

# Half-Yearly Report

For the period ended  
31 December 2017



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For the period ended 31 December 2017

The Board and Management of Heritage Bank Limited are pleased to announce our results for the six months ended 31 December 2017. Key performance measures are set out in Table 1:

- Heritage delivered a record half-year profit in this period. The \$37.59 million pre-tax profit was up 25.6% on the \$29.92 million earned in the same period the previous year. Profit after tax was \$26.27 million, up 25.8% on the corresponding period in the previous year.
- Loan approvals totalled \$800.9 million in this period, a decrease of 29.1% on the \$1,129.77 million achieved in the same period in 2016. Heritage focused on stability in this period, as we were conscious of distortions in the market caused by the current low credit growth environment and the negative impacts of APRA's macro-prudential rules.
- Retail deposit growth was also lower at \$122.8 million in this period, down 77.2% on the corresponding period in 2016.
- This was due to two factors – a reduced need for retail funds in the subdued lending environment, and a successful wholesale investment issue that raised \$750 million.

- The results reflected a deliberate decision to consolidate our position following exceptionally strong growth in the previous 12 months.
- The slower rate of growth has enabled us to focus on improving our processes and efficiencies.
- Heritage has been actively working to improve our funding mix over the last two years and we have now achieved a more optimal balance. In this period, we tapped into the wholesale funding markets to lengthen the duration of our funding base under the current favourable market conditions. This has reduced our need to secure higher-cost retail deposits.
- Our record profit result validates decisions made in the past 18 months to simplify our business model and focus on core business activities, which will enable us to fund investment in continuing to modernise our business.
- We have been able to achieve business efficiencies without sacrificing our people-first customer proposition.
- We will continue to focus on progressing our digital transformation process to drive further efficiencies and a better customer experience.

Details of key period end information are set out in Table 2:

- We have continued to consolidate growth in our total consolidated assets, which were up 1.5% from \$9.38 billion to \$9.52 billion in the six months to 31 December 2017.
- Our capital adequacy ratio was up strongly from 13.44% at 30 June 2017 to 14.31% at 31 December 2017.
- Our liquidity ratio also increased from 15.43% to 16.45% in the same period.
- Heritage's level of mortgage loan arrears over 30 days was 0.57% at 31 December 2017, well below the industry average.

## Strong platform set

Our financial results in the first half of the 2017/18 financial year continue to build the strong platform required to underpin Heritage's ongoing digital transformation program. Our record half-year profit reflects the strategic and operational changes implemented during the last 18 months. Improved profitability is important for us in generating the significant investment required in our digital transformation. Importantly we have been able to deliver that profitability without reducing our

**Table 1**

|                       | Six months to<br>31 December 2017 | Six months to<br>31 December 2016 | Increase<br>(Decrease) |
|-----------------------|-----------------------------------|-----------------------------------|------------------------|
|                       | \$ million                        | \$ million                        | %                      |
| Profit before tax     | 37.59                             | 29.92                             | 25.63                  |
| Profit after tax      | 26.27                             | 20.89                             | 25.75                  |
| Loan approvals        | 800.88                            | 1,129.77                          | -29.11                 |
| Retail deposit growth | 122.84                            | 537.76                            | -77.15                 |

commitment to outstanding customer service. We have consciously set out to reduce the breadth of Heritage's operations and focus more strongly on our core business of retail banking services. We have also concentrated on improving our process efficiencies and enhancing the customer experience. At the same time we have taken advantage of favourable market conditions to reduce our cost of funding and achieve a more balanced funding mix. As a result, the business is well positioned to continue delivering on the strategic change program designed to increase digital capabilities and deliver an improved customer service proposition.

Loan growth in this period was slightly subdued compared to the previous 12-months. During this period we were impacted by the need to slow lending to ensure we remained within the caps APRA imposed on investor and interest-only lending, despite the real targets of these measures being the major banks. These impacts reinforce the Productivity Commission's draft report into competition in the banking sector, which found that APRA's macro-prudential intervention in the home loan market was too blunt and did not take into account impacts on competition.

Heritage is Australia's largest customer-owned bank and we are determined to

build our national profile. We will do that by not only continuing to leverage our branch distribution footprint in Queensland but also by increasing our penetration into other markets nationally, primarily via the broker channel. Improving our digital capabilities is a key to building our business as a whole, and we continue to invest in our technical platforms, better online and mobile app offerings, and in modernising and simplifying our processes.

### Heritage ranked highest for customer satisfaction in Australia

Heritage has maintained its rating for the highest customer satisfaction in Australia by again topping the JD Power Australia Retail Banking Satisfaction Survey announced in December. Heritage rated the highest when global market research firm JD Power announced its inaugural Australia Retail Banking Satisfaction Survey in December 2016. We've now backed that up by again outscoring all other banking institutions in the country to top the survey rankings in the 2017 awards. Heritage scored the highest rating in 4 of the 6 award criteria.

Our top ranking in that study followed us winning the 2017 Mozo People's Choice Awards in two categories - for Excellent Customer Service and Most Recommended.

In addition, according to Roy Morgan Research, we had a 95.6% Main Financial Institution customer satisfaction rating as at December 2017, which was the highest of all participating institutions in Queensland. Our customer advocacy score - the likelihood of a customer recommending us to family or friends - was 27.2 at December 2017, continuing to indicate high levels of engagement with our customers.

### Benefits to customers

At Heritage, we're passionate about people and strive to provide our customers with the best value we can, through our products, prices and service. We continue to offer some of the most competitive prices in the marketplace on home loans, as well as introducing more innovative ways for customers to go about their day-to-day banking using their mobile devices.

As a customer-owned bank, our pricing and product decisions reflect the goal of optimising value for customers. An independent analysis by CANSTAR found that our customers were \$51.12 million a year better off through banking with Heritage rather than the big four banks as at December 2017. This comprised a \$31.11 million benefit through better rates and fees on our deposit products, and a \$20.01 million benefit because of better interest rates and fees on our lending products.

**Table 2**

|                           | 31 December 2017 | 30 June 2017   |
|---------------------------|------------------|----------------|
| Total consolidated assets | \$9.52 billion   | \$9.38 billion |
| Capital adequacy ratio    | 14.31%           | 13.44%         |
| Liquidity ratio           | 16.45%           | 15.43%         |
| Mortgage loan arrears     | 0.57%            | 0.32%          |

## Corporate Ratings

We continue to hold strong ratings from independent agencies. Both the Moody's rating of Baa1/P2 and the Fitch rating of BBB+/F2 reflect the quality of business and our focus on long-term sustainability through prudent financial, risk management and operational outcomes.

## Aussie adds Heritage Bank to its panel

Heritage's ability to attract customers around the country gained a boost in November when Australia's largest mortgage broker firm, Aussie, added us to their panel of lenders. As a result, an additional 1,000 brokers around the country are now able to recommend Heritage home loans to their customers.

Aussie's CEO James Symond said: "Heritage is a welcome addition to our lender panel as it provides greater choice and products at our brokers' fingertips. There has been strong growth in the customer-owned banking sector over the last 18 months suggesting that customers are seeking genuine alternatives to mainstream lenders, so we're thrilled to be able to respond to this demand and add a quality player like Heritage to our hand-selected panel."

The agreement is part of Heritage's ongoing efforts to upgrade its presence in the mortgage broker market, including the launch in October of a new dedicated broker website.

## Improved service for mortgage brokers

The mortgage broker market remains a key source of growth for Heritage. In this period we launched a new broker website that makes it easier for brokers to access our product information, forms and rates, and follow the progress of loans they have submitted to us. The website provides an accurate and up-to-date point of reference

for brokers to view the current products, eligibility, features and rates offered by Heritage. It also enables the information to be produced in a printable pdf document.

This is an easier and quicker way to update the information that we provide to brokers.

## Streamlining our operations

We also took the key strategic decision in this period to close our broker mortgage processing offices in Sydney and Melbourne and centralise the service in our Brisbane office. The decision will deliver logistical and efficiency benefits in having all our broker processing staff together in the one location, and will also improve the service we provide to our broker partners. Centralising the team will improve their skills and expertise, and provide greater flexibility in handling surges in lending volumes no matter where they come from across the country.

## Head of Credit Operations appointed

Heritage made an important staffing announcement in August with the appointment of Mr Chris Watts to the key role of Head of Credit Operations. Mr Watts is a highly experienced financial services executive boasting more than 30 years in the industry. After beginning his career in the State Bank of Victoria, he spent 24 years with the Commonwealth Bank, including a period on secondment to the Vietnam International Bank in Hanoi. He will lead ongoing efforts to streamline and improve our credit processes.

## Transforming our branches

While we must change to meet the challenges of a digital future, we remain committed to maintaining our branch network. In fact, we are continuing a multi-

million dollar program of investment in upgrading all of our 60 branches to a design that is more suited to the digital age. The new design eliminates the traditional row of tellers behind a counter and has moved to an open plan layout, with staff using tablet devices to serve customers throughout the branch. In the half-year to December, we transformed our flagship Toowoomba branch in the Grand Central Shopping Centre, as well as the Helensvale Branch.

We have now transformed a total of 21 branches.

## Ongoing refinement of our branch locations

Heritage has no plans to reduce our branch footprint. However we are continuing to review the exact locations of our branches to ensure they are in the right position to serve our customers and grow our business. As part of the ongoing process, we took the difficult decision to close our Sunnybank Hills Branch in October last year. The branch was not well used and was within close proximity to a number of other Heritage branches. We took the decision not to renew the lease at that location and to assist our customers to transition to those other branches and alternative banking channels.

At the same time, we have also secured a tenancy in a new shopping centre currently being constructed at Coomera on the Gold Coast, and scheduled to open later in 2018. We believe this location is ideal for the key demographic categories that Heritage is targeting and will provide excellent potential for growth.

## Contact Centre hours extended

In good news for customers, Heritage extended the Contact Centre's hours of operation in October. The Queensland-based Contact Centre now opens one hour earlier

at 7.30am AEST, and operates until 7.00pm AEST, Monday to Saturday. The change came about as part of an overall review of Contact Centre operations to improve our customer service offering. This means customers can now get in contact with us earlier in the morning, and also helps us meet the needs of our interstate customers when daylight savings is in effect around Australia.

## Charity Golf Day

A record \$75,000 raised at last year's Heritage Charity Golf Day has pushed total donations to almost \$740,000 in the event's 20-year history. Heritage celebrated hosting the 20th Annual Charity Golf Day in December last year with more than 200 supporters teeing off for a great cause. The Heritage Charity Golf Day has now raised close to \$740,000 in its history, with every cent going back into the community in the forms of grants to 94 different community and charity organisations.

## Vanguard Laundry donation

Heritage Bank assisted Toowoomba's innovative Vanguard Laundry Services project in generating even greater social impact by

donating a second delivery van in this period. Vanguard Laundry employs staff who have been long term unemployed, with a lived experience of mental illness. The laundry also runs a career centre program to assist staff in regaining job skills, confidence and education to support them in progressing in their careers. Heritage Bank donated Vanguard's first delivery van in 2016, and has now donated a second van to help the laundry cater for the 80 clients it now has around the Toowoomba region.

## Community Branches

Heritage is particularly proud of our Community Branch model and the significant contribution they make to their communities. We have seven Community Branches – at Forest Lake, Karalee, Nanango, Millmerran, Palmwoods, Highfields and Crows Nest. They operate on a partnership model, as joint ventures between Heritage and a community company with local representation. Under the model, half the profits are given to the community company to provide grants for worthwhile local organisations and causes.

We have now reached the milestone of \$43 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 other services.

## Conclusion

Heritage Bank is now in a very strong position to continue the process of reshaping the bank to meet the demands of the digital future. We have worked hard to become more efficient and more profitable, so we can invest in the digital technologies that will enable us to deliver a great customer experience every time. We will continue to do so while maintaining our focus on excellence in customer service, as we strive to deliver on our people first philosophy.



**KERRY J. BETROS**  
Chairman



**Peter Lock**  
Chief Executive Officer

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