

Heritage Bank

CHAIRMAN'S SPEECH – KERRY BETROS Annual General Meeting 28 October 2020

Good afternoon and welcome to the Heritage Bank AGM for 2020.

I would like to begin by acknowledging the Giabal and Jarowair peoples, the Traditional Custodians of the land that we're meeting on today, and pay my respect to elders past, present and emerging.

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 on what lies ahead for us.

In doing so, there's no escaping the issue that has over-shadowed all else for the past seven months - the COVID-19 pandemic. The onset of COVID-19 means 2020 will be remembered as one of the most unsettled and difficult years in living memory. The impacts have been significant and will continue to reverberate around the world for a considerable period ahead.

In Australia, we first started experiencing noticeable impacts around March this year; however, at Heritage we heeded the early signs of the virus overseas and started our pandemic response planning in January. That early action proved valuable, as we were already on the front foot by the time the entire country started feeling the brunt of the economic downturn that has swept the globe in the pandemic's wake.

Swift action by our Federal and State Governments to introduce financial assistance measures has cushioned the initial shock for many Australians and helped keep the country operating. At Heritage, we also acted quickly to put in place hardship provisions to help our members cope with the pandemic impacts.

What we face in the longer-term outlook is still far from certain. It's clear that the COVID virus will be with us for an extended period. As a country, our initial focus has been on addressing the immediate shock of the pandemic's arrival. The challenge ahead is to implement a longer-term strategy that acknowledges the reality of living with COVID.

Heritage Bank is planning for a lengthy period of subdued economic activity. However, we remain optimistic that we will rise to the challenge of COVID and continue to prosper. We have faced many periods of adversity in our 145-year history, and the strength of our organisation and our absolute commitment to our members has seen us weather every storm that has come our way. COVID will be no exception.

From the adversity of the pandemic, some positives emerged. Our staff adapted amazingly well to our changed circumstances, with about 70% of normally office-based staff having to work from home. Despite that, our productivity remained unaffected. A key reason for that is the absolute commitment our staff have to serving our members. A great example was the cross-functional effort to assemble a hardships team and process the equivalent of several months' worth of loan applications in only a few weeks. Our people bent over backwards to help members affected by COVID to get through the initial impacts.

In addition, nothing says more about our people's commitment than the way our branch staff have turned up and kept our doors open throughout the COVID period, ensuring our members could continue accessing our crucial services in their time of need. I would like to thank our branch staff for their selflessness in continuing to be there for our members throughout these tough times.

We know the impacts of COVID will pass over time, but it will leave behind a permanent legacy. One significant outcome has been the acceleration of the shift to digital by our members. That shift has been happening slowly for a long time, but COVID has forced a lot of traditional branch customers to do their banking online instead for the first time ever - often with positive outcomes. Many members have been surprised at how beneficial they have found the

switch. In fact, we have had members bring in chocolates to our staff in branches to say thanks for helping them switch to digital channels.

We had already been investing significantly in our digital capabilities, but the urgency of doing so has been further accelerated by COVID. That's not to say we are ignoring the importance of branches. Serving our members means providing both branch services and online banking channels – it's not one or the other.

But with people switching to digital more quickly than we had previously forecast, this will also factor into our thinking on future branch rollouts. People love the convenience that digital banking provides, and we will continue to add to our already comprehensive online offerings. Our recent launch of Apple Pay means we are now one of the few banks in Australia to offer the full range of digital wallets.

Given the impacts of COVID, Heritage's financial results for 2019/20 were commendable. Our CEO will provide more detail on our financial results shortly but suffice to say our Bank's strong performance has us well placed to absorb the immediate COVID downturn and enjoy future growth. We were actually on track for an improved profit result in 2019/20 pre-COVID and it's the strength of the underlying fundamentals that will help us get through the recovery period.

As a Mutual Bank, Heritage is focussed on delivering a positive banking experience for our members. It's always gratifying to receive external recognition that validates our efforts. We were delighted this year to have outperformed all other banks in the country to be named number one in Australia by international media brand Forbes – for the second year in a row. That came when Forbes released the results of its second annual list of the World's Best Banks in June, and we again topped the rankings in Australia. The Forbes results were based on surveys of 40,000 people worldwide, with respondents ranking banks on overall recommendation and satisfaction, as well as sub-categories of trust, terms and conditions, customer services, digital services and financial advice. That accolade was followed in September by global analysts JD Power rating Heritage the number one bank in Australia for customer satisfaction – for the third time in the award's five-year history. These

awards are fantastic acknowledgement of how genuine we are about looking after the interests of our members.

I mentioned earlier our ongoing commitment to a branch network. Above all else, our most significant achievement in 2019/20 was the expansion of our branch network outside Queensland for the very first time. We opened our first interstate branch at Castle Hill in Sydney in October 2019, followed soon after by another new branch at Parramatta in December. This was an historic achievement for Heritage – the first interstate branches in our 145-year history. Both branches have been warmly accepted in their communities and have performed strongly, even though COVID-19 has slowed their initial momentum. Our long-term plans remain to establish more branches in Western Sydney, and in growth regions of Melbourne. However, given the economic impacts of COVID and uncertainty about future recovery timeframes, we have put our further interstate branch expansion on hold for the time being. We will reassess our timetable as the COVID situation unfolds in the next 12-18 months.

This year we also made a significant strategic investment in our future by opening a new dedicated Business Banking Centre on the ground floor of our Head Office building in Toowoomba. Business banking is an area where we are aiming for significant growth. There's an under-served segment of the business banking market that's crying out for a relationship-based approach. That's not something the big banks execute well. We specialise in the needs of the SME sector, and understand how important relationships and personal service are to small businesses. That's what sets us apart. We intend leveraging our existing member relationships to grow our business portfolio, and will also use the business broker sector to expand across Australia.

Another milestone achievement for us this year was the launch of the first-ever round of grants from the Heritage Bank Charitable Foundation. I'm excited to say we announced the recipients of our inaugural grants just yesterday [Tuesday 27 October], with nine deserving charity groups each receiving grants of \$10,000 each. I first announced our intention to launch the Foundation at our AGM in 2018. We've done a lot of work in the two years since then to reach the position of being able to hand out \$90,000 in grants. I'm delighted to see that we are

delivering on our goal to make the Charitable Foundation a real force for good in the Australian philanthropic sector. A major factor in helping us achieve that goal was the appointment earlier this year of Mr Paul Olds as the Foundation's inaugural Executive Officer. Having an experienced and passionate person leading the Foundation forward, with guidance from its dedicated Board of Directors, gives me great confidence that it will achieve fantastic things in the years ahead.

Heritage Bank is fiercely proud of our status as a Mutual Bank. It's part of our DNA and one of the cornerstones of our culture. We continue to play a leading role in advocating for the Mutual sector across all levels of government and throughout society in general. In particular, we work very closely with the Customer Owned Banking Association and the Business Council of Cooperatives and Mutuals, organisations that exist to represent and advocate on behalf of our sector. I'm pleased to say that our CEO Peter Lock is now on the Board of both COBA and the BCCM. It's important that we play our part in ensuring that the voice of the Mutual sector is heard, especially by the parliamentary decision-makers.

With that in mind, I applaud the Federal Government's recent decision to introduce reforms to the responsible lending requirements that apply to lending in this country. Last year, we welcomed the findings of the Hayne Commission, which shone a light on the questionable behaviours that were taking place at banks where the pursuit of profit was prioritised above all else. However, we also recognised the danger that Mutuals such as Heritage could face over-regulation through having to comply with extra measures aimed at curbing the excesses of the listed-bank sector. Over-regulation always has the potential to stifle economic development and activity. The intentions of the Royal Commission remain important, but it's the measure of the response that's critical. The COVID environment has made getting the balance right even more important, because it's crucial for our recovery for credit to start flowing and economic activity to start happening. Responsible lenders like Heritage Bank are still going to do the right thing by members and protect their interests, and that will be made easier by releasing the handbrake of too much regulation.

COVID has shown just how delicate confidence is – and the economy and banking sector is built on confidence.

I'd like to finish by thanking our CEO and Senior Executives, and all our staff, for their efforts throughout the year. They are the ones who live our culture and deliver the outstanding service that our members value so highly.

I also thank my Board colleagues for their support and commitment through what has been a year like no other. In particular, I would like to acknowledge the contribution of Mrs Vivienne Quinn, who retired from the Board in April this year, after 25 years as a Director. Vivienne has been an outstanding Board member, providing wonderful guidance and leadership during a sustained period of growth for Heritage. Her enthusiasm for the Bank and the considerate and caring manner in which she carried out her duties earned her the highest respect and regard from everyone at Heritage. I would also like to acknowledge the appointment of Mr Peter Clare to the Board in April. His deep expertise in banking and technology has already proven extremely valuable in our Board discussions and we are extremely happy to have him at Heritage.

Finally, it is always an honour to be the Chairman of this Bank, but perhaps never more so than this year. In the face of adversity, everyone at Heritage has rallied together and responded with determination, resilience, kindness and compassion. The true measure of an organisation can often best be seen when it faces tough challenges, and the team at Heritage has performed magnificently. I am humbled to represent our staff and our customers, both past and present, who have helped make Heritage the successful and respected organisation it is today.

I am excited about our future and look forward to bigger and better things ahead.

Thank you.

Kerry Betros

Chairman of Directors

