



CEO'S SPEECH

Annual General Meeting

21 October 2015

Directors, executives, staff, key partners and Members. Good afternoon. It is my great pleasure to be here today and I join with our Chairman Mr Kerry Betros in welcoming you to the 2015 Annual General Meeting. This will be my 13th and last CEO Report at Heritage Bank. I deliver this report with pride in our corporate achievements and pride in the products and services provided to you, our members, by our dedicated Heritage staff.

There are two fundamental measures which are crucial in determining whether we have served you, our members appropriately as a customer-owned banking institution. These are customer satisfaction and the customer value proposition. The first rates how well our customers are served, the convenience of our channels, the friendliness of our staff and whether your needs are sufficiently met. The second measure quantifies the benefit that our customers receive when compared to the interest rates and fees of the major four banks.

This first section of my speech will cover these two performance measures – satisfaction and value. In relation to customer satisfaction, at 30 June 2015, Heritage boasted the highest Roy Morgan Customer satisfaction ratings in Queensland. This Main Financial Institution rating of 93.5% mirrored the results from internal customer satisfaction surveys. Roy Morgan also rated our customer

advocacy or Net Promoter Score at 30 June 2015 at 37.7. This is a measure of how well our customers would advocate and recommend Heritage products and services. The higher the number, the better. Our results have been well above those of all of the major banks for many years.

As a customer-owned Bank, we determine and deliver specific strategies aimed at making the customer experience high quality. In this regard, we implemented a web chat facility which allows our customers to converse on-line with our Contact Centre staff. This enhances our availability and quality of customer interaction. During the year, we implemented new versions of our mobile banking app. This has been a quantum leap in the presentation and functionality of our mobile banking facilities.

Late in the year, Heritage implemented a new mobile payments facility which allowed customers with compatible mobile phones employing Near Field Communications functionality to authorise contactless Visa merchant transactions.

We totally revised our lending products during the year. In October 2014, we released our new discount variable mortgage loan product. In June 2015, we launched our new Home Advantage or packaged loan products. Additionally during the year, we rationalised our complete credit card suite and released a new Platinum card as well as a Balance Transfer feature.

It is crucial that we continuously maintain our product suite to cater for the needs of our customers in an ever-changing banking industry.

During the year, we released a new version of our corporate website recognising the importance of on-line delivery of products, transactions and information. To supplement this, Heritage launched our new intranet, called the Hive. This allows our staff better access to information in order to support our customers and their needs.

Heritage also introduced a new transformed branch at Robina. Other banks call them the Branch of the Future but our transformed branches are the blueprint for our face-to-face channel that is modern, friendly, geared towards advice and is designed to provide better customer service. Our second transformed branch opened at Chermside and this will set the template for almost all branch refurbishments.

As mentioned earlier, the other measure of performance for a customer-owned financial institution is the customer value proposition. Over the years, we have called this the Additional Member Value or the Additional Customer Value and represents the incremental value provided to our customers as compared with the four major banks. This value is independently calculated using Canstar and for 2014/15 this additional customer benefit totalled \$41 million.

It is also important for the CEO to cover the financial, prudential and operational performance for the financial year.

From a profit perspective, the before tax profit was down by 4.1% to \$48.01 million. As a customer-owned financial institution, this result should be viewed as very strong given the priority given to customer value and the significant investment in our “Digital Blueprint”. During

the year, these investments included mobile banking, internet banking, mobile payments, transformed branches, new products and new lending systems, which we call the Lending Program of Work.

The digital revolution is dramatically changing the face of banking. We have had to respond, not just with technology changes, but process and procedural change as well. We are focusing our attention on doing that, to improve service to customers and keep pace with their expectations.

Our mortgage loan arrears greater than 30 days at 30 June 2015 was only 0.39% of loan balances which was a small fraction of the industry SPIN benchmark.

The prudential ratios were very healthy with the capital adequacy ratio at 13.37% and the liquidity ratio at 19.39%. The capital adequacy ratio was boosted in June 2015 when the Bank executed a \$50 million term subordinated debt transaction. Every dollar of this transaction counts as prudential capital and follows excellent work by the Treasury and Finance team in soliciting a Private Tax Ruling and negotiation with the Australian Prudential Regulation Authority. Both prudential ratios were well in excess of prudential minimum ratios and provide significant buffers for strategic risk management should the economic environment deteriorate.

From an operational perspective, the investment in new lending products has paid off with a 27.6% increase in loan approvals. Total loan approvals during 2014/15 were \$1.838 billion.

It is also important to reflect on another strategic difference between Heritage Bank and the listed competitors. Our investment in community continues through traditional sponsorship arrangements, a network of seven community branches and the involvement of both Heritage and our staff in activities such as the Red Cross Challenge and the Queensland Cancer Council Relay for Life. Community is one of our core values and it is pleasing to see staff participating in these activities as a live demonstration of their personal values.

My last duty today is to thank everyone associated with my appointment to Heritage, my appointment as CEO and the support from above and from within the Bank. I consider myself fortunate to end my career with a family-oriented, values-based customer owned financial institution. I could think of no better career working with dedicated people to provide our customers with the very best service and products. I thank the original selection committee who brought me to Heritage in 1993 as Head of Internal Audit. I thank the Board for other internal opportunities firstly as General Manager Technology and Distribution Planning and then as CEO. I appreciate the trust shown by the Board over the years as we traversed the Y2K and then the GFC. I appreciate being permitted, in conjunction with my team, to build a better Heritage, in name, products, channels and in culture.

It is this latter item which will remain foremost in my mind – the *People first* Heritage culture. In my retirement, I will retain many memories of outstanding individual performances, incredible team performances and the demonstration of genuine leadership where staff are inspired to become more and to transform themselves for the ultimate benefit of our customers. I would like to thank each

member of my executive team. They say “a champion team beats a team of champions”. I’ve been lucky to have a team of individual champions who have worked together as a team to build something very special. I would like to thank every staff member who has responded to the call of excellence in everything we do for our customers. Thank you for your loyalty to me and to the delivery of the *People first* promise to our customers.

To the current Board of Directors; your professional governance and industry expertise has been appreciated in providing both the vision and the support to me and my team in journeying to that vision. To my Chairman, Kerry Betros, it has been a special relationship where you have supported me more than I ever could have expected. In the transition to a new CEO, you have shown me the ultimate in courtesy in what has been a time consuming and crucial selection process. You have demonstrated genuine leadership and I will be ever thankful for the manner of your Chairmanship.

I come with a slightly biased point of view but for members, I believe that the Bank has had a strong year against huge competitive and regulatory pressures. I believe the investment in our culture and in our customer-centric technology solutions positions the Bank for strong performance well into the future.

Thank you.

John Minz
Chief Executive Officer