've been undergoing a transformation journey at Heritage as we seek to move from being a branch-based banking model with digital capabilities bolted on the side, to become a bank that's based on digitally-led processes and which also has a branch network we call this becoming a digital Bank with a physical presence. I'm a firm believer in branches. They'll continue to be important to members for years to come, and we'll continue to look for opportunities to open new branches. In particular, I am keen for us to explore more community branch opportunities, where we partner with the local community to ensure that they retain a local banking service.

When it comes to the digitisation of banking, we have continued to build the foundations that will allow us to reap the benefits of new technology to better serve our members and our staff. I'm pleased to say that we are beginning to deliver those benefits. We have introduced new skill sets to Heritage in areas such as robotics software, artificial intelligence and data science. We're on track to deliver new systems such as a product origination platform that will vastly simplify what has been a clunky and manual process for loan applications and assessment. We're one of the few banks in Australia that now offer the full range of digital wallets, including Apple Pay which we introduced in July this year. We have a pipeline of improvements to our apps and online banking service that we are rolling out continuously. We've also stripped out functions from our core banking system and we are now in position to look at how we might modernise or replace it to further enhance our digital offerings. Digital technology holds enormous promise to further improve services to members and to make life easier for staff, and we are well placed to continue this journey.

I'm always mindful that we exist to serve our members, so improving services to them is a top priority. What's also important is to deliver financial benefits to them as well. I'm happy to say we did just that in 2019/20. Independent analysis from research company CANSTAR found that our members were more than \$56.5 million a year better off through banking with Heritage rather than one of the big four banks. That was made up of a \$28.5 million benefit in rates and fees on our lending products, and a \$28 million benefit because of better interest rates and fees on deposit products. Incredibly, over the past five years, that means Heritage members are more than \$300 million better off by banking with us rather than one of the major banks. That's a clear demonstration of the benefits of banking with a mutual.

Another clear demonstration of these benefits is our Community Branch model, which I touched on earlier. We have seven Community Branches, which we operate as joint-ventures with local community companies. These are mostly in locations where other banks have pulled out. Under our model, half the profits from the branch are given to the community company to provide grants for worthwhile local organisations and causes. I'm delighted to say that as at 30 June 2020, we reached the total of \$57 million in funds that these Community Branches have cumulatively injected back into their local communities since the first opened at Crows Nest in 1999. This figure is

made up of community grants, sponsorships, wages, rent and payments for services such as cleaning, and other costs. I'm very proud of this model and we are actively looking for further areas where local communities might benefit from a Community Branch operation.

An important achievement for us this year was moving forward with significant structural change in a number of our departments, particularly our branch network, to better meet the changing needs of our members. Banking is a dynamic industry with new developments such as increasing digitisation changing the way we operate, the skills we need, and the way our teams need to be structured. We need to ensure we continue to adjust our organisation to reflect those changing needs. This year we completed a reorganisation of our retail area, reducing the number of regions and introducing clusters of branches, as well as introducing greater specialisation within roles to better serve members. Across the organisation we have also moved teams between departments to create better synergies, and flattened structures to ensure our people are closer to our members. We have recruited a number of excellent leaders who bring with them new skills and experience that will enable us to build the modern bank that can deliver future success for our members. This includes expertise in procurement, IT security, business intelligence and change management, as well as robotics and data science as mentioned earlier.

Our workforce must continue to change, and a silver lining of COVID has been an acceleration across the country of greater flexibility in our working arrangements. The pandemic has pitched us headfirst into the world of tech-enabled remote working – and it's changed our perceptions forever. That's because working from home works – it's been proven during COVID. We had up to 70% of our office-based staff working from home for extended periods, with no loss of productivity. We will make that flexibility a permanent part of how we operate, with more opportunities for staff to work remotely. That's also great news for a regionally-based company like Heritage, with people now much more open to the idea of living in a regional area rather than having to commute every day to high-rise office complexes in the CBD of our capital cities.

In speaking about our workforce, I do want to echo the Chairman's sentiments about the pride I feel in the way our people have responded to the COVID situation. We have been there for our members day and night, and we have been more productive

than ever despite the trying circumstances. I am full of admiration for the team that it is my honour to lead.

In closing, I would also like to thank my colleagues in the Senior Executive Group for their wisdom and leadership and counsel, and the members of the Board for their guidance and stewardship of Heritage. This is a strong and resilient organisation. We are well placed to ride out the turmoil of COVID and perform strongly in the years ahead. I am excited about what the future holds.

Thank you.

Peter Lock  
Chief Executive Officer