

Chair's and Managing Director's Report

A YEAR OF TRANSFORMATION

People's Choice last year committed to a transformation that would put members at the centre of everything we do. We identified three strategic outcomes to drive that change: differentiating, enabling and growing. We are pleased to report early signs of success with this strategy in a business environment that continues to become increasingly complicated and competitive.

People's Choice welcomed 21,053 new members in 2017/18 and increased net membership by 9,323 members. This represents strong growth in a mature market and underscores both the importance and success of our approach of putting our members at the centre of everything we do.

We have also gained valuable independent recognition of our member-centric culture.

Over the past year, People's Choice has received Mozo Awards for Highly Trusted, Excellent Customer Service and Outstanding Customer Satisfaction and, for the third time, was named Building Society/Credit Union of the Year in the Roy Morgan Customer Satisfaction Awards.

The extent to which our members trust and recommend People's Choice continues to be among the best in the industry. Our average net promoter score for the year was +44 points – calculated by regularly surveying members to establish whether they are promoters (loyal, enthusiastic fans), detractors (unhappy) or passives (satisfied, for now). This is the second-highest score nationally of the financial institutions we track including the major banks. It also compares favourably to the +8 points average score recorded across those financial institutions.

Market comparison site Canstar has again named People's Choice as the leading Customer Owned Institution for First Home Buyer Home Loans in three states: South Australia, Northern Territory and Victoria. People's Choice also received the prestigious title of Personal Lender of the Year from Money magazine.

This success is driving the sustainable growth of the credit union.

During a time of fierce competition, People's Choice grew its lending portfolio by 6% to \$7.279 billion. Residential lending continues to present a valuable opportunity for growth, and our focus on the Victorian market has been rewarded as that state's housing market rapidly expands. The second year of our Western Bulldogs AFL team sponsorship, together with a refreshed marketing strategy, has supported our growth in this region. This strategic focus is expected to offer People's Choice a more diversified portfolio in future years that will balance the more subdued economies of South Australia and the Northern Territory.

Our retail deposits portfolio grew by 6.9% to \$5.780 billion in 2017/18. This is a welcome sign that we are meeting member needs while providing a valuable source of funding as industry wholesale funding costs rise.

Our profits are essential to funding our future investment needs. Whilst our net profit after tax declined by 2.8% to \$32.161 million, our comparative net profit after tax rose by

14.3% to \$37.811 million when adjusted for the write down of ATM assets and related impacts. This was driven by strong portfolio growth and careful management of costs and provides for a strong, sustainable future built on competitive products and market-leading customer experience – all vital in delivering our member-centric focus.

People's Choice ended the year with total assets under management of \$8.661 billion – up 4.5% from last financial year – and funds under advice of \$1.867 billion. Our total assets under management and advice of \$10.528 billion, up 5.4% from last financial year, makes us one of Australia's largest mutually-owned financial institutions.

People's Choice continued to diversify its funding with the completion of our seventh securitisation program in April 2018, raising \$500 million. In the face of rising competition for funding, People's Choice successfully undertook its first international roadshow with presentations to European investors including international banks and fund managers.

The strength of our balance sheet and strategy have again been recognised by steady credit ratings that directly support our decision to continue to invest in our member-owned model.

IMPLEMENTING OUR BLUEPRINT FOR THE FUTURE

We are confident of the direction outlined in our Strategic Plan 2017-2022 announced last year, and the framework it provides for achieving our future success.

The goals contained in that plan are now being realised throughout People's Choice. Key targets – both organisational and personal – have been aligned to our strategic outcomes of differentiating, enabling and growing, and those same goals drive how we embrace change.

It is pleasing to see our staff look for opportunities to create value for members, with our key principle of member-centricity as a touchstone for all.

ESSENTIAL UNDERSTANDING NEEDED FOR REGULATORY CHANGE

People's Choice expects the regulatory environment to change considerably over the next 12 months. Findings of the Banking Royal Commission are expected to produce fundamental changes designed to improve the industry's focus on fairness.

Our challenge over the next 12 months lies in explaining the risk that these changes might limit, rather than increase, competition. A new report has identified problems with one-size-fits-all regulation in banking and warned of the impact more regulation flowing from the Royal Commission could have on consumers, competition and smaller banking institutions due to the fixed costs of regulation which disproportionately impact smaller institutions such as credit unions.

The report of the Productivity Commission's Inquiry into Competition in the Australian Financial System noted that the search for financial stability has reduced the benefits of competition, and People's Choice has been clear about our concerns regarding the next wave of regulation expected to flow from current events.

To this end we have been supportive of our industry bodies, the Customer Owned Banking Association and the Business Council for Cooperatives and Mutuals, and their plans to highlight the differences between the mutual sector and its listed competitors,

and to impress those differences upon regulators and Parliamentarians when contemplating legislative change.

We believe People's Choice can take an active role in highlighting the advantages our sector brings in terms of competition, and the benefits of our mutual structure. We have a fundamentally different structure where members are both shareholders and customers – not separate groups with divergent interests that give rise to a business conflict.

Senior Parliamentarians have expressed an understanding of these differences, as seen by the broad support offered to reforms stemming from the Hammond Review of Cooperatives, Mutuals and Member-Owned Firms introduced 12 months ago. These reforms were designed to update regulatory and legislative settings to accommodate the customer owned business model, including measures to improve our sector's capacity to raise capital.

Our role as one of Australia's largest credit unions is to ensure that understanding is front of mind when new reforms are designed.

On an operational front, the establishment of Open Banking and Comprehensive Credit Reporting in coming years is likely to create significant benefits for members through improved access to finances, broader choice, and a greater appreciation for risk-based products that better reflect behaviour and capacity. As always, our interest lies in facilitating the change to ensure the benefits are not outweighed by compliance costs.

BOARD AND OUR PEOPLE

The Board this year expanded its capacity with the appointment of David Cartwright as a non-executive Director from 12 December 2017. David has an extensive career in financial services, technology and business services, including a role as ANZ Bank Group Chief Operating Officer. David is also the founding partner of an advisory business specialising in strategy, digital disruption and transformational change – all areas very much relevant to the future success of People's Choice.

At our Annual General Meeting in November 2017, Virginia Hickey was re-elected and Amanda Heyworth was elected to the Board. Ms Hickey has been a director since 2014. Ms Heyworth serves on boards in the finance, housing, technology, not-for-profit and Government sectors with experience in finance, investment and commercialisation of technology.

This mix of skills and experience is essential given the role that technology plays as both a disruptor and enabler within our industry, and the need for an appropriate level of investment required to establish People's Choice as a sustainable leader in the Australian finance sector.

We thank the dedication of our Executive team and staff for delivering a successful year in an increasingly challenging and competitive market.

Our focus on aligning all that we do with our members' needs has involved significant changes, and the pace of industry-wide disruption is not expected to lessen in coming years. We know that our ability to negotiate those changes while continuing to support our members will deliver the future success of People's Choice.

Especially in today's environment, our Vision of being the most trusted financial services

provider in Australia remains paramount.

John Cossons
Chair

Steve Laidlaw
Chief Executive Officer
and Managing Director

Year in Review

SUPPORTING MEMBERS THROUGH DEEPER ENGAGEMENT

In 2017/18 People's Choice helped 7,940 members to buy their home and 11,323 members to buy a car, renovate their house or go on a holiday. People's Choice protected 35,447 members with general and commercial insurance, mortgage repayment protection and Mutual Aid, and provided 1,161 members with new financial advice.

In its first full year, our M-Power program identified almost 500 opportunities to improve and simplify processes for members. The program supports our drive to improve member experience, while enabling staff to champion changes that will enhance the way in which People's Choice operates.

The voice of our members is increasingly being heard through direct interviews using human centred design and in the Green Room online community. Discussions with members have contributed to product changes, insights into how we can better provide services, and will increasingly determine opportunities to grow People's Choice while responding to our members' evolving expectations. We thank all of our members who have contributed so far, and welcome new members to take up the opportunity to shape the future of People's Choice.

INVESTING FOR THE BENEFIT OF MEMBERS

People's Choice is continuing to invest to provide the latest banking services for members. We were among the first financial institutions in Australia to offer Fast Payments through the New Payments Platform, designed to allow members to send and receive payments within seconds. We have delivered four major updates to our Mobile Banking App through the year including seven new features such as international money transfers and quick balances – all designed to improve member experience.

A national push to cancel fees from major bank ATMs has provided members with hundreds more options for fee-free banking. People's Choice also removed non-member transaction charges and reviewed its fleet placement in light of these changes. At the same time, we have made upgrades for the next-generation \$10 note and introduced cash- and cheque-depositing ATMs at 34 sites. We note that all institutions continue to review the size and location of their ATM fleets. People's Choice continues to do the same with an appreciation for member requirements and responsible investment of

member funds.

During the year, People's Choice invested in the refurbishment of branches at Berri, Blackwood, West Lakes and Munno Para in South Australia; Tuggeranong in the ACT; and Bourke Street Melbourne and Warrnambool in Victoria. The success of our home loan centre in the south-east Melbourne suburb of Cranbourne will soon be expanded with the announcement of new home loan centres in two of Melbourne's high-growth corridors.

As with all financial services providers, People's Choice continues to review its branch footprint to ensure members have access to facilities without bearing a disproportionate cost for duplicated services. In August 2018 we advised members of our decision to close branches at Golden Grove and Woodcroft in Adelaide and Epping in Melbourne. These are very difficult decisions and can be an unwelcome change for those members who regularly use these branches. However, it is essential that we invest our members' funds into our credit union for the greater benefit of all our members, including those who prefer to bank online and those who bank in much higher numbers at other branches.

A highlight for the year has been the early success of our Fast & Easy personal loans strategy, which involved a thorough redesign of all elements of our personal lending that now combines market-leading rates with the ability to email contracts and electronically disburse funds. Importantly, applications can be made on a mobile device. This process is giving members greater control, choice and convenience in personal lending and the faster turnaround expected today.

STRENGTH OF OUR CULTURE

Organisations in any rapidly-changing industry rely on the strength of their culture to sustain their ability to meet that change. People's Choice is proud of the strength and resilience of its staff and the culture they share, backed by almost 30,500 hours of training and development delivered during 2017/18.

The results of the 2018 Values and Engagement Survey place People's Choice among the top employers, with 88% staff engagement and 90% of staff agreeing the credit union is living up to its values. These results, which outperform industry and corporate benchmarks, demonstrate continued efforts across the business to build a strong values-based culture that is focused on supporting members.

We congratulate Treasurer Heather Gale on being named one of South Australia's leading young business leaders in InDaily's "40 Under 40". The recognition of our young leaders is an important reminder of the opportunities People's Choice can create to identify and promote the talent and ideas that will grow our business nationally.

SUPPORTING OUR COMMUNITIES

People's Choice continues to make a community contribution that far exceeds national averages. In this past year we contributed 2.7% of pre-tax profit to corporate community investment – 4.5 times the 0.61% average contribution made by major Australian and New Zealand companies (source: LBG Australia). Including funds raised through the Community Lottery and other programs, People's Choice generated almost \$3 million for the community during the year and made a difference to close to one million Australians.

The 2017 People's Choice Community Lottery raised \$1.56 million for 1,074 community groups, including a new record of \$61,056 raised for our community partner Cancer Council SA. A record 150,000 tickets were sold online – an avenue People's Choice is supporting through an investment in a new system to support the future growth of the Community Lottery.

Our sixth People's Choice Undies Run for Bowel Cancer was a success, attracting a record 1,611 participants to strip down to raise awareness of Australia's second-largest killer, bowel cancer. More than \$150,000 was raised this year, taking the total of our six-year partnership with Cancer Council SA to more than \$880,200.

People's Choice's staff continued to support the community during the year. Some 230 staff volunteered 1,016 voluntary hours for 54 different organisations, including Cancer Council SA, Trees for Life and the Salvation Army. Our Senior Leaders and Executives raised \$14,500 for HeartKids on Super Boss Day to support children with paediatric heart conditions and their families, and staff donated \$10,760 to 10 charities.

People's Choice continues to review how it can most effectively support the communities in which it operates on behalf of its members. We have recently made some adjustments to our sponsorships in South Australia by concluding our sponsorship of the People's Choice Classic after six years and, together with three other mutuals, our 23-year partnership with the Credit Union Christmas Pageant, while announcing an exciting new partnership with the Adelaide Strikers cricket team that will see People's Choice regularly connect with Australian communities through both men's and women's cricket.