

Financial Report 2009 - 2010





Heritage Building Society Limited

ABN 32 087 652 024 AFS Licence No. 240984

FINANCIAL REPORT 2009 - 2010

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Directors' Report

Your directors submit their report of the consolidated entity (the "Group"), being Heritage Building Society Limited (the "Society") and its controlled entities, for the year ended 30 June 2010.

DIRECTORS

The name and details of the directors of the Group in office during the financial year and until the date of this report are:

NAME AND QUALIFICATIONS

Mr Brian R. Carter AM **LLB, HonDUniv, FAICD** **Chairman**

Mr Carter is a retired Solicitor and a Toowoomba businessman. He served as a director of Darling Downs Building Society from 1975-81 and was Deputy Chairman in 1980-81. He has been a director of Heritage since the merger in 1981. He was Deputy Chairman 1981-82 and has been Chairman of Directors since 1982. Mr Carter is an ex officio member of, and has involvement with, all Board Committees. Mr Carter has also been Chairman of the Council of the Queensland Institute of Medical Research 1997-98 and Chairman of the Board of St. Vincent's Hospital, Toowoomba, 1990-96, and various other organisations. Mr Carter was appointed a Member in the General Division of the Order of Australia "For service to business and commerce through the building society industry, and to the community through health care and medical research organisations". He was awarded the Centenary of Federation Medal for distinguished service to the community. Mr Carter was awarded an honorary doctorate at the University of Southern Queensland for his strong advocacy of the university and his significant contribution to the community through his voluntary, charitable and sporting contributions.

Mr Graeme G. Kidd **BBus (Fin Plan)** **Deputy Chairman**

Mr Kidd has a background in natural resource administration, real estate agency and valuation, technical education, finance and the building society industry. He served on the board of Toowoomba Permanent Building Society from 1974 to 1981. He has been a director of Heritage Building Society since 1981 and Deputy Chairman since April 1995. Mr Kidd is Chairman of the Audit and Compliance Committee, a member of the Remuneration and Appointments Committee and a member of the Constitution Review Committee. He is a director of Permanent LMI Pty Limited and was Chairman of that company until 31 December 2009.

Mr Kerry J. Betros **BBus, FCPA, MAICD**

Mr Betros is Managing Director of Betros Bros Holdings Pty Ltd and associated companies, Darling Downs based wholesalers and retailers and Chairman of HBS Custodian Pty Ltd. He has previously served on various other boards and organisations. He has served on the Heritage Board since 1991. Mr Betros is Chairman of the Society's Finance Committee. Mr Betros was awarded the Centenary of Federation Medal for distinguished service to the community.

Mrs Vivienne A. Quinn **MAHRI, MRCSA, FAICD**

Mrs Quinn is the Managing Director of Quinn & Associates Pty Ltd, a Brisbane-based staff recruitment consultancy which operates throughout all the eastern states. She has had over 30 years in staff recruitment and has a depth of marketing experience. She is also a partner in a primary production/tourism business on the Southern Downs. Mrs Quinn has served on various Federal

and State Government Boards and on the State Councils of human resource industry bodies. She has served on the Heritage Board since 1995 and is a member of the Audit and Compliance Committee, the Remuneration and Appointments Committee and is Chairman of the Superannuation Policy Committee.

Dr Dennis P. Campbell **PhD, MBA, FCHSE, CHE, FAIM**

Dr Campbell is currently the Corporate Division Head of Legal Aid, Queensland, and was previously the Chief Executive Officer of St. Vincent's Hospital Toowoomba for ten years. He serves as a member of numerous Boards and Advisory Committees, representing both public and private health sectors and has legal and health qualifications and is involved in organisational health consulting. Dr Campbell joined the Heritage Board in 2000 and is a member of the Society's Insurance and Constitution Review Committees and is a director of Permanent LMI Pty Limited. He became Chairman of Permanent LMI Pty Limited on 1 January 2010. He also serves as a trustee of the Queensland Museum Foundation and is Chairperson of the Management Advisory Committee of the Cobb & Co Museum, Toowoomba. In 2007, he was awarded an Australia Day Medallion for his services to the Australian College of Health Service Executives.

Professor Peter Swannell AM **BSc, PhD, HonDUniv, CPEng(ret), FIE Aust**

Emeritus Professor Swannell was the Vice-Chancellor and President of the University of Southern Queensland from November 1996 until September 2003 having joined the University as Foundation Professor and Dean of the Faculty of Engineering and Surveying in 1990. This appointment followed an academic career spanning over 30 years in the United Kingdom and Australia. He has

served as a Chairman and member of a number of Boards and Committees and is currently the Chairman of Empire Theatres Pty Ltd (since 1999) and the Queensland Museum (since 2008). Professor Swannell joined the Heritage Board in 2003 and is Chairman of the Insurance Committee and a member of the Finance Committee. He was appointed as a Member in the General Division of the Order of Australia, "For services to higher education, particularly through the advancement of distance education and on-line learning opportunities, to engineering as a researcher and teacher, and to the community". He was also awarded the Centenary of Federation Medal for services to education, particularly as Vice Chancellor of the University of Southern Queensland.

Ms Susan M. Campbell
FCPA, FFin, MAICD, BCom,
GradDip(SIA), MBA

Ms Campbell was appointed as a Director in 2005 and brings with her a range of finance skills from the banking and financial services sector. She is managing director of ARGYLL, a specialist financial services consulting firm, and is Heritage's first interstate director. Ms Campbell is a member of the Finance Committee. She is also active with CPA Australia, The Institute of Chartered Accountants and AFMA and works with many organisations in Australia and Asia in developing their risk management skills. Her previous work has included working with global banks, corporate treasury and as a senior lecturer at RMIT University.

Mr Brendan P. Baulch
BCom, LLB, CA, MAICD

Mr Baulch is a Chartered Accountant based in Toowoomba. He began his career with Price Waterhouse in their corporate tax division in Melbourne, after which he spent a total of eight years in London, gaining international accounting experience in a range of business sectors including telecommunications (Cable & Wireless plc), investment banking (Société Générale) and insurance (Lloyd's of London). He is currently the principal of Baulch & Associates, a local accounting practice providing taxation, audit and management accounting services. Mr Baulch is a registered tax agent and a registered company auditor. He was appointed a Director in 2007 and is a member of the Audit and Compliance Committee. He is a director of HeritageMAP Pty Ltd.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees) and the number of meetings attended by each director during the financial year were:

	Board		Finance		Audit and Compliance		Remuneration and Appointments		Insurance	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Carter AM *	12	12	12	11	6	5	1	1	1	-
Mr Kidd	12	12	-	-	6	6	1	1	-	-
Mr Betros	12	12	12	12	-	-	-	-	-	-
Mrs Quinn	12	12	-	-	6	6	1	1	-	-
Dr Campbell	12	12	-	-	-	-	-	-	1	1
Prof Swannell AM	12	12	12	12	-	-	-	-	1	1
Ms Campbell	12	12	12	12	-	-	-	-	-	-
Mr Baulch	12	12	-	-	6	6	-	-	-	-

The meetings held during the year indicate the number of meetings held during the period the individual was a director or committee member.

* Mr Carter is an ex officio member, not an appointed member, of the Audit and Compliance, Finance and Insurance Committees. He attends only those meetings involving significant issues to the Society.

Directors' Report (continued)

COMPANY SECRETARIES

Mr T. William Armagnacq
BCom, FCA, FAICD
Company Secretary / Assistant Chief Executive Officer

Mr Armagnacq has been a Secretary of Heritage Building Society Limited since May 2003. From January 1998 to April 2003 he was company secretary of a number of companies which are part of the Ergon Energy Corporation Limited Group. From July 1989 to December 1997, Mr Armagnacq was a partner of Chartered Accountants, KPMG. He has also been a director of a number of companies and is currently a director of Permanent LMI Pty Limited.

Mr David Janetzki
LLB (Hons), BEcon, AMusA
Assistant Company Secretary / Corporate Lawyer

Mr Janetzki has been a Secretary of Heritage Building Society Limited since October 2007. He is the Society's Corporate Lawyer and is admitted as a solicitor of the Supreme Court of Queensland and the Supreme Court of England and Wales. He has previously worked as a lawyer for national law firm Corrs Chambers Westgarth and as inhouse counsel for the UK operation of a Fortune 500 company in London.

PRINCIPAL ACTIVITIES

Heritage Building Society Limited is a mutual building society that is incorporated and domiciled in Australia.

The principal activity of the Group during the year was the provision of financial products and services to members. There has been no significant change in the nature of these activities during the year.

The Group employed 686 full time equivalent employees as at 30 June 2010 (2009 - 725 employees).

REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the financial year after income tax was \$29.890 million (2009 - \$25.504 million). The Group's financial performance remains strong and all areas of the business contributed to the result. Continued low mortgage arrears reflect the Society's prudent lending standards.

The Group reported a 6.3% increase in total consolidated assets to a total of \$7.565 billion (2009 - \$7.114 billion).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group during the year ended 30 June 2010 not otherwise listed in the report or the financial statements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There are no other significant events since the end of the financial year which will affect the operating results or state of affairs of the Group in subsequent years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

A statement on the likely developments in the operations of the Group, and the expected results of these operations has not been included in the report because, in the opinion of the Directors, it could prejudice the interest of the economic entity.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

For the financial year, the Group paid premiums in respect of insurance contracts which insure each person who is or has been a director or executive officer of the Group against certain liabilities arising in the course of their activities to the Group.

The directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the contract.

REMUNERATION REPORT (AUDITED)

The Remuneration Report has been prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2010. The information provided in the Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

REMUNERATION REPORT (AUDITED) (continued)

INTRODUCTION

This Remuneration Report provides members with information relating to the Group’s remuneration policies and practices and outlines remuneration arrangements applying to the Group’s key management personnel, including the remuneration of the five executives of the Group and the company that receive the highest remuneration.

“Key management personnel” are defined as “those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity”.

In this Remuneration Report the “key management personnel” and the five highest paid senior executives will be referred to collectively as the “key management personnel”.

GOVERNANCE AND RISK MANAGEMENT

The Remuneration and Appointments Committee is appointed and authorised by Heritage’s Board to assist the Board in fulfilling its regulatory obligations.

Accordingly, the Remuneration and Appointments Committee exercises the authority and power delegated to it by the Board.

The Remuneration and Appointments Committee’s role is to report to the Board and review, oversee and provide appropriate advice and recommendations on matters relating to:

- Remuneration policies (including incentive payments);
- Appointment and remuneration of the CEO; and
- Senior executive appointments and senior executive remuneration in conjunction with the CEO.

Key responsibilities include, among others:

- Conduct regular reviews of, and make recommendations to the Board on the remuneration policy and related policies; and
- Make annual recommendations to the Board on the remuneration of the CEO and senior executives, other persons whose activities may in the opinion of the Remuneration and Appointments Committee affect the financial

soundness of the Society and any other person specified by APRA.

In exercising their responsibilities, the Remuneration and Appointments Committee assesses the appropriateness of the nature and amount of remuneration of non-executive directors and senior executives on an annual basis with the overarching objective of ensuring maximum member benefit from the retention of a high quality

KEY MANAGEMENT PERSONNEL

Directors	Position
Brian Carter AM	Chairman (Non-executive)
Graeme Kidd	Deputy Chairman (Non-executive)
Kerry Betros	Director (Non-executive)
Vivienne Quinn	Director (Non-executive)
Dennis Campbell	Director (Non-executive)
Peter Swannell AM	Director (Non-executive)
Susan Campbell	Director (Non-executive)
Brendan Baulch	Director (Non-executive)

Senior Executives	Position	Contract Duration	Notice Period (Executive to Heritage)
John Minz	Chief Executive Officer	3 years	-
Bill Armagnacq	Company Secretary / Assistant Chief Executive Officer	3 years	3 months
Jane Calder	General Manager, Marketing	3 years	3 months
Peter Cavanagh	Chief Strategy Officer	3 years	3 months
Peter Cleary	Chief Financial Officer	3 years	3 months
Paul Francis	General Manager, Retail Services	No fixed term	1 month
Bob Hogarth	General Manager, Human Resources	No fixed term	1 month
Dunstin Lynch	Head of Lending and Card Services	No fixed term	1 month
John Williams	General Manager, Technology and Payment Systems	No fixed term	1 month
Paul Williams	Treasurer	2 years	-

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

and high performing Board and senior executive group.

All members of the Remuneration and Appointments Committee are non-executive directors. Members of the Remuneration and Appointments Committee during the past 12 months have been Brian Carter (Chairman), Graeme Kidd and Vivienne Quinn.

No termination payments are made by Heritage in the event key management personnel contracts are terminated. Notice and any statutory payments or entitlements are paid as appropriate.

There has been no change to those persons defined as "key management personnel" between 1 July 2009 and the date of this Remuneration Report.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Background

Directors' remuneration is reviewed annually by the Remuneration and Appointments Committee. Based on the review undertaken by the Remuneration and Appointments Committee, the Board may make recommendations to members at the Annual General Meeting taking into account trends, industry standards, profitability and fees paid by comparable institutions. This information is derived from independent remuneration sources.

Recommendations also take into account the need to attract and retain appropriately qualified and experienced non-executive directors.

Directors' fees are approved by members at the Annual General Meeting in the aggregate and the individual allocation is determined and approved by the Board.

Directors' Fees

The non-executive directors' aggregate fee amount as approved by members at the Annual General Meeting on 21 October 2009 is \$910,000. The individual allocation is provided in the

table on page 8. This amount does not include superannuation, retirement allowances or any other entitlements.

Directors are entitled to payment of superannuation contributions at the rate of 9% of fees paid, payment of directors' liability and personal accident insurance and related fringe benefits tax. Under the Constitution of the Society, directors are entitled to a lump sum retiring allowance calculated as one-fourth of the aggregate amount of directors' fees which the director has received or has become entitled to receive. With the consent of the Board all or part of the retiring allowance to which a director has or will become entitled may be paid to a superannuation fund of which the director is a member.

No part of non-executive director remuneration is based on the financial performance of Heritage or the performance of the director and is not otherwise at risk.

Non-executive directors do not participate in Heritage incentive schemes. Heritage does not have share capital and non-executive directors do not receive any shares, award rights, share options or any other benefit howsoever arising.

Directors may maintain loan and credit facilities from Heritage at normal member rates of interest and therefore no additional remuneration is obtained by way of a benefit.

Directors' fees are not payable to senior executives for directorships of any subsidiary, associated or joint venture companies or industry organisations in which Heritage has an interest or membership.

Other Directors' Fees

Mr Kerry Betros received additional remuneration and superannuation contributions as Chairman of HBS Custodian Pty Limited. HBS Custodian Pty Limited is a wholly owned subsidiary of Heritage Building Society Limited and the Manager of Heritage's securitisation activities.

Mr Graeme Kidd and Dr Dennis Campbell received fees and associated superannuation as directors of Permanent LMI Pty Limited, which is a joint venture arrangement between Heritage Building Society Limited and QBE Lenders' Mortgage Insurance Limited. The remuneration was paid by Permanent LMI Pty Limited. Permanent LMI Pty Limited is licensed as an insurer to undertake lender's mortgage insurance and only insures loans written by Heritage. Mr Kidd was Chairman of Permanent LMI Pty Limited until 31 December 2009. Dr Campbell became the Chairman of Permanent LMI Pty Limited effective 1 January 2010.

Mr Brendan Baulch and Dr Dennis Campbell received fees and associated superannuation as directors of MAP Funds Management Limited. The remuneration was paid by MAP Funds Management Limited. Heritage Building Society Limited has a joint venture arrangement with MAP Funds Management Limited to supply financial planning services through a licensed joint venture company known as HeritageMAP Pty Ltd and a MAP/Heritage branded superannuation product.

SENIOR EXECUTIVES' REMUNERATION

Background

A key objective of Heritage's remuneration philosophy is to enable Heritage to attract, motivate and retain high performing senior executives.

Remuneration, including any performance based component, is designed to appropriately reward senior executives (and all employees) to encourage behaviour that supports Heritage's long-term financial soundness and risk management framework. In this regard, Heritage's Human Resources department has a set of policies and procedures in connection with remuneration including incentives, commissions and other benefits.

For senior executives, any performance-based component of remuneration is designed to align remuneration with prudent risk-taking and incorporate adjustments to reflect:

- the outcomes of business activities;
- the risks related to the business activities taking account, where relevant, of the cost of the associated capital; and
- the time necessary for the outcomes of those business activities to be reliably measured.

The Board may adjust performance-based components of senior executive remuneration downwards, to zero if appropriate, if such adjustments are necessary to:

- protect the financial soundness of Heritage; or
- respond to significant unexpected or unintended consequences that were not foreseen by the Remuneration and Appointments Committee.

SENIOR EXECUTIVE REMUNERATION

Senior executive remuneration is currently a mix of fixed salary and short term (yearly) incentive payments.

Fixed Remuneration

Senior executives are paid a competitive fixed component of remuneration that reflects their core performance requirements and the expectations associated with their particular position. The fixed component of remuneration includes matters such as salary, superannuation, motor vehicle novated leases and leave entitlements. Senior executive base salary is reviewed annually taking into account the individual executive's position, external market trends and personal performance.

Short Term Incentive Benefits

Heritage provides an opportunity for senior executives to be paid a yearly cash incentive dependent on the individual's performance throughout the year and the duties and responsibilities undertaken.

Any incentive payments are made on the basis of specified, quantifiable results, which may include the completion of a particular business project or the introduction of a new system which improves Heritage's ability to provide products and services to its members.

The opportunity for senior executives to be granted a yearly incentive payment is designed to support Heritage's overall remuneration policy by focussing senior executives on achieving yearly personal performance goals which contribute to sustainable Heritage growth and member value. Linking short-term incentive payments to individual performance ensures that senior executives establish a *People first* work culture that continually supports Heritage's long-term financial soundness.

No senior executive is provided with a yearly incentive payment on the basis of Heritage's financial performance.

Long Term Incentive Benefits

Heritage does not offer any long-term incentive benefits to senior executives. Heritage does not have share capital and senior executives do not receive any shares, award rights, share options or any other long-term benefits howsoever arising.

Senior Executive Performance

Heritage's senior executive employment contracts are either fixed term or open-ended in nature. The terms and conditions of such employment contracts are commensurable with the banking and finance industry in which Heritage operates.

Senior executives complete an annual performance review with the CEO at which time their performance and remuneration will be discussed. The CEO completes an annual performance review with the Chairman of the Board.

In the case of the CEO, any decisions in respect of remuneration are made on the recommendation of the Remuneration

and Appointments Committee and approved by the Board. In the case of senior executives, any decisions in respect of remuneration are made on the recommendation of the CEO and approved by the Remuneration and Appointments Committee and the Board.

Directors' Report (continued)

REMUNERATION REPORT (continued)

REMUNERATION TABLE

This section provides the remuneration details for non-executive directors and executives.

		Short Term Benefits			Long Term Benefits		Total
		Society Fees	Other Group Company Fees	Non-Cash Benefits	Superannuation Contributions	Retiring Allowance	
		\$'000	\$'000	\$'000	\$'000	\$'000	
Non - Executive Directors							
Mr B.R. Carter AM Chairman	2010	231	-	3	20	58	312
	2009	218	-	3	19	55	295
Mr G.G. Kidd Deputy Chairman	2010	143	-	3	13	36	195
	2009	136	-	3	12	33	184
Mr K.J. Betros Director, Finance Committee Chairman	2010	136	13	3	13	34	199
	2009	128	12	3	12	32	187
Mrs V.A. Quinn Director	2010	80	-	3	7	20	110
	2009	78	-	3	7	19	107
Dr D.P. Campbell Director	2010	80	-	3	7	20	110
	2009	75	-	3	7	19	104
Professor P. Swannell AM Director	2010	80	-	3	7	20	110
	2009	78	-	3	7	19	107
Ms S.M. Campbell Director	2010	80	-	3	7	20	110
	2009	75	-	3	7	19	104
Mr B.P. Baulch Director	2010	80	-	3	7	20	110
	2009	81	-	3	7	20	111
Total for 2010		910	13	24	81	228	1,256
Total for 2009		869	12	24	78	216	1,199

Non-executive directors do not participate in Heritage incentive schemes.

		Short Term Benefits			Long Term Benefits		Total
		Salary	Incentive	Non-Cash Benefits	Superannuation Contributions	Long Service Leave Entitlements	
		\$'000	\$'000	\$'000	\$'000	\$'000	
Executives							
John Minz Chief Executive Officer	2010	498	50	15	92	17	672
	2009	473	50	13	90	26	652
Bill Armagnacq Company Secretary / Assistant CEO	2010	226	31	22	50	5	334
	2009	215	28	20	50	5	318
Jane Calder* General Manager, Marketing	2010	201	14	-	30	5	250
	2009	115	-	-	10	1	126
Peter Cavanagh Chief Strategy Officer	2010	235	27	14	25	5	306
	2009	250	27	-	15	5	297
Peter Cleary Chief Financial Officer	2010	259	34	-	46	6	345
	2009	250	30	-	45	7	332
Paul Francis General Manager, Retail Services	2010	245	40	13	58	2	358
	2009	236	36	13	56	11	352
Bob Hogarth General Manager, Human Resources	2010	177	32	14	39	5	267
	2009	173	25	14	33	7	252
Dunstin Lynch Head of Lending & Card Services	2010	166	24	-	31	6	227
	2009	134	20	22	30	6	212
John Williams General Manager, Technology & Payment Systems	2010	192	32	17	35	9	285
	2009	174	25	17	32	8	256
Paul Williams Treasurer	2010	267	40	-	38	7	352
	2009	249	30	-	35	10	324
Total for 2010		2,466	324	95	444	67	3,396
Total for 2009		2,269	271	99	396	86	3,121

*Jane Calder joined on 8 December 2008

AUDITOR'S INDEPENDENCE DECLARATION

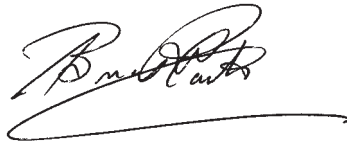
In relation to the Auditor's Independence, the Directors have sought and received a report that there has been no breaches of the Auditor Independence requirement of the *Corporations Act 2001*. The report is shown on page 62.

ROUNDING

The amounts contained in this report and the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors:

TOOWOOMBA
26 August 2010



BRIAN R. CARTER
Chairman



GRAEME G. KIDD
Deputy Chairman

Income Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest revenue	3 (a)	444,100	467,417	474,171	503,783
Interest expense	4 (a)	(327,502)	(362,967)	(381,943)	(416,740)
Net interest income		116,598	104,450	92,228	87,043
Other income	3 (b)	32,280	33,045	54,847	48,299
Total income		148,878	137,495	147,075	135,342
Impairment losses on loans and receivables	4 (b)	(1,960)	(2,443)	(1,960)	(2,443)
Marketing expense		(7,151)	(5,123)	(7,151)	(5,123)
Occupancy expense		(8,879)	(8,484)	(8,879)	(8,484)
Employee benefits expense	4 (c)	(54,383)	(50,731)	(54,383)	(50,731)
Administrative expense		(20,527)	(21,467)	(18,724)	(19,314)
Other expense	4 (d)	(14,432)	(14,173)	(14,432)	(14,173)
Share of net profit of associates	3 (c)	792	828	792	828
Profit before tax		42,338	35,902	42,338	35,902
Income tax expense	5 (a)	(12,448)	(10,398)	(12,448)	(10,398)
Profit after tax		29,890	25,504	29,890	25,504

The accompanying notes form part of these financial statements

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit after tax		29,890	25,504	29,890	25,504
Other comprehensive income					
Actuarial gain / (loss) on defined benefit plan		(243)	(1,356)	(243)	(1,356)
Gain / (loss) on cash flow hedge taken to members' funds		13,419	(40,358)	(3,021)	34,758
Gain / (loss) on revaluation of available for sale financial investments		831	(577)	831	(577)
Income tax gain / (expense) on items of other comprehensive income	5 (b)	(3,429)	11,230	555	(10,357)
Other comprehensive income / (loss) for the year, net of tax		10,578	(31,061)	(1,878)	22,468
Total comprehensive income / (loss) for the year		40,468	(5,557)	28,012	47,972

The accompanying notes form part of these financial statements

Statement of Financial Position

AS AT 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Assets					
Cash and cash equivalents	6	81,531	29,949	80,492	28,863
Receivables due from other financial institutions	7	418,029	192,036	374,429	130,636
Other receivables	8	53,533	58,245	53,097	58,038
Loans and receivables	9	6,280,188	6,108,258	6,280,188	6,108,258
Held to maturity financial assets	11	686,381	642,551	686,381	642,551
Investments accounted for using the equity method	12	5,840	5,796	5,840	5,796
Available for sale financial investments	13	5,721	4,890	5,721	4,890
Derivatives		1,355	36,829	11,158	32,019
Other investments	15	-	-	337,484	347,000
Property, plant and equipment	16	21,458	23,181	21,458	23,181
Other assets	17	1,554	1,352	1,554	1,352
Intangibles	18	1,849	1,197	1,849	1,197
Deferred tax assets	5 (d)	7,601	9,257	6,176	4,652
Total Assets		7,565,040	7,113,541	7,865,827	7,388,433
Liabilities					
Deposits and borrowings	19	7,063,822	6,801,584	4,900,953	4,036,664
Accounts payable and other liabilities	20	114,485	27,878	2,601,902	3,042,587
Derivatives		36,889	20,820	1,284	20,820
Current tax liabilities		5,001	5,132	5,001	5,132
Deferred tax liabilities	5 (e)	4,262	4,196	6,818	7,555
Provisions	21	8,889	8,117	8,889	8,117
Retirement benefit liability	22	529	546	529	546
Subordinated debt	23	95,427	50,000	95,427	50,000
Total Liabilities		7,329,304	6,918,273	7,620,803	7,171,421
Net Assets		235,736	195,268	245,024	217,012
Members' Funds					
Retained profits		231,420	201,773	231,420	201,773
Reserves	24	4,316	(6,505)	13,604	15,239
Total Members' Funds		235,736	195,268	245,024	217,012

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED				
	Retained profits	Asset revaluation reserve	Cash flow hedge reserve	Available for sale asset reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July 2009	201,773	5,714	(13,344)	1,125	195,268
Profit for the year	29,890	-	-	-	29,890
Other comprehensive income	(243)	-	10,239	582	10,578
Total as at 30 June 2010	231,420	5,714	(3,105)	1,707	235,736
Balance 1 July 2008	177,625	5,714	15,957	1,529	200,825
Profit for the year	25,504	-	-	-	25,504
Other comprehensive income	(1,356)	-	(29,301)	(404)	(31,061)
Total as at 30 June 2009	201,773	5,714	(13,344)	1,125	195,268
	PARENT				
	Retained profits	Asset revaluation reserve	Cash flow hedge reserve	Available for sale asset reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July 2009	201,773	5,714	8,400	1,125	217,012
Profit for the year	29,890	-	-	-	29,890
Other comprehensive income	(243)	-	(2,217)	582	(1,878)
Total as at 30 June 2010	231,420	5,714	6,183	1,707	245,024
Balance 1 July 2008	177,625	5,714	(15,828)	1,529	169,040
Profit for the year	25,504	-	-	-	25,504
Other comprehensive income	(1,356)	-	24,228	(404)	22,468
Total as at 30 June 2009	201,773	5,714	8,400	1,125	217,012

The accompanying notes form part of these financial statements

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities					
Interest received		454,090	481,888	310,197	300,125
Dividend received		783	1,517	783	1,517
Borrowing costs and interest paid		(305,759)	(379,653)	(187,846)	(205,885)
Other non-interest income received		34,314	35,229	56,854	50,451
Payments to suppliers and employees		(109,041)	(100,213)	(107,551)	(96,677)
Income tax paid		(14,281)	(10,543)	(14,281)	(10,543)
Net cash flows from operating activities	25 (a)	60,106	28,225	58,156	38,988
Cash flows from investing activities					
(Increase) / decrease in investment securities and receivables due from other financial institutions		(269,822)	(245,694)	(287,623)	(229,294)
(Increase) / decrease in loans, receivables and other receivables		(171,513)	27,090	(762,946)	(718,243)
Net (increase) in other investments		-	(13)	-	(13)
Proceeds from sale of property, plant and equipment		252	285	252	285
Acquisition of property, plant and equipment		(4,498)	(4,784)	(4,498)	(4,784)
Net cash flows used in investing activities		(445,581)	(223,116)	(1,054,815)	(952,049)
Cash flows from financing activities					
Increase in deposits and other borrowings		392,057	188,101	928,193	822,207
Proceeds from issuance of subordinated debt		50,000	-	50,000	-
Payments for redemption of subordinated debt		(5,000)	(7,000)	(5,000)	(7,000)
Proceeds from securitisation of loans		-	-	75,095	83,511
Net cash flows from financing activities		437,057	181,101	1,048,288	898,718
Net (decrease) / increase in cash held		51,582	(13,790)	51,629	(14,343)
Cash - beginning of the year		29,949	43,739	28,863	43,206
Cash - end of the year	25 (b)	81,531	29,949	80,492	28,863

The accompanying notes form part of these financial statements

Notes to the Financial Statements

1. CORPORATE INFORMATION

The consolidated financial report of Heritage Building Society Limited and the Special Purpose Vehicles (SPVs) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 26 August 2010.

The parent entity, Heritage Building Society Limited (the "Society") is a mutual building society that is incorporated and domiciled in Australia. The nature of operations and principal activities of the Group are described in Note 31.

The SPVs are made up of ten trust vehicles that have been established for the purpose of securitising the Society's loans (refer Note 28 for further details). The SPVs have been consolidated as the Society is exposed to the majority of the residual risk of the trusts and also has the rights to obtain the majority of the benefits of the trusts.

Derecognition of Financial Assets and Financial Liabilities

The Group derecognises a financial asset or financial liability or part thereof where an entity has transferred substantially all the risks and rewards of that asset or liability. The SPVs assets and liabilities qualify for derecognition in full or in part.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* including applicable Australian Accounting Standards.

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available for sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollar (\$'000) unless otherwise stated under the option available to the Group under ASIC Class Order 98/0100.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

The following Australian Accounting Standards and Amendments to Australian Accounting Standards have been identified as those which may impact the Group in the period of initial application. Management are in the process of assessing the impact of the new standards. The standards are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Reference	Title	Nature of change to accounting policy	Application date of standard*	Application date for Group
AASB 2009-5	<i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Accounting changes for presentation, recognition or measurement purposes and terminology	1 January 2010	1 July 2010
AASB 2009-11	<i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Introduces a number of changes to the accounting for financial assets	1 January 2013	1 July 2013
AASB 2009-12	<i>Amendments to Australian Accounting Standards</i>	Makes numerous editorial changes to a range of Australian Accounting Standards and interpretations	1 January 2011	1 July 2011
AASB 2009-14	<i>Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement</i>	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)	1 January 2011	1 July 2011
AASB 9	<i>Financial Instruments</i>	Simplifies the approach to classifying and measuring financial assets	1 January 2013	1 July 2013
AASB 124	<i>Related Party Disclosures</i>	Simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies	1 January 2011	1 July 2011
AASB 2010-3	<i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Makes numerous editorial changes to a range of Australian Accounting Standards and interpretations	1 July 2010	1 July 2010
AASB 2010-4	<i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Makes numerous editorial changes to a range of Australian Accounting Standards and interpretations	1 January 2011	1 July 2011

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

The following amendments are not applicable to the Group and therefore have no impact.

Reference	Title
AASB 2009-8	<i>Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions</i>
AASB 2009-9	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards</i>
AASB 2009-10	<i>Amendments to Australian Accounting Standards - Classification of Right Issues [AASB 132]</i>
AASB 2009-13	<i>Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]</i>
AASB 2010-1	<i>Amendments to Australian Accounting Standards - Limited Exemption from AASB 7</i>
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>
AASB 2010-2	<i>Amendments to Australian Accounting Standards arising from reduced disclosure requirements</i>
Interpretation 19	<i>Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments</i>

(c) Basis of consolidation

The consolidated financial statements include those of the Society and the Special Purpose Vehicles (SPVs) relating to the securitisation of the Society's loans, referred to as the "Group". The SPVs underlying assets, liabilities, revenues, expenses and cash flows are reported in the Group's Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement (refer to Note 28 (e)). Where entities have been acquired during the year, their operating results have been included from the date of acquisition. All inter-company transactions and balances have been eliminated including any unrealised profit.

(d) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Loan provisioning

The Group determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows. The Group's policy for calculation of loan loss allowance is disclosed in Note 9 and Note 10. Refer to Note 2 (h).

Building impairment

The carrying value of the building is reviewed for impairment at each reporting date (refer to Note 2 (k) for further details).

Superannuation defined benefit plan

Various actuarial assumptions are required when determining the Group's superannuation obligations. The Group's policy on the superannuation defined benefit plan is disclosed in Note 22.

Investments

Where the fair value of investments cannot be derived from active markets they are determined by other valuation techniques and judgements including consideration of liquidity where applicable.

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

(i) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Payments made to brokers for the introduction of mortgage loan borrowers to the Society are expensed over three years from the date of payment to match the cost of acquiring the loan to the income derived from it. In line with the effective interest rate method mortgage commission is reclassified to interest revenue.

Set up costs incurred for securitisation are carried forward and amortised over the period of probable future economic benefits, approximately four years. In line with the effective interest rate method securitisation establishment costs are reclassified to interest revenue.

(ii) Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

(iii) Fees and commissions

Fees and commissions that form an integral part of interest are classified as part of interest revenue. Revenue is recognised as interest accrues using the effective interest method.

(f) Cash and cash equivalents

Cash in the Statement of Financial Position and Statement of Cash Flows comprises of cash at bank and on hand.

(g) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate, basis and cross currency swaps to hedge its risks associated with interest rate and currency fluctuations. These instruments are initially recognised at cost on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as effective cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of swap contracts is determined by reference to market values for similar instruments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is remeasured to fair value and gains and losses from both are taken to the Income Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Derivative financial instruments and hedging (continued)

(ii) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Income Statement.

Amounts taken to equity are transferred to the Income Statement when the hedged transaction affects the Income Statement, such as when hedged income or expenses are recognised.

Refer to Note 2 (l) for further detail.

(h) Loan provisioning

Loan impairment will only be recognised when objective evidence is available that a loss event has occurred and as a consequence it is not likely that all amounts owed will be received. Outlined below are the relevant accounting policies.

Specific provision

A specific provision is raised for losses that may be incurred for individual loans that are known to be impaired by assessing the recoverability against the security value.

Collective provision

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective provision is raised. From the analysis performed, the provision has been consistent with the historical level of bad debts experienced in those portfolios. The provision has been maintained to reflect the impact of the economic conditions of the current environment.

Impairment losses

Impairment losses are written off in the year in which they are recognised. If a provision for impairment has been recognised in relation to the loan, write-offs are made against the provision. If no provision for impairment has previously been recognised, write-offs for impairment losses are recognised as expenses in the Income Statement.

(i) Income tax

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, effects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against the deductible temporary differences, except:

- when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

Tax effect accounting is applied using the balance sheet method whereby deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(k) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are measured at cost less accumulated depreciation on buildings. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Building - 40 years
- Leasehold improvements - the lease term
- Plant and equipment - 3 to 8 years

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amounts being estimated when events or changes in circumstance indicate the carrying value may be impaired.

An impairment loss exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

(l) Classification of financial assets and financial instruments

(i) Financial instruments (derivatives)

Those derivatives that the Group does not apply hedge accounting to are classified as 'held for trading' financial assets. These are measured at fair value, with fair value changes charged to the Income Statement. Those derivatives where the Group is applying hedge accounting are designated and qualify as either cash flow hedges or fair value hedges. The various derivatives entered into are as follows:

(a) Cash flow hedge of variable rate liabilities

The Group's policy is to enter into pay fixed / receive floating swaps with approved external counterparties to mitigate against variability in cash flows of a portfolio of floating rate liabilities.

(b) Cash flow hedge of variable rate assets

The Group's policy is to enter into pay floating / receive fixed swaps to counteract against variability in cash flows of a portfolio of floating rate assets.

(c) Cash flow hedge of Euro denominated notes

The Group's policy is to enter into a cross currency swap to effectively convert the floating Euro denominated debt to floating Australian dollar debt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Classification of financial assets and financial instruments (continued)

(d) Fair value hedge

The Group has entered into a pay floating / receive fixed swap with approved external counterparties to mitigate against changes in the fair value of term subordinated debt due to movement in interest rates.

(ii) Financial assets

Financial assets are classified into one of the following categories:

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method.

Held to maturity financial assets

These are non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has the positive intention and ability to hold to maturity. These assets are measured at amortised cost using the effective interest method less any impairment.

Available for sale financial investments

These are those non-derivative financial assets that are not classified in any of the above categories. After initial measurement, available for sale financial investments are subsequently measured at fair value or cost where the fair value is unable to be measured reliably. Unrealised gains and losses are recognised directly in the Statement of changes in Equity in the available for sale reserve.

Impairment of financial assets other than loans and receivables

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of assets is impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after initial recognition of the asset and that event has had an impact on the estimated future cash flows of the financial asset.

Impairment - financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group assesses individually whether objective evidence of impairment exists or collectively for financial assets that are not individually significant or have no individual impairment. If there is objective evidence that an impairment loss has been incurred the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Impairment - Available for sale financial investments

The Group assesses whether there is objective evidence of impairment based on there being a significant or prolonged decline in fair value.

(m) Employee benefits

Provision has been made for the liability to pay annual leave for all employees at the remuneration rates which are expected to be paid when the liability is settled. Provision for the liability to pay long service leave is made for all employees from their date of commencement at discounted expected future values in accordance with AASB 119 *Employee Benefits*.

In accordance with AASB 119 the net position of the defined benefit plan is recognised in the Statement of Financial Position. Any gains or losses with the exception of the actuarial gain or loss, arising from changes in the net position between reporting periods is recognised through the profit and loss account. Actuarial gains or losses are recognised directly through retained earnings and disclosed in other comprehensive income.

(n) Provision for directors' retiring allowance

Provision has been made for all directors in accordance with Rule 34.11.4.2 of the Constitution of the Society. The retiring allowance is calculated as one-fourth of the aggregate amount of directors' fees which have been approved at the annual general meeting. All or part of this retiring allowance can be paid to a complying superannuation fund.

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Make good provision and asset

A provision is made for the anticipated costs of restoring leased premises at the end of the leased term that reflects the present obligation to restore the premises. The estimate of the costs has been calculated by reviewing current and historical deficit costs and calculating an average cost per square metre. A cost per branch has been calculated depending on its size. A provision and asset has then been recorded to reflect the cost at the end of each lease term. The asset is amortised over the lease term. Both the asset and liability is reassessed at the end of each financial year to account for new, amended and expired leases.

(p) Intangible assets

Intangible assets include the value of computer software which are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Amortisation is calculated on the straight line basis over 3 years.

(q) Subordinated debt

Subordinated debt includes debt listed with Australian Securities Exchange and other unlisted debt. The listed debt is initially recognised at fair value net of direct issue costs. Changes in the fair value are recognised in the Income Statement. The unlisted debt is measured at amortised cost using the effective interest rate method.

(r) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases which do not transfer to the Society substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term.

(s) Accounting for associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee. The results, assets and liabilities of associates are incorporated using the equity method of accounting.

(t) Guarantees

Guarantees are issued to third parties by the Society in favour of bodies such as councils or electricity supply boards, relative to work or construction to be carried out by those clients.

The member is required to lodge funds as a term deposit equal to the guarantee amount. This deposit is then held as security. For business customers, residential or commercial mortgages are held as security.

The Society charges a fee equal to 1% of the guarantee amount annually.

3. INCOME

(a) Interest revenue

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Deposits and investment securities	45,285	43,997	43,371	40,866
Loans and receivables	409,228	431,620	414,423	436,570
Interest rate swaps	914	6,179	27,704	40,726
Net ineffectiveness recognised on cash flow hedges	-	(106)	-	(106)
Gain / (loss) on fair value hedges	1,355	(4)	1,355	(4)
Add: Loan application direct revenue	2,542	2,638	2,542	2,638
Less: Commission and agent direct costs	(14,147)	(14,905)	(14,147)	(14,905)
Less: Securitisation establishment costs	(1,077)	(2,002)	(1,077)	(2,002)
Total interest revenue	444,100	467,417	474,171	503,783

(b) Other income

Fees and commissions	30,354	30,681	52,921	45,935
Dividends - other corporations	34	19	34	19
Income from property	425	460	425	460
Impairment losses on loans recovered	182	232	182	232
Other revenue	1,285	1,653	1,285	1,653
Total other income	32,280	33,045	54,847	48,299

(c) Share of net profit of associate using the equity method

	792	828	792	828
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4. EXPENSES

(a) Interest expense

Deposits	180,898	166,533	184,711	171,623
Subordinated debt including fair value adjustment	8,262	3,126	8,262	3,126
Interest bearing notes	123,585	176,489	-	-
Interest rate swaps	14,757	16,819	15,034	24,220
Inter entity interest expense	-	-	173,936	217,771
Total interest expense	327,502	362,967	381,943	416,740

(b) Impairment losses on loans and receivables

	1,960	2,443	1,960	2,443
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Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
4. EXPENSES (continued)				
(c) Employee benefits expense				
Salaries, wages and allowances	41,346	40,242	41,346	40,242
Contribution to defined benefit fund	562	812	562	812
Contribution to accumulation fund	4,016	4,139	4,016	4,139
Other employee costs	8,459	5,538	8,459	5,538
Total employee benefits expense	54,383	50,731	54,383	50,731
(d) Other expense				
Depreciation				
Plant and equipment	5,391	5,789	5,391	5,789
Buildings	653	607	653	607
	6,044	6,396	6,044	6,396
Amortisation	731	305	731	305
Communication	5,078	4,929	5,078	4,929
Fees and commissions	2,524	2,521	2,524	2,521
Net loss on disposal of property, plant and equipment	55	22	55	22
	8,388	7,777	8,388	7,777
Total other expense	14,432	14,173	14,432	14,173

5. INCOME TAX

(a) Income tax expense

The major components of income tax expense are:

Income statement

Current income tax

Current income tax charge	14,225	12,649	14,225	12,649
Under / (over) provision of previous year	(55)	2	(55)	2

Deferred income tax

Deferred income tax relating to temporary differences	(1,722)	(2,253)	(1,722)	(2,253)
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Income tax expense	12,448	10,398	12,448	10,398
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5. INCOME TAX (continued)

(b) Other comprehensive income

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flow hedges	3,180	(11,057)	(804)	10,530
Available for sale asset reserve	249	(173)	249	(173)
Income tax gain / (expense) on items of other comprehensive income	3,429	(11,230)	(555)	10,357

(c) Reconciliation of income tax expense to prima facie tax payable

Profit from ordinary activities before tax	42,338	35,902	42,338	35,902
Tax at the tax rate of 30%	12,701	10,771	12,701	10,771
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Depreciation of buildings	32	32	32	32
Dividend credits	(225)	(449)	(225)	(449)
Other items (net)	(5)	42	(5)	42
Under / (over) provision of the previous year - non deductible expense	(55)	2	(55)	2
Income tax expense	12,448	10,398	12,448	10,398

(d) Analysis of deferred tax assets

Employee benefits	2,273	2,044	2,273	2,044
Provision for impairment	1,195	1,086	1,195	1,086
Other provisions	1,024	633	1,024	633
Other	1,684	889	1,684	889
Total	6,176	4,652	6,176	4,652
<i>Amounts recognised directly in equity:</i>				
Cash flow hedges	1,425	4,605	-	-
Total deferred tax assets	7,601	9,257	6,176	4,652

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
5. INCOME TAX (continued)				
(e) Analysis of deferred tax liabilities				
Loan costs	1,223	1,965	1,223	1,965
Fixed assets	159	61	159	61
Investment in associate	1,219	1,206	1,219	1,206
Defined benefit fund	441	363	441	363
Other	488	118	488	118
Total	3,530	3,713	3,530	3,713
<i>Amounts recognised directly in equity:</i>				
Cash flow hedges	-	-	2,556	3,359
Available for sale asset reserve	732	483	732	483
Total deferred tax liabilities	4,262	4,196	6,818	7,555
6. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand (a)	81,531	29,949	80,492	28,863
(a) Cash at bank and on hand				
These are interest and non-interest bearing.				
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits (b)	394,280	168,287	350,680	106,887
Deposits with other authorised deposit-taking institutions	23,749	23,749	23,749	23,749
	418,029	192,036	374,429	130,636
Maturity analysis				
At call	111,680	58,887	111,680	58,887
No longer than 3 months	237,600	109,400	194,000	48,000
Longer than 3 and not longer than 12 months	45,000	-	45,000	-
No maturity specified (c)	23,749	23,749	23,749	23,749
	418,029	192,036	374,429	130,636

7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS (continued)

(a) Impairment losses

No impairment losses have been recognised during the year on the receivables due from other financial institutions (2009 - nil).

(b) Interest earning deposits

The weighted average effective interest rate for the interest earning deposits is 4.49% (2009 - 3.29%).

(c) Deposits with other authorised deposit-taking institutions

The deposits with other authorised deposit-taking institutions do not have a specified maturity date. They are carried at amortised cost.

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
8. OTHER RECEIVABLES					
Interest receivable		7,331	6,334	7,018	5,995
Securitisation deposits		44,438	50,700	44,438	50,700
Other		1,764	1,211	1,641	1,343
		53,533	58,245	53,097	58,038

(a) Impairment losses

No impairment losses have been recognised during the year for other receivables (2009 - nil).

9. LOANS AND RECEIVABLES

Credit cards		75,576	67,561	75,576	67,561
Term loans		3,729,155	3,046,005	3,729,155	3,046,005
Securitised loans		2,472,288	2,987,592	2,472,288	2,987,592
Other		462	397	462	397
Related parties	28	1,883	1,973	1,883	1,973
		6,279,364	6,103,528	6,279,364	6,103,528
Provision for impairment		(3,982)	(3,621)	(3,982)	(3,621)
Add: Securitisation establishment costs		728	1,802	728	1,802
Add: Broker commission		4,078	6,549	4,078	6,549
Net loans and advances		6,280,188	6,108,258	6,280,188	6,108,258

Notes to the Financial Statements (continued)

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
9. LOANS AND RECEIVABLES (continued)					
(a) Aggregate amounts receivable from related parties					
Key management personnel		1,883	1,973	1,883	1,973
Provision for impairment		-	-	-	-
		1,883	1,973	1,883	1,973
(b) Maturity analysis					
At call		462	397	462	397
Not longer than 3 months		423,858	389,420	423,858	389,420
Longer than 3 and not longer than 12 months		124,425	129,631	124,425	129,631
Longer than 1 and not longer than 5 years		902,315	843,631	902,315	843,631
Longer than 5 years		4,828,304	4,740,449	4,828,304	4,740,449
		6,279,364	6,103,528	6,279,364	6,103,528

(c) Concentration of risk

The loan portfolio of the Group does not include any loan or groups of related loans which represent 10% or more of capital.

	Credit Cards \$'000	Term Loans \$'000	Securitised Loans \$'000	Other \$'000	Total \$'000
(d) Provision for impairment					
Consolidated					
2010					
<i>Specific provision</i>					
Opening balance	367	226	-	120	713
Impairment losses provided for / (reversed) during the year	(77)	313	-	56	292
Closing balance	290	539	-	176	1,005
<i>Collective provision</i>					
Opening balance	1,188	1,443	-	277	2,908
Impairment losses provided for / (reversed) during the year	13	47	-	9	69
Writeback of provision to members funds	-	-	-	-	-
Closing balance	1,201	1,490	-	286	2,977
Total provision for impairment	1,491	2,029	-	462	3,982
<i>Charges to operating profit before tax for impairment losses on loans and receivables comprises:</i>					
Specific provision	(77)	313	-	56	292
Collective provision	13	47	-	9	69
Impairment losses recognised directly	474	1,091	-	34	1,599
	410	1,451	-	99	1,960

9. LOANS AND RECEIVABLES (continued)

(d) Provision for impairment (continued)

Consolidated

2009

Specific provision

	Credit Cards \$'000	Term Loans \$'000	Securitized Loans \$'000	Other \$'000	Total \$'000
Opening balance	276	246	-	144	666
Impairment losses provided for / (reversed) during the year	91	(20)	-	(24)	47
Closing balance	367	226	-	120	713

Collective provision

Opening balance	400	930	-	457	1,787
Impairment losses provided for / (reversed) during the year	788	513	-	(180)	1,121
Writeback of provision to members funds	-	-	-	-	-
Closing balance	1,188	1,443	-	277	2,908
Total provision for impairment	1,555	1,669	-	397	3,621

*Charges to operating profit before tax for
impairment losses on loans and receivables
comprises:*

Specific provision	91	(20)	-	(24)	47
Collective provision	788	513	-	(180)	1,121
Impairment losses recognised directly	157	536	-	582	1,275
	1,036	1,029	-	378	2,443

The collective provision for impairment has been calculated by placing loans into pools with similar risk characteristics and collectively assessing for impairment.

Notes to the Financial Statements (continued)

	Credit Cards \$'000	Term Loans \$'000	Securitised Loans \$'000	Other \$'000	Total \$'000
9. LOANS AND RECEIVABLES (continued)					
(d) Provision for impairment (continued)					
Parent					
2010					
<i>Specific provision</i>					
Opening balance	367	226	-	120	713
Impairment losses provided for / (reversed) during the year	(77)	313	-	56	292
Closing balance	290	539	-	176	1,005
<i>Collective provision</i>					
Opening balance	1,188	1,443	-	277	2,908
Impairment losses provided for / (reversed) during the year	13	47	-	9	69
Writeback of provision to members funds	-	-	-	-	-
Closing balance	1,201	1,490	-	286	2,977
Total provision for impairment	1,491	2,029	-	462	3,982
<i>Charges to operating profit before tax for impairment losses on loans and receivables comprises:</i>					
Specific provision	(77)	313	-	56	292
Collective provision	13	47	-	9	69
Impairment losses recognised directly	474	1,091	-	34	1,599
	410	1,451	-	99	1,960
Parent					
2009					
<i>Specific provision</i>					
Opening balance	276	246	-	144	666
Impairment losses provided for / (reversed) during the year	91	(20)	-	(24)	47
Closing balance	367	226	-	120	713
<i>Collective provision</i>					
Opening balance	400	930	-	457	1,787
Impairment losses provided for / (reversed) during the year	788	513	-	(180)	1,121
Writeback of provision to members funds	-	-	-	-	-
Closing balance	1,188	1,443	-	277	2,908
Total provision for impairment	1,555	1,669	-	397	3,621
<i>Charges to operating profit before tax for impairment losses on loans and receivables comprises:</i>					
Specific provision	91	(20)	-	(24)	47
Collective provision	788	513	-	(180)	1,121
Impairment losses recognised directly	157	536	-	582	1,275
	1,036	1,029	-	378	2,443

The collective provision for impairment has been calculated by placing loans into pools with similar risk characteristics and collectively assessing for impairment.

10. IMPAIRMENT OF LOANS AND RECEIVABLES

The policy covering impaired loans and receivables is set out in Note 2.

Total impaired assets

Gross loans no longer accruing interest

2,290 3,053 2,290 3,053

Less individually assessed provisions for impairment

(1,005) (713) (1,005) (713)

Total net impaired assets

1,285 2,340 1,285 2,340

Restructured loans

Balance

- - - -

Assets acquired through enforcement of security

Balance

- - - -

Interest revenue foregone on past due/impaired and restructured loans

67 76 67 76

Net fair value of assets acquired through the enforcement of security through the financial year

- - - -

11. HELD TO MATURITY FINANCIAL ASSETS

Bank debt securities

503,900 449,436 503,900 449,436

Government securities

124,176 176,976 124,176 176,976

Asset backed debt securities

58,305 16,139 58,305 16,139

686,381 642,551 686,381 642,551

Maturity analysis

No longer than 3 months

491,400 421,457 491,400 421,457

Longer than 3 and not longer than 12 months

135,051 120,772 135,051 120,772

Longer than 1 and not longer than 5 years

52,462 95,880 52,462 95,880

Over 5 years

7,468 4,442 7,468 4,442

686,381 642,551 686,381 642,551

(a) Impairment losses

No impairment losses have been recognised during the year on held to maturity financial assets (2009 - nil).

The fair value of the securities is \$691.267 million including accrued interest of \$3.933 million (2009 - \$648.555 million including accrued interest of \$4.759 million).

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
Investment in associate	5,840	5,796	5,840	5,796
Interest in associate	OWNERSHIP INTEREST HELD BY THE SOCIETY			
Balance date 31 December	49.9%	49.9%	49.9%	49.9%
<i>Share of associate's balance sheet:</i>				
Current assets	9,315	9,684	9,315	9,684
Non-current assets	2,889	3,086	2,889	3,086
	12,204	12,770	12,204	12,770
Current liabilities	1,855	1,871	1,855	1,871
Non-current liabilities	4,509	4,605	4,509	4,605
	6,364	6,476	6,364	6,476
Net assets	5,840	6,294	5,840	6,294
<i>Share of associate's profit or loss:</i>				
Revenue	2,835	2,567	2,835	2,567
Profit / (loss) before income tax	1,131	1,182	1,131	1,182
Income tax expense	(339)	(354)	(339)	(354)
Profit / (loss) after income tax	792	828	792	828

Investment in associate:

During the year, the Group has received dividend payments of \$0.749 million (2009 - \$1.498 million).

No significant event or transaction has occurred between the date of Permanent LMI Pty Ltd financial statements as at 31 December 2009 and that of the Group that would require adjustment to the Group's financial statements.

13. AVAILABLE FOR SALE FINANCIAL INVESTMENTS

Investments

Visa shares (a)

Unlisted shares (b)

Other (c)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Visa shares (a)	5,230	4,399	5,230	4,399
Unlisted shares (b)	270	270	270	270
Other (c)	221	221	221	221
	5,721	4,890	5,721	4,890

(a) Visa shares

On 19 March 2008 the Group was granted an equity interest in Visa Incorporated, as a result of a restructure of the Visa enterprise. On 2 May 2008 the Group received \$3.669 million for the compulsory redemption of 80,792 Class C (Series 1) common stock.

The Visa shares relate to 63,003 Class C (Series 1) common stock. From 1 March 2010, 65% of the stock can be sold with the remaining 35% available for sale after the restriction period ceases on 25 March 2011.

The Visa shares have been measured at fair value using the \$US share price converted to Australian dollars at the applicable exchange rate. Any changes to fair value is reflected in the available for sale asset reserve.

(b) Unlisted shares

Unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost. These include shares in Australian Settlements Limited and HeritageMAP Pty Ltd.

Also included in unlisted shares are shares in HBS Custodian Pty Ltd, the manager and custodian of the securitisation vehicles, and HBS Superannuation Nominees Pty Limited. HBS Superannuation Nominees Pty Limited previously acted solely in a fiduciary capacity for the members of the superannuation fund for which it was trustee, and therefore was not controlled by Heritage Building Society Limited. The company is no longer a trustee for the superannuation fund and is now a non-operating company.

(c) Other

The other category comprises the Australian Settlements Limited subordinated debt, which is measured at cost as the fair value is unable to be measured reliably.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board and Management of the Society are responsible for implementing a risk management process to limit risks to prudent levels. The Finance Committee and Audit & Compliance Committee have been established by the Board to develop and monitor risk management policies within their specific areas.

The Society's risk management policy and supporting framework are in place to enable the risks faced by the Society to be identified and analysed, evaluated, and monitored over time. Risk management policies are reviewed regularly to reflect changes from sources both internal and external to the Society.

The Audit & Compliance Committee is responsible for monitoring compliance with the Society's risk management policies and procedures, and reviewing the adequacy of the risk management framework. The Audit & Compliance Committee is assisted in this role by Internal Audit. Internal Audit perform reviews of risk management processes and controls, reporting the results to the Audit & Compliance Committee.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Society has exposure to the following risks from its use of financial instruments:

Market risk

Liquidity risk

Credit risk

Operational risk

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and exchange rates, will affect the Society's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of Market Risks

The Society does not undertake trading activities and all exposure to market risk is in its non-trading portfolio.

Overall authority for market risk is vested in the Board and delegated to the Finance Committee. Treasury is responsible for the development of detailed risk management policies (subject to review by Finance Committee and approval by Board) and for the day-to-day review of their implementation.

Interest Rate Risk

Interest rate risk is the potential for loss of earnings to the Society due to adverse movements in interest rates.

The Society utilises two key risk management strategies; a Pricing Committee facilitates direct (pricing) intervention strategies and the Finance Committee facilitates indirect (hedging) intervention strategies.

Forward Rate Agreements, Interest Rate Swaps, Options (including Interest Rate Caps and Floors), Interest Rate Futures and Options on Interest Rate Futures are all authorised hedging instruments but are subject to approval by the Finance Committee where they have not been utilised within the previous 12 months.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands (set with reference to expected future profit). The Finance Committee is the monitoring body for compliance with these limits and is assisted by the monitoring activities implemented by Treasury in its day-to-day operations.

Sensitivity of net profit and loss

The following demonstrates the sensitivity to a reasonable possible change in interest rates and the equities market with all other variables held constant.

The sensitivity of the Income Statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2010, including the effect of hedging instruments.

Change	Sensitivity of net interest income (NII)	
	2010 \$'000	2009 \$'000
100 basis points	1,395	228
(100) basis points	(544)	(2,838)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Market risk (continued)

Sensitivity of equity

The sensitivity of equity is calculated by determining the effect of an assumed change in interest rates on any swaps designated as cash flow hedges and the net interest income. It also includes the effect of a revaluation of the available for sale (AFS) financial investments.

Change	Sensitivity of NII & cash flow hedge reserve		Sensitivity of available for sale asset reserve	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
100 basis points	2,032	4,521		
(100) basis points	(1,181)	(7,166)		
10% increase in AFS investments			366	308
10% decrease in AFS investments			(333)	(280)
10% increase in US dollar rate			366	308
10% decrease in US dollar rate			(333)	(280)

Currency Risk

Other than the Visa shares denominated in US dollars, the Society is not exposed to any currency risk.

Two SPVs have Euro denominated notes paying floating Eurobor. In order to remove the foreign exchange risk the SPVs have transacted pay Australian dollar receive Eurobor cross currency swap. The receive Eurobor leg of the swap perfectly matches the Eurobor note cashflows, effectively converting the floating Eurobor debt to floating Australian dollar debt. As such there is no exposure to currency risk.

The Group maintains four foreign currency accounts (US, GBP, EURO and NZ) which are used as float accounts to meet foreign currency card load obligations. There is no Income Statement exposure relating to these accounts.

Prepayment Risk

Prepayment risk is the risk that the Society will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Society manages the risk by monitoring the prepayment rate on the loans and taking the rate into account when adopting appropriate hedging strategies.

(b) Liquidity risk

Liquidity risk is the inability to access sufficient funds, both anticipated and unforeseen that may lead to the Society being unable to meet its cash flow and funding obligations as they arise.

Management of Liquidity Risk

The Society's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal or stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation.

The Society has a Liquidity Management Policy that is supervised by the Chief Executive Officer and administered by the Chief Financial Officer, the Manager of Accounting Services and the Treasurer. To ensure liquidity requirements are met, the Society maintains minimum liquidity holdings relative to its balance sheet liabilities including irrevocable commitments but excluding eligible capital. The minimum liquidity holdings comprise high quality liquid assets held within a Liquid Assets Portfolio.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. A daily report covers the daily liquidity position, liquidity forecasts are generated weekly and summary reports are provided to Finance Committee monthly.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Group's financial liabilities, commitments and contingencies. This is based on contractual undiscounted cash flows and will not agree directly to the amounts recognised in the Statement of Financial Position. The derivatives have been calculated using existing contractual terms and rates prevailing at 30 June 2010. The amount will differ accordingly from the Statement of Financial Position.

	Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Consolidated				
2010				
Deposits and borrowings	4,566,065	1,013,016	1,913,641	7,492,722
Accounts payable and other liabilities	114,485	-	-	114,485
Subordinated debt	6,425	30,167	121,952	158,544
Derivatives	7,356	10,267	-	17,623
Credit related commitments	385,145	-	-	385,145
Financial guarantees	3,935	-	-	3,935
	5,083,411	1,053,450	2,035,593	8,172,454

Consolidated

2009

Deposits and borrowings	4,333,156	371,150	2,392,249	7,096,555
Accounts payable and other liabilities	27,878	-	-	27,878
Subordinated debt	6,329	5,751	48,911	60,991
Derivatives	16,753	2,953	-	19,706
Credit related commitments	469,985	-	-	469,985
Financial guarantees	3,549	-	-	3,549
	4,857,650	379,854	2,441,160	7,678,664

Parent

2010

Deposits and borrowings and inter entity loan	4,561,811	1,012,072	1,911,858	7,485,741
Accounts payable and other liabilities	129,614	-	-	129,614
Subordinated debt	6,425	30,167	121,952	158,544
Derivatives	7,356	10,267	-	17,623
Credit related commitments	385,145	-	-	385,145
Financial guarantees	3,935	-	-	3,935
	5,094,286	1,052,506	2,033,810	8,180,602

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

	Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Parent				
2009				
Deposits and borrowings and inter entity loan	4,329,861	370,868	2,390,429	7,091,158
Accounts payable and other liabilities	54,995	-	-	54,995
Subordinated debt	6,329	5,751	48,911	60,991
Derivatives	16,753	2,953	-	19,706
Credit related commitments	469,985	-	-	469,985
Financial guarantees	3,549	-	-	3,549
	4,881,472	379,572	2,439,340	7,700,384

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. The management of credit risk is supervised by the Chief Executive Officer and administered by the Head of Lending and Card Services for loans and receivables. For cash, liquid investments and derivatives these are administered by the Chief Financial Officer and the Treasurer. Management of credit risk for loans and receivables includes:

- Formulating credit policies including credit assessment, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to branch managers and loan assessment officers.
- Reviewing and assessing credit risk. The Chief Executive Officer, Head of Lending and Card Services together with the Credit Committee assesses credit exposures in excess of designated limits, prior to facilities being committed to customers.

The table below shows the maximum exposure to credit risk:

Gross Maximum Exposure

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash and cash equivalents	81,531	29,949	80,492	28,863
Receivables due from other financial institutions	418,029	192,036	374,429	130,636
Other receivables	53,533	58,245	53,097	58,038
Loans and receivables	6,280,188	6,108,258	6,280,188	6,108,258
Held to maturity financial assets	686,381	642,551	686,381	642,551
Available for sale financial investments	5,721	4,890	5,721	4,890
Other investments	-	-	337,484	347,000
	7,525,383	7,035,929	7,817,792	7,320,236
Financial guarantees	3,935	3,549	3,935	3,549
Credit related commitments	385,145	469,985	385,145	469,985
	389,080	473,534	389,080	473,534
	7,914,463	7,509,463	8,206,872	7,793,770

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Counterparty Risk

As part of the Society's investment policy individual counterparties need to have the appropriate investment grading and are monitored in respect to their limits and credit rating. The appropriate credit rating and limit levels ensures the Society is not exposed to any significant individual counterparty exposure.

Credit exposure by credit rating

The following table outlines the credit ratings of the Group's investments with counterparties:

AAA to AA-

A+ to A-

BBB+ to BBB-

Unrated

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
AAA to AA-	770,602	468,338	727,002	406,938
A+ to A-	68,882	79,743	68,882	79,743
BBB+ to BBB-	217,475	209,473	217,475	209,473
Unrated	47,451	77,033	47,451	77,033
	1,104,410	834,587	1,060,810	773,187

Credit risk of the loan portfolio

Society lending is made up of predominantly residential properties. A credit assessment is completed for each loan which includes information about applicant's cost of living, capacity to repay, previous credit conduct and value of security. The majority of the Society's loan portfolio is secured with mortgages over relevant properties and as a result manages credit risk by using the loan to value ratio (LVR). The LVR is calculated by dividing the total of the loan by the lower of the Society approved valuation amount or the purchase price. The average of the Group's LVR's are as follows:

	CONSOLIDATED		PARENT	
LVR	2010 %	2009 %	2010 %	2009 %
0-60%	38	37	38	37
61-80%	44	43	44	43
81-90%	14	14	14	14
91-100%	4	6	4	6
> 100%	-	-	-	-
	100	100	100	100

Security

For mortgage lending the registered mortgage is held as security. Where the loan to valuation ratio is greater than 80% mortgage insurance is required.

Past due but not impaired loans

These relate to loans where the contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

	Less than 30 days (\$'000)	31 to 60 days (\$'000)	61 to 90 days (\$'000)	More than 90 days (\$'000)	Total (\$'000)
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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Past due items by individual facility as at 30 June are:

2010

Residential owner occupied	624	35	12	94	765
Residential investor	263	15	5	39	322
Credit card	103	-	39	15	157
Other personal	233	-	161	247	641
	1,223	50	217	395	1,885

2009

Residential owner occupied	175	224	8	149	556
Residential investor	75	97	3	64	239
Credit card	102	-	31	38	171
Other personal	222	-	144	199	565
	574	321	186	450	1,531

The total security relating to the above past due items greater than 90 days is \$6,636,500 (2009 - \$11,486,000) [whole dollars].

Impaired loans

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolios. The main components of this allowance are a specific loss component that relates to individually significant exposures, a prescribed provision in accordance with the Australian Prudential Regulatory Authority's (APRA) prescribed provisioning methodology and a collective provision. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. A model is maintained to identify the inherent risk of various portfolios. The model is used in determining whether impairment provisions may be required.

Write off policy

The Group writes off a loan when it is determined that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Concentrations of credit risk

The Group minimises concentrations of credit risk by undertaking transactions with a large number of customers within the specified category. However, the majority of customers are concentrated in Queensland.

Concentrations of credit risk on loans arise in the following categories:

	Maximum credit risk exposure* for each concentration			
	CONSOLIDATED			
	Percentage of total loans and receivables		\$'000	
Geographic	2010	2009	2010	2009
Queensland residents	67%	64%	4,203,273	3,926,713
Other	33%	36%	2,072,109	2,173,194
	100%	100%	**6,275,382	**6,099,907

	Maximum credit risk exposure* for each concentration			
	PARENT			
	Percentage of total loans and receivables		\$'000	
Geographic	2010	2009	2010	2009
Queensland residents	67%	64%	4,203,273	3,926,713
Other	33%	36%	2,072,109	2,173,194
	100%	100%	**6,275,382	**6,099,907

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

**The total loans and receivables figure differs from that presented in the Statement of Financial Position in Note 9 by the securitisation establishment costs of \$0.728 million (2009 - \$1.802 million) and the broker commission of \$4.078 million (2009 - \$6.549 million), as the securitisation establishment costs and broker commission are reclassifications, as a result of the effective interest rate method and are not applicable for the analysis of the concentration of credit risk.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values

The net fair value of financial assets and financial liabilities are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. The three levels are:

- Level 1: Valued by reference to quoted prices in active markets for identical assets and liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

- Level 2: Valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) including:
 - (a) quoted prices in active markets for similar assets or liabilities,
 - (b) quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and
 - (c) other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves.

- Level 3: Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data.

The following table shows an analysis of financial instruments recorded at fair value by each level of the fair value hierarchy.

		Level 1	Level 2	Level 3	Total Fair Value
		\$'000	\$'000	\$'000	\$'000
Consolidated					
2010	Assets				
	Available for sale financial investments	5,230	-	-	5,230
	Derivatives	-	1,355	-	1,355
		5,230	1,355	-	6,585
	Liabilities				
	Subordinated debt	52,460	-	-	52,460
	Derivatives	-	36,889	-	36,889
		52,460	36,889	-	89,349

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

		Level 1	Level 2	Level 3	Total Fair Value
		\$'000	\$'000	\$'000	\$'000
Parent					
2010	Assets				
	Available for sale financial investments	5,230	-	-	5,230
	Derivatives	-	11,158	-	11,158
		5,230	11,158	-	16,388
	Liabilities				
	Subordinated debt	52,460	-	-	52,460
	Derivatives	-	1,284	-	1,284
		52,460	1,284	-	53,744

The following table summarises the carrying amounts and fair values, including accrued interest of those financial assets and financial liabilities not presented on the Group's Statement of Financial Position at their fair value.

	Carrying amount per Statement of Financial Position		Aggregate Net Fair Value	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Consolidated				
Financial Assets				
Held to maturity financial assets	686,381	642,551	691,267	648,555
Loans and receivables	6,280,188	6,108,258	6,264,086	6,159,471
	6,966,569	6,750,809	6,955,353	6,808,026
Financial Liabilities				
Transferable deposits	704,103	40,000	717,632	40,188
Interest bearing notes	2,155,889	2,759,523	2,242,231	2,789,286
Subordinated debt	45,000	50,000	45,542	50,857
	2,904,992	2,849,523	3,005,405	2,880,331

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

	Carrying amount per Statement of Financial Position		Aggregate Net Fair Value	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Parent				
Financial Assets				
Held to maturity financial assets	686,381	642,551	691,267	648,555
Loans and receivables	6,280,188	6,108,258	6,264,086	6,159,471
	6,966,569	6,750,809	6,955,353	6,808,026
Financial Liabilities				
Transferable deposits	704,103	40,000	717,632	40,188
Inter entity loan	2,472,288	2,987,592	2,468,411	3,011,553
Subordinated debt	45,000	50,000	45,542	50,857
	3,221,391	3,077,592	3,231,585	3,102,598

Financial Assets

Cash and cash equivalents and receivables due from other financial institutions

The carrying amounts approximate fair value because of their short term to maturity or are receivable on demand.

Other receivables, accounts payable and other liabilities

The carrying amounts approximate fair value as they are short term in nature.

Held to maturity financial assets

For financial instruments traded in organised financial markets, fair value is the current quoted market price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset.

Loans and receivables

The fair value of loans are estimated using discounted cash flow analysis based on current incremental lending rates for similar types of lending arrangements.

Available for sale financial investments

The fair value is determined with reference to the actual quoted market price at reporting date.

Financial Liabilities

Deposits and borrowings

The carrying amount approximates fair value because 86% (2009 - 92%) of deposits have a short date to maturity. For longer term deposits, their current interest rates are similar to market rates.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

Interest bearing notes

The estimated fair value is determined by a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Transferable deposits

The estimated fair value is determined by a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Subordinated debt

Subordinated debt comprises listed and unlisted debt. For the listed debt the fair value is determined with reference to the actual quoted market price at reporting date. For unlisted debt the estimated fair value is determined by a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Interest rate, basis and cross currency swaps

The fair value is determined as the present value of the future interest cash flows.

(e) Derivative financial instruments

Derivative financial instruments are measured at fair value and recorded in the Statement of Financial Position as assets and liabilities. Changes in values of derivative financial instruments are recognised in the Income Statement unless they qualify as cash flow hedges for accounting purposes, as set out in Note 2 (g).

The Group uses derivative financial instruments to hedge financial risk from movements in interest rates and foreign exchange rates. A description of these financial instruments is given below.

Interest rate swaps - cash flow hedges

The Group has adopted a cash flow hedging strategy where it transacts pay fixed/receive floating swaps with approved external counterparties to mitigate against variability in cash flows of a portfolio of floating rate liabilities.

At balance sheet date, the Group has interest rate swap agreements with a notional amount of \$145 million (2009 - \$795 million), on which it pays 5.40% to 7.38% interest and receives Bank Bill Swap Rate (BBSW). The swaps expire between August 2010 and May 2011.

The Group has adopted a cash flow hedging strategy where it transacts pay floating/receive fixed swaps (some of an amortising nature) with SPVs to counteract against variability in cash flows of a portfolio of floating rate assets.

At balance sheet date, there is a portfolio balance of \$718 million pay floating/received fixed interest rate swaps that the Society has transacted with SPVs.

Interest rate swap - fair value hedge

The Group has adopted a fair value hedging strategy where it transacts pay 3 months BBSW/receive fixed swaps with approved external counterparties to mitigate against changes in the fair value of term subordinated debt due to movement in interest rates.

At balance sheet date, there was a portfolio balance of \$50 million pay floating/receive fixed interest rate swaps.

Basis swaps

The Parent is a basis swap provider to a number of SPVs. As a swap provider, the basis swaps are taken up in the Parent's income or expense. At consolidation, these swaps are eliminated from the Statement of Financial Position.

At balance sheet date, the Parent has basis swap agreements with a notional amount of \$1,470 million (2009 - \$1,496 million). The swaps are provided to the SPVs to hedge the basis between the pool assets and the note holder interest. Hedge accounting is not being applied to the basis swaps.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(e) Derivative financial instruments (continued)

Cross currency swaps

Two of the SPVs enter into cross currency swap agreements. The Group has adopted the cash flow strategy for the designation of these swaps. At balance sheet date, the Group has cross currency swap agreements with a value of \$35.606 million net liabilities (2009 - \$36.829 million net assets). The swaps are used to convert the Euro dollar note holder obligation to Australian dollar obligation.

(f) Operational Risk

Operational risk is risk arising from inadequate or failed internal processes, people and information systems, or from external events (other than credit, market, and liquidity risks). Operational risks arise from the Society's operational activities.

The Society's objective is to manage the risks associated with its activities to realise opportunities and minimise the impact of undesired and unexpected events on its business activities.

Management of risks through the implementation of appropriate control strategies is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the reviews are provided to the responsible management of the subject business unit and reported to the Audit & Compliance Committee.

(g) Capital

Capital adequacy is calculated in accordance with the Prudential Standards issued by Australian Prudential Regulatory Authority (APRA). APRA has set minimum regulatory capital requirements that are consistent with the Basel II Framework. During the year, the Group has complied in full with all its externally imposed capital requirements.

The Group's capital management policy is supervised by the Chief Executive Officer and administered by the Chief Financial Officer, the Manager Accounting Services and the Treasurer. Other objectives include making efficient use of capital in the pursuit of strategic objectives. The capital adequacy ratio is monitored on a daily basis.

Regulatory Capital

	2010 \$'000	2009 \$'000
Tier 1 capital	212,107	185,635
Tier 2 capital	97,753	52,315
Total capital	309,860	237,950
Risk Weighted Assets	2,236,534	1,910,097
Capital Ratio	13.85%	12.46%

Tier 1 capital consists of general reserves and current year earnings. Tier 2 includes other reserves and subordinated debt.

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
15. OTHER INVESTMENTS				
Other investments	-	-	337,484	347,000

On the 25 November 2008 the Society created a special purpose vehicle, HBS Trust 2008-1R where the Society is the sole noteholder of the Trust.

The Society has used a proportion of the notes in HBS Trust 2008-1R as collateral to borrow funds from the Reserve Bank of Australia (RBA). As at 30 June 2010 the Society has borrowed \$185.000 million (2009 - \$210.311 million) from the RBA with \$213.600 million (2009 - \$238.200 million) of notes in HBS Trust 2008-1R being used as collateral.

Refer Note 19 for disclosure of the borrowings.

16. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED			
	Freehold land \$'000	Heritage Plaza building units \$'000	Furniture, fittings, plant and equipment \$'000	Total \$'000
Year ended 30 June 2010				
At 1 July 2009, net of accumulated depreciation and impairment	1,800	9,042	12,339	23,181
Additions	-	164	4,467	4,631
Disposals	-	-	(310)	(310)
Depreciation charge for the year	-	(653)	(5,391)	(6,044)
As at 30 June 2010, net of accumulated depreciation and impairment	1,800	8,553	11,105	21,458
At 30 June 2010				
Cost	1,800	11,151	45,418	58,369
Accumulated depreciation and impairment (a)	-	(2,598)	(34,313)	(36,911)
Net carrying amount	1,800	8,553	11,105	21,458
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation and impairment	1,800	9,312	14,041	25,153
Additions	-	337	4,447	4,784
Disposals	-	-	(360)	(360)
Depreciation charge for the year	-	(607)	(5,789)	(6,396)
As at 30 June 2009, net of accumulated depreciation and impairment	1,800	9,042	12,339	23,181
At 30 June 2009				
Cost	1,800	10,987	45,001	57,788
Accumulated depreciation and impairment (a)	-	(1,945)	(32,662)	(34,607)
Net carrying amount	1,800	9,042	12,339	23,181

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	PARENT			Total \$'000
	Freehold land \$'000	Heritage Plaza building units \$'000	Furniture, fittings, plant and equipment \$'000	
Year ended 30 June 2010				
At 1 July 2009, net of accumulated depreciation and impairment	1,800	9,042	12,339	23,181
Additions	-	164	4,467	4,631
Disposals	-	-	(310)	(310)
Depreciation charge for the year	-	(653)	(5,391)	(6,044)
As at 30 June 2010, net of accumulated depreciation and impairment	1,800	8,553	11,105	21,458
At 30 June 2010				
Cost	1,800	11,151	45,418	58,369
Accumulated depreciation and impairment (a)	-	(2,598)	(34,313)	(36,911)
Net carrying amount	1,800	8,553	11,105	21,458
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation and impairment	1,800	9,312	14,041	25,153
Additions	-	337	4,447	4,784
Disposals	-	-	(360)	(360)
Depreciation charge for the year	-	(607)	(5,789)	(6,396)
As at 30 June 2009, net of accumulated depreciation and impairment	1,800	9,042	12,339	23,181
At 30 June 2009				
Cost	1,800	10,987	45,001	57,788
Accumulated depreciation and impairment (a)	-	(1,945)	(32,662)	(34,607)
Net carrying amount	1,800	9,042	12,339	23,181

(a) Independent Valuation

The Group engaged DTZ Australia Pty Ltd to perform an independent valuation of the freehold land and building. The freehold land and building were valued at \$11.200 million as at 30 June 2010.

(b) Impairment of property, plant and equipment

An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The freehold land and buildings at 400 Ruthven Street Toowoomba is tested for impairment. The major drivers and triggers of impairment were identified and reviewed, and have not given rise to any identified impairment loss. Therefore, no impairment loss or gain was recognised in the 2009 or 2010 financial statements.

Notes to the Financial Statements (continued)

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
17. OTHER ASSETS					
Prepayments		1,295	981	1,295	981
Make good asset		1,312	1,305	1,312	1,305
Less: Amortisation		(1,053)	(934)	(1,053)	(934)
		259	371	259	371
		1,554	1,352	1,554	1,352
18. INTANGIBLES					
Computer Software					
Opening balance, net of accumulated amortisation and impairment		1,197	254	1,197	254
Additions		1,221	1,074	1,221	1,074
Disposals		-	-	-	-
Amortisation charge for the year		(569)	(131)	(569)	(131)
Closing balance, net of accumulated amortisation and impairment		1,849	1,197	1,849	1,197
19. DEPOSITS AND BORROWINGS					
Members' deposits		3,969,747	3,763,416	3,969,747	3,763,416
Transferable deposits		704,103	40,000	704,103	40,000
Accrued interest on deposits / notes		48,119	27,512	41,139	22,115
Interest bearing notes		2,155,889	2,759,523	-	-
Related parties		964	822	964	822
Securities sold under agreement to repurchase	(d)	185,000	210,311	185,000	210,311
		7,063,822	6,801,584	4,900,953	4,036,664
(a) Aggregate deposit and borrowings of related parties					
Key management personnel		964	822	964	822
(b) Maturity analysis					
On call		1,553,643	1,598,906	1,553,643	1,598,906
Not longer than 3 months		1,934,070	2,041,199	1,860,142	1,961,177
Longer than 3 and not longer than 12 months		816,067	512,810	773,155	448,738
Longer than 1 and not longer than 5 years		955,332	355,616	714,013	27,843
Longer than 5 years		1,804,710	2,293,053	-	-
		7,063,822	6,801,584	4,900,953	4,036,664

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
19. DEPOSITS AND BORROWINGS (continued)					
(c) Concentration of deposits					
Queensland depositors		3,458,535	3,364,370	3,448,917	3,353,033
Other		3,605,287	3,437,214	1,452,036	683,631
		7,063,822	6,801,584	4,900,953	4,036,664

The Group's deposit portfolio does not include any deposit which represents 10% or more of total liabilities.

(d) Securities sold under agreement to repurchase

Refer Note 15 for disclosure of the collateral held against the borrowings.

20. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Trade creditors		113,340	27,680	128,469	54,797
Inter entity loan (interest bearing)	1	-	-	2,472,288	2,987,592
Accrued interest payable		1,145	198	1,145	198
		114,485	27,878	2,601,902	3,042,587

21. PROVISIONS

Employee benefits		6,890	6,323	6,890	6,323
Directors' retiring allowance		687	489	687	489
Make good provision		1,312	1,305	1,312	1,305
		8,889	8,117	8,889	8,117

Make good provision

As at 1 July		1,305	1,236	1,305	1,236
Arising during the year		123	66	123	66
Utilised		(44)	(3)	(44)	(3)
Unused amounts reversed		-	-	-	-
Discount rate adjustment		(72)	6	(72)	6
		1,312	1,305	1,312	1,305

Current		266	231	266	231
Non-current		1,046	1,074	1,046	1,074
		1,312	1,305	1,312	1,305

Notes to the Financial Statements (continued)

22. RETIREMENT BENEFIT OBLIGATIONS

(a) Superannuation plan

The Group contributes on behalf of its employees to the Heritage Building Society Limited Superannuation Plan. Employer contributions are based on the advice of the plan's actuary, but as a minimum the Group contributes for all employees in accordance with the *Superannuation Guarantee (Administration) Act 1992*. The plan provides both defined benefits and accumulation style benefits. The object of the plan is to fund the retirement, disability and death benefits of its members.

Defined benefits

The following sets out details in respect of the defined benefit section only.

(b) Statement of Financial Position amounts

The amounts recognised in the Statement of Financial Position are determined as follows:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Present value of the defined benefit obligation	5,757	4,995	5,757	4,995
Fair value of defined benefit plan assets	5,228	4,449	5,228	4,449
Net liability / (asset)	529	546	529	546

(c) Categories of plan assets

The percentage invested in each major category of plan assets at the end of the year:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
Australian equity	33%	30%	33%	30%
International equity	21%	23%	21%	23%
Fixed income	18%	25%	18%	25%
Cash	13%	11%	13%	11%
Property	8%	5%	8%	5%
Alternatives/Other	7%	6%	7%	6%
	100%	100%	100%	100%

22. RETIREMENT BENEFIT OBLIGATIONS (continued)

(d) Reconciliations

Reconciliation of the present value of the defined benefit obligation:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance at the beginning of the year	4,995	4,483	4,995	4,483
Current service cost	387	328	387	328
Interest cost	219	257	219	257
Contributions by plan participants	20	17	20	17
Actuarial (gain) / loss	341	365	341	365
Benefits paid	(73)	(275)	(73)	(275)
Taxes, premiums and expenses paid	(132)	(180)	(132)	(180)
Balance at the end of the year	5,757	4,995	5,757	4,995

Reconciliation of the fair value of plan assets:

Balance at the beginning of the year	4,449	4,742	4,449	4,742
Expected return on plan assets	304	324	304	324
Actuarial gain / (loss)	98	(991)	98	(991)
Employer contributions	562	812	562	812
Contributions by plan participants	20	17	20	17
Benefits paid	(73)	(275)	(73)	(275)
Taxes, premiums and expenses paid	(132)	(180)	(132)	(180)
Balance at the end of the year	5,228	4,449	5,228	4,449

(e) Principal actuarial assumptions

The principal actuarial assumptions adopted for the calculations were:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
Discount rate	4.9% pa	4.6% pa	4.9% pa	4.6% pa
Expected rate of return on plan assets	7.0% pa	6.8% pa	7.0% pa	6.8% pa
Expected salary increase rate	3.5% pa	4.0% pa	3.5% pa	4.0% pa

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investments fees.

(f) Income Statement

The net expense recognised in the Income Statement is \$0.302 million (2009 - net expense \$0.261 million).

Notes to the Financial Statements (continued)

22. RETIREMENT BENEFIT OBLIGATIONS (continued)

(g) Employer contributions

Eligible employees contribute to the plan at a fixed percentage of their salaries and the Group contributes such amounts as necessary to provide the benefits shown under the plan. Any voluntary contributions that are made on the plan accumulate interest and are paid in addition to any other benefits shown under the plan. In terms of the trust deed the Group is not bound to contribute to the plan.

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(h) Historic summary				
Actuarial (gain) / loss recognised in the year in the Statement of Comprehensive Income	243	1,356	243	1,356
Cumulative actuarial (gain) / loss recognised in the Statement of Comprehensive Income	1,215	972	1,215	972
Present value of the defined benefit obligation	5,757	4,995	5,757	4,995
Fair value of defined benefit plan assets	5,228	4,449	5,228	4,449
Net liability / (asset)	529	546	529	546
Experience adjustments arising on plan liabilities - (gain)/loss	530	(68)	530	(68)
Experience adjustments arising on plan assets - (gain)/loss	(98)	991	(98)	991

23. SUBORDINATED DEBT

Subordinated debt listed with Australian Securities Exchange at fair value through the Income Statement	52,460	-	52,460	-
Less: amortised issue costs	(2,033)	-	(2,033)	-
	50,427	-	50,427	-
Other Subordinated Debt at amortised cost	45,000	50,000	45,000	50,000
	95,427	50,000	95,427	50,000
(a) Aggregate subordinated debt of related parties				
Key management personnel	177	-	177	-
Maturity analysis				
Longer than 5 years	95,000	50,000	95,000	50,000
	95,000	50,000	95,000	50,000
Concentration of subordinated debt				
Queensland debt holders	28,918	-	28,918	-
Other	66,082	50,000	66,082	50,000
	95,000	50,000	95,000	50,000

Subordinated debt matures between December 2016 and October 2019 (2009 - September 2014 and October 2017) with an effective interest rate of 7.83% (2009 - 3.99%).

24. RESERVES

(a) Reserves

Asset revaluation reserve

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance 1 July	5,714	5,714	5,714	5,714
Revaluation of land	-	-	-	-
Revaluation of buildings	-	-	-	-
Balance 30 June	5,714	5,714	5,714	5,714

Cash flow hedge reserve

Balance 1 July	(13,344)	15,957	8,400	(15,828)
Transfer to profit	-	106	-	106
Gain / (loss) on cash flow hedging instruments	13,419	(40,464)	(3,021)	34,652
Deferred tax	(3,180)	11,057	804	(10,530)
Balance 30 June	(3,105)	(13,344)	6,183	8,400

Available for sale asset reserve

Balance 1 July	1,125	1,529	1,125	1,529
Revaluation of shares	831	(577)	831	(577)
Deferred tax	(249)	173	(249)	173
Balance 30 June	1,707	1,125	1,707	1,125

Total Reserves

	4,316	(6,505)	13,604	15,239
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(b) Nature and purpose of reserves

(i) *Asset revaluation reserve*

The property, plant and equipment revaluation reserve was used to record increments and decrements on the revaluation of non-current assets up until the transition to IFRS. The asset revaluation reserve will not be used under the existing accounting policy on property plant and equipment (refer Note 2 (k)).

(ii) *Cash flow hedge reserve*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 2 (g). As the underlying transaction occurs the balance will be transferred back to the Income Statement.

(iii) *Available for sale asset reserve*

This reserve is used to record increments and decrements on the revaluation of the Visa shares described in Note 13 (a).

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
25. CASH FLOW STATEMENT RECONCILIATION				
(a) Reconciliation of the operating profit after tax to the net cash flows from operations				
Operating profit after tax	29,890	25,504	29,890	25,504
Non cash items				
Share of associates' net profits	(44)	670	(44)	670
Impairment losses on loans	1,960	2,443	1,960	2,443
Defined benefit fund	(260)	(551)	(260)	(551)
Depreciation	6,044	6,396	6,044	6,396
Amortisation - loans and receivables	1,074	2,002	1,074	2,002
Amortisation - computer software and make good asset	731	305	731	305
Amortisation - establishment cost of borrowings	518	-	518	-
Provision for employee benefits	566	1,134	566	1,134
Changes in assets				
Loss from sale of property, plant and equipment	55	22	55	22
Accrued interest on investments	(997)	51	(1,023)	(305)
Intangibles	(1,220)	(1,073)	(1,220)	(1,073)
Sundry debtors	(211)	2,754	(238)	2,723
Prepayments	2,157	2,393	2,157	2,393
Expenditure carried forward	(46)	(288)	(46)	(288)
Swap asset	(1,696)	(197)	(1,696)	(197)
Deferred tax asset	1,656	(281)	(1,524)	(281)
Changes in liabilities				
Accrued investors interest	21,554	(16,399)	19,971	(6,630)
Current tax liability	(129)	2,109	(129)	2,109
Revaluation of term subordinated debt	2,459	-	2,459	-
Establishment cost - term subordinated debt	(2,341)	-	(2,341)	-
Sundry creditors	1,550	3,148	1,234	4,525
Swap liability	-	-	-	4
Directors' retiring allowance	198	56	198	56
Deferred tax liability	(3,362)	(1,973)	(180)	(1,973)
Net cash flow from operating activities	60,106	28,225	58,156	38,988

25. CASH FLOW STATEMENT RECONCILIATION (continued)

(b) Reconciliation of cash

Cash balance comprises:

- Cash (refer Note 6)

CONSOLIDATED		PARENT	
2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
81,531	29,949	80,492	28,863

(c) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the cash flow statement:

- (i) Customer deposits to and withdrawals from deposit accounts;
- (ii) Borrowings and repayments on loans and receivables; and
- (iii) Sale and purchase of investment securities.

(d) Securitisation facilities available

Securitisation warehouse facilities are in place with Waratah for HBS Trust No. 2 and National Australia Bank for HBS Trust No. 3. Terms and conditions of these facilities are set and agreed to from time to time.

At balance date, the following facilities had been negotiated and were available:

CONSOLIDATED	Negotiated Facility		Facility Utilised	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
HBS Trust No. 1*	-	-	-	940,913
HBS Trust No. 2	700,000	700,000	496,346	547,611
HBS Trust No. 3	300,000	700,000	199,022	183,926

* Following the withdrawal from the Australian securitisation market by SG Australia Limited the funding for HBS Trust No. 1 was restructured during the year.

26. EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date but not provided for:

Property, plant and equipment

Payable not later than one year

Estimated capital expenditure contracted at balance date

CONSOLIDATED		PARENT	
2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
226	708	226	708
226	708	226	708

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
26. EXPENDITURE COMMITMENTS (continued)				
(b) Lease expenditure commitments				
Estimated lease expenditure contracted for at balance date but not provided for:				
<i>Operating leases (non-cancellable)</i>				
Not later than 1 year	6,930	6,942	6,930	6,942
Later than 1 and not later than 5 years	11,318	10,968	11,318	10,968
Later than 5 years	90	324	90	324
Aggregate lease expenditure contracted for at balance date	18,338	18,234	18,338	18,234

These commitments represent payments due under non-cancellable operating leases for various premises occupied. The average lease term is five years.

27. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

In the normal course of business the Group enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financial needs of customers. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Group holds collateral supporting these commitments where it is deemed necessary.

(a) Credit related commitments

Binding commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract.

Approved but undrawn loans and credit limits	385,145	469,985	385,145	469,985
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28. RELATED PARTY DISCLOSURES

(a) Remuneration of key management personnel

Remuneration of the key management personnel of the Group is as follows:

BENEFITS

Short-term

	CONSOLIDATED		PARENT	
	2010 \$	2009 \$	2010 \$	2009 \$
Salary and fees	3,389,206	3,151,678	3,389,206	3,151,678
Cash bonus	324,000	270,500	324,000	270,500
Other	115,141	119,210	115,141	119,210

Post employment

Superannuation	527,341	475,224	527,341	475,224
Long service leave entitlements	67,320	86,622	67,320	86,622
Retirement benefits	227,498	217,464	227,498	217,464

Total

Total remuneration	4,650,506	4,320,698	4,650,506	4,320,698
Total performance related (%)	7%	6%	7%	6%

(b) Loans to key management personnel

All loans to key management personnel and their related parties are on similar terms and conditions available to members.

The following tables provide details of loans made to key management personnel and their related parties.

	Balance 1 July 2009 \$	Written off \$	Interest charged \$	Interest not charged \$	Balance 30 June 2010 \$	Number in group
Key management personnel and their related parties	1,899,472	-	111,548	-	1,821,882	6

Individuals and their related parties with loans above \$100,000 during the period.

Executive	Balance 1 July 2009 \$	Written off \$	Interest charged \$	Interest not charged \$	Balance 30 June 2010 \$	Highest indebtedness in period \$
Bill Armagnacq	519,552	-	29,347	-	491,653	537,356
Jane Calder	-	-	16,376	-	343,361	350,000
Dunstin Lynch	599,117	-	35,786	-	615,632	709,585
John Williams	376,415	-	21,086	-	362,848	376,415
Paul Williams	396,026	-	8,927	-	-	412,404

Notes to the Financial Statements (continued)

28. RELATED PARTY DISCLOSURES (continued)

CONSOLIDATED		PARENT	
2010	2009	2010	2009
\$	\$	\$	\$

(c) Transactions with key management personnel

All of the deposit accounts, loans and credit cards between the Group and key management personnel are transactions that are at arms length. The interest charged on credit cards held by the Senior Executive Group, balance 30 June 2010 - \$22,329 (2009 - \$36,641) is at a discount rate offered to all staff members. Balances for the key management personnel include the following:

Financial Assets

Credit cards	61,526	73,792	61,526	73,792
Loan accounts	1,821,882	1,899,472	1,821,882	1,899,472
	1,883,408	1,973,264	1,883,408	1,973,264

Financial Liabilities

Savings accounts	783,852	618,602	783,852	618,602
Term deposits	180,427	203,061	180,427	203,061
Heritage Notes at par value	177,000	-	177,000	-
	1,141,279	821,663	1,141,279	821,663

(d) Other transactions and balances with key management personnel

Mr Kerry J. Betros is the Managing Director of Betros Bros Holdings Pty Ltd. A member of this group of companies, Betros Bros Pty Ltd, acts as an investing agent. All transactions with the company were performed in the ordinary course of business and on normal commercial terms and conditions. Commissions and rental paid to Betros Bros Pty Ltd during the year were \$71,004 (2009 - \$68,688).

Mr Brian R. Carter is Managing Director of Bricar Pty Ltd. During the year \$3,832 (2009 - \$5,053) was paid to Hunts for reimbursement of secretarial costs.

(e) Special Purpose Vehicles (SPVs)

The SPVs which form part of the consolidated financial statements include the following trusts:

HBS Trust No. 1	HBS Trust 2003-1E
HBS Trust No. 2	HBS Trust 2004-1
HBS Trust No. 3	HBS Trust 2005-1E
HBS Trust 2002-2	HBS Trust 2006-1
HBS Trust 2003-1	HBS Trust 2008-1R

Refer to Note 20 for disclosure of the inter entity loan.

The Society provides a number of facilities and services to the SPVs. The facilities and services can include the following:

Servicer

The role of servicer requires the Society to collect monies and administer the securitised loans. During the year fee income of \$9,508,210 (2009 - \$10,723,673) was received for performing these functions.

28. RELATED PARTY DISCLOSURES (continued)

(e) Special Purpose Vehicles (SPVs) (continued)

Liquidity and redraw facility provider

The Society provides a facility to fund any redraws made by members in relation to the securitised loans. It also provides a liquidity arrangement ensuring the SPV is able to meet its cash flow obligations. During the year fee income of \$141,127 (2009 - \$208,259) was received for performing these functions.

Swap provider

The Society enters into swaps with the SPVs. Interest revenue or expense in respect of these swaps is dependent on prevailing interest rates.

The Society received \$2,006,148 (2009 - \$1,917,780) in interest relating to the securitisation deposits during the year. The average balance of the securitisation deposits held was \$49,960,268 (2009 - \$40,458,491).

(f) Other

Details of interest in controlled entities are set out in Note 30. There are no further dealings with these entities.

Details of interest in associated companies are set out in Note 12. During the year, dividends of \$748,800 (2009 - \$1,497,600) were received from Permanent LMI Pty Limited.

During the financial year fee income for the provision of management and accounting services of \$425,112 (2009 - \$479,436) was received from HBS Custodian Pty Limited.

29. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2010 \$	2009 \$	2010 \$	2009 \$
<i>Amounts received or due and receivable by the auditors for:</i>				
An audit and review of the financial report of the Group	403,250	332,150	313,800	240,650
Taxation services	76,150	38,750	53,500	34,500
Accounting advice - financing and taxation	44,348	6,947	44,348	6,947
Due diligence - Heritage Notes transaction	38,550	-	38,550	-
Securitisation services	104,400	121,800	-	-
	666,698	499,647	450,198	282,097
<i>Amounts received or due and receivable by non Ernst & Young audit firms for:</i>				
Other non-audit services in relation to the Group	-	-	-	-
	666,698	499,647	450,198	282,097

Notes to the Financial Statements (continued)

30. CONTROLLED ENTITIES

Name of Entity	Book value of investment		% of shares held		Country of incorporation	Contribution to consolidated profit after tax	
	2010 \$'000	2009 \$'000	2010 %	2009 %		2010 \$'000	2009 \$'000
Parent Entity							
Heritage Building Society Limited	-	-	-	-	Australia	-	-
Special Purpose Vehicles (SPVs)							
The SPVs relate to the securitisation of the Society's loans and include the following trusts: (Refer to Note 2 (c) for further details).	(a) 337,484	347,000	N/A	N/A	N/A	-	-
HBS Trust No. 1							
HBS Trust No. 2							
HBS Trust No. 3							
HBS Trust 2002-2							
HBS Trust 2003-1							
HBS Trust 2003-1E							
HBS Trust 2004-1							
HBS Trust 2005-1E							
HBS Trust 2006-1							
HBS Trust 2008-1R							

(a) Refer Note 15 for details.

The clean up option for HBS Trust 2002-2 was exercised on 15 December 2009. On this date pursuant to Clause 10.1 of the Series Notice the Trust extinguished all of its right, title and interest in the remaining loans in favour of the Society.

31. SEGMENT INFORMATION

The Group operated predominantly in the finance industry within Australia. The operations comprise the provision of financial products and services to members.

Specific segmentation of loans and deposits are set out in Notes 9 and 19.

32. EVENTS SUBSEQUENT TO REPORTING DATE

There are no significant events since the end of the financial year which will affect the operating results or state of affairs of the Group in subsequent years.

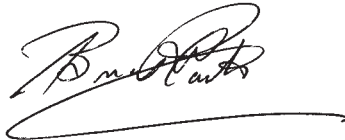
Directors' Declaration

In accordance with a resolution of the directors of Heritage Building Society Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Society are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Society's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) the financial statements also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- (c) there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

On behalf of the Board



BRIAN R. CARTER
Chairman



GRAEME G. KIDD
Deputy Chairman

TOOWOOMBA
26 August 2010



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Auditor's Independence Declaration to the Directors of Heritage Building Society Limited

In relation to our audit of the financial report of Heritage Building Society Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads "Ernst & Young".

Ernst & Young

A handwritten signature in cursive script that reads "P McLuskie".

Paula McLuskie
Partner
26 August 2010



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Independent auditor's report to the members of Heritage Building Society Limited

Report on the Financial Report

We have audited the accompanying financial report of Heritage Building Society Limited (the Society), which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Society are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



Auditor's Opinion

In our opinion:

1. the financial report of Heritage Building Society Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Heritage Building Society Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date;
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Heritage Building Society Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads "Ernst & Young".

Ernst & Young

A handwritten signature in cursive script that reads "P McLuskie".

Paula McLuskie
Partner
Brisbane
26 August 2010