

Chair's 2018/19 AGM Address

Credit Union SA

In what is an increasingly competitive and challenging market, the Credit Union's performance in the 2018/19 financial year remained strong and consistent.

We have continued and increased our focus on strategic initiatives, including becoming digital with a human touch and improving our Member Experience, to better equip Credit Union to prosper into the future, while at the same time maintaining an equally strong focus on the prudent risk and financial management of the organisation.

Focus on Financial Institutions

The Hayne Royal Commission wrapped up during the 2018/19 financial year, with the final report in February highlighting that 'failings of organisational culture, governance arrangements and remuneration systems, lie at the heart of much of the misconduct examined in the Commission'.

Commissioner Hayne highlighted that board and senior management hold the primary responsibility, however he also noted that regulators have an important role to play in the supervision of non-financial risks.

At Credit Union SA, we are very proud of our culture, from the Board through all staff. We have recently undertaken an 'organisational culture pulse survey' with our staff – a health check on how our staff view the culture and ensuring that we make continual improvements towards our 'desired culture'.

The Board also undertakes annual performance reviews, which provide Directors and the CEO an opportunity for honest and open feedback on the Board's performance as a whole, as well as individual Directors.

With a remuneration structure that is unlike the major banks, our management and staff do not receive bonuses or 'at risk' components and this helps to ensure that our culture is far removed from those that have been strongly criticised in the Royal Commission report.

Our culture is not driven by the need to sell products to our members to justify our salaries; we are owned by our members and we must always act in the best interests of our members.

The Credit Union's employees, Board and Executive team are very clear about what our organisation values most. The best interests of our members are at the forefront of our minds with every decision that we make. We do not have the same "profit driver" as the major banks; we make appropriate profits and use those profits to invest to better serve of our members.

Of course, we cannot be complacent and we must always improve the way that we do things; there are

always lessons we can learn from such reviews. The Board and management have taken a close look at the recommendations from the Royal Commission and we have undertaken a self-assessment against those recommendations, with opportunities to further enhance the governance of our organisation identified and implemented.

Board composition and associated Director skills and knowledge is an ongoing governance matter for the Board. As part of the Board's refreshment and renewal program that has been progressed over the past three years, the Board now comprises of 4 member-elected directors and three board appointed directors. Board appointed directors are appointed to provide any identified skills and experience required by the Board.

The three board appointed directors are:

- Director Riquier – who was appointed in February 2018
- Director Cooper – who was appointed in February 2019 and
- Director Dewsnap – who was also appointed in February 2019.

Our Community Focus

During 2018/19, Credit Union SA partnered with the Zahra Foundation; an organisation whose mission is to help people live a life free of violence, recognising that financial abuse and disadvantage is one of the biggest barriers to people leaving and remaining free of abuse relationship.

The Zahra Foundation addresses its mission through the delivery of programs that promote economic empowerment for its clients, and we have committed to support their fundraising activities through financial sponsorship for at least the next two years.

We were also proud to continue our affiliation with the SALA Festival as the Education Partner and are excited to announce that we have signed on to continue this partnership through to 2022. This sponsorship further embeds our position as a strong supporter of the South Australian education community and builds on our commitment to collaborate and connect with all South Australians by enabling us to engage with a broader range of community members.

Another wonderful sponsorship that we have been involved with for many years is the South Australian Public Education Awards, where we are the Event Partner and have the honour of participating on the judging panel to select the winners of these prestigious awards.

Our innovative School Community Rewards program continued to help raise much needed funds within participating schools simply through parents and grandparents holding one or more products with Credit Union SA. Sharing our values and providing value to school communities is a wonderful aspect of our activities.

Our long-standing support of St John's Youth Services continued, with the Giving Tree campaign currently underway to provide homeless young people with some much-welcome joy at Christmas.

Regulatory Environment

Following the Royal Commission outcomes, regulatory change has been swift, with more yet to come.

We are very supportive of protection for our members through regulatory change, however as a smaller financial institution there is always the challenge of the higher cost of compliance that we bear.

Our Risk and Compliance team has been strengthened significantly over the past few years, and we are well positioned to implement any new regulatory requirements.

The Banking Executive Accountability Regime, known as BEAR, was introduced in early 2018 to establish clear and heightened expectations of accountability for authorised deposit taking institutions, their directors and senior executives, and drive strong risk culture throughout a financial institution.

The Credit Union was required to implement BEAR by 1 July 2019 (which we did!), with a strong focus on good governance and promoting a strong risk culture throughout the organisation from the Board through to all layers of the organisation.

South Australian Environment

South Australia is a wonderful place to live but we continue to experience a challenging economic environment.

Employment growth slowed by just over 1% during the year (from 2.6% in April 2018 to 1.5% in April 2019) and consumer spending remains subdued, compounded by low income growth and high levels of household debt.

South Australia is benefiting from a lower Australian dollar and low interest rates, with these factors conducive to business investment and encouraging growth in export-oriented sectors including agriculture, food, wine, manufacturing, tourism and international education.

Economic activity within the state will be supported over the medium term with a solid pipeline of public sector capital works, and house price growth is expected to remain moderate.

Our Strategic Focus

Our goal is 'digital at the core with a human touch'. To achieve this goal, the Credit Union has four key strategic focus areas being:

- Grow membership and market share
- Become digital
- Strengthen the organisation; and
- Leverage our mutual points of difference.

These four focus areas provide the Board and management with "a road-map" for the Credit Union to continue to grow and serve its members. Investment to support these strategies will be balanced with

investment in the operational requirements of the business with the Board and management committed to achieving the strategic objectives.

In closing I would like to take this opportunity to acknowledge the commitment of the Board, CEO, executive management and staff and thank them for continuing to guide the Credit Union through the various challenges presented through the year for the benefit of our members.

Chief Executive Officer's 2018/19 AGM Address

I am pleased to report a profit after tax of \$3.814m, which is lower than the previous year's profit however outperformed the Credit Union's budget.

There is continued intense competition within the retail banking market for both deposits and lending, coupled with a reducing interest rate environment, and this was taken into account during the planning and budgeting for the 2018/19 financial year.

Through prudent financial management and a targeted product range, the Credit Union continued its year-on-year growth across all portfolios and momentum continued in the attraction and retention of new members.

The Credit Union's total assets grew by 11.4% over the year, with loans and advances increasing by 8.88% to \$985m and member deposits continuing their favourable growth trend closing at \$1.065bn, a 12.67% increase from 2017/18. Both of these measures outperformed market increases.

Together with our prudent financial management, we maintained a strong focus on progressing the Credit Union's strategic and operational objectives throughout the year resulting in the following key highlights:

Continued strong membership growth with over 3,850 new members joining and total membership finishing slightly under 51,000.

Of these new members, 42% joined using our online platform – a strong indication that our focus on becoming digital is being well received, and 30% of new members were in our key target market, being 15-35 year olds.

We assisted members with 831 new home loans and 486 new personal and car loans during the year.

Our First Home Buyer's Grant continued to help our members get a foot on the property ladder, with over \$2.5million in grants provided to 508 members since its introduction 3 years ago.

The New Payments Platform has provided members with the ability to send and receive funds in real time, and we now have over 7,000 PayIDs registered. Additional functionality for the NPP is to be rolled out in the next two years, which is likely to see a significant increase in members utilising this functionality.

Over 27,500 members are now registered for e-statements, with 23,600 members opting to receive other communications electronically where possible.

Members have continued to utilise our digital platforms registered and active users for internet banking and mobile apps continuing to increase.

Our Member Contact Centre helped our members over the phone 118,000 times, by email over 8,000 times and through our evolving webchat function over 1,000 times. These figures support our research that members are utilising digital channels more frequently with an increase to members utilising email and webchat contact options.

Continuing our support of the Education Community, our mobile team visited schools approximately 750 times and supported and attended over 180 education conferences and events.

The Credit Union's innovative School Community Rewards program, which shares profits with participating schools, raised an additional \$66k for schools during the 2018/19 financial year, bringing the total raised to almost \$234k since its inception in 2015. Together with raising much needed funds, the School Community Rewards team attended over 70 school events providing school communities with additional sponsorship and onsite product information.

Our continued support of community organisations including St John's Youth, Zahra Foundation, SALA Festival and the South Australian Public Education Awards is a key part of the fabric of Credit Union SA – giving more, sharing more.

In March 2019 we announced that we were closing our three metropolitan branches. This was a very difficult decision and considerable thought was given to this direction, and included analysis of the outcomes of member surveys, as well as branch usage patterns, changing member behaviour as well as alternate access points available to members.

We had seen a significant drop off in members using branches over the previous 5-year period. Our members told us that they were looking for low fees, good rates, extended hours of support and more digital banking services.

The decision was made to better reflect the contemporary needs of our members and the broader community, as well as realign our services so that we can continue to be a relevant and vibrant mutual organisation for years to come.

Significant support was provided to members who were impacted by the decision, to help transition to

alternate options for the banking needs.

We removed all transaction and withdrawal fees from savings accounts which resulted in a direct benefit for all members.

Our new Member Experience Centre and King William Street branch are now open for longer hours to provide our members with the 'human touch' where they want that, and our mobile app and internet banking are available 24/7 for those members who prefer immediate, digital access.

We know that our members' needs will continue to evolve, and our ability to adapt, be pro-active and forward-thinking is paramount to remaining relevant and ensuring a healthy, vibrant organisation in years to come.

Also, as Carolyn mentioned, we are committed to fulfilling our strategic initiatives and have a significant number of core projects underway which will support the strategic focus of the Credit Union into the future.

Although Credit Union SA does not seek ongoing recognition of its products or services, it is well known that consumers have significant resources at their disposal to research the best products and services for them – and we have therefore entered in the MOZO Experts Choice Awards and Canstar Awards, resulting in a number of awards that cement our brand promise to help our members do more with their money.

Credit Union SA was also awarded the 2019 DBM Australian Financial Awards for Most Reputable Bank and Best Customer Services – awards that were the result of DBM's 80,000 retail and business customers feedback and ratings of their own financial providers.

Staff are the backbone of any organisation, and in order to get the member experience right, we need to make sure we get the staff experience right.

Our focus throughout the year has continued on striving towards the Credit Union's desired culture, with a staff value proposition implemented following workshops with our staff to determine what it is that they value within the workplace.

Risk management culture continues to be front of mind for staff, management and the Board, and as Carolyn mentioned earlier, we have strengthened our capability internally, through both staff skills and knowledge and technology investment.

The outlook for 2019/20 is framed by increased volatility and uncertainty with geo-political risk, record low interest rates and digital disruption occurring daily.

2019/20 will again be a challenging one for our industry and for the Credit Union however we will continue to focus on our members, the prudent financial management of the Credit Union and the

longer-term strategy to ensure a strong and successful organisation into the future.

Open Banking will bring a level of flexibility to customers that has not previously been available, with financial institutions allowing other organisations access to their customers' data – with the permission of the customer of course. We expect that financial institutions will utilise this new flexibility to attract and retain customers, making what is already a competitive environment even more competitive and challenging!

Neobanks have exploded in the industry over the last year, with banking licences granted to a number of new entities. Offerings from these banks are limited for the time being, however it is only a matter of time before their completely digital offering includes products including savings accounts, credit cards, home and personal loans. Designed with great customer service in mind, these neobanks are built to allow fast innovation.

With this ever-changing environment, the key will be to focus on our members to continue to deliver value and remain relevant.

Thank you to all of our staff for their continued focus on helping our members 'do more' whilst navigating the continually evolving landscape, the Board of Directors for their guidance and our members for your ongoing support and loyalty in achieving another successful year for Credit Union SA.