

Condensed Half Year Financial Report 31 December 2010





Heritage Building Society Limited

ABN 32 087 652 024

CONDENSED HALF YEAR FINANCIAL REPORT 31 DECEMBER 2010

Contents

Directors' Report.....	2
Income Statement.....	3
Statement of Comprehensive Income.....	4
Statement of Financial Position.....	5
Statement of Changes in Equity.....	6
Statement of Cash Flows.....	7
Notes to the half-year Financial Statements.....	8
Directors' Declaration.....	12
Auditor's Independence Declaration.....	13
Independent Review Report.....	14

Auditors

Ernst & Young

Registered Office

Heritage Building Society Limited
6th Floor
400 Ruthven Street
Toowoomba Qld 4350

Postal Address

P.O. Box 190
Toowoomba Qld 4350

Telephone (07) 4690 9000

Internet Address

www.heritageonline.com.au

Information contained in this report should be read in conjunction with the June 2010 Financial Report

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 half-year ended 31 December 2010.

DIRECTORS

The name of the directors of the Group in office during the half year and until the date of this report are set out below:

Mr Brian R. Carter AM (Chairman)

Mr Graeme G. Kidd (Deputy Chairman)

Mr Kerry J. Betros

Mrs Vivienne A. Quinn

Dr Dennis P. Campbell

Professor Peter Swannell AM

Ms Susan M. Campbell

Mr Brendan P. Baulch

REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the half year after income tax was \$14.463 million (2009 - \$16.052 million). The Group's financial performance has been impacted by the increased cost of funding.

The Group reported a 1.9% increase in total consolidated assets in the period to 31 December 2010 to a total of \$7.706 billion (Jun 2010 - \$7.565 billion).

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 31 December 2010, the Group was affected by severe flooding in Queensland. As a result, business has been disrupted and some branch assets have been damaged. There are members of the Society who have had their property and income impacted by these natural disasters. No adjustment has been made to the carrying value of assets or liabilities or commitments as at 31 December 2010. However management expects to incur additional costs subsequent to this event to restore the business to its normal operations and to recognise impairment charges relating to its members impacted by these natural disasters. The directors are unable to reliably estimate the additional costs expected to be incurred, nor reliably quantify the extent of impairment charges to be made as a result of this event at the date of this report. The Group has in place insurance policies and the directors are still assessing the extent to which the damage and additional costs will be covered by these policies.

ROUNDING

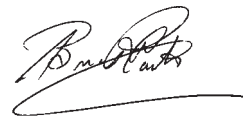
The amounts contained in this report and the financial report have been rounded

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.

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 13.

Signed in accordance with a resolution of the directors:



BRIAN R. CARTER
Chairman



GRAEME G. KIDD
Deputy Chairman

TOOWOOMBA
17 February 2011

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	CONSOLIDATED	
		December 2010 \$'000	December 2009 \$'000
Interest revenue	4 (a)	249,799	210,142
Interest expense	4 (c)	(194,472)	(150,094)
Net interest income		55,327	60,048
Other income	4 (b)	16,458	16,027
Total income		71,785	76,075
Impairment losses on loans and receivables		(1,020)	(643)
Marketing expense		(2,956)	(2,820)
Occupancy expense		(4,646)	(4,396)
Employee benefits expense		(26,725)	(27,879)
Administrative expense		(10,038)	(10,586)
Other expense	4 (d)	(6,891)	(7,178)
Share of net profit of associates		459	321
Profit before tax		19,968	22,894
Income tax expense		(5,505)	(6,842)
Profit after tax		14,463	16,052

Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	CONSOLIDATED	
		December 2010 \$'000	December 2009 \$'000
Profit after tax		14,463	16,052
Other comprehensive income			
Actuarial gain / (loss) on defined benefit plan		(424)	(225)
Gain / (loss) on cash flow hedge taken to members' funds		4,711	18,409
Gain / (loss) on revaluation of available for sale financial investments		(867)	1,495
Income tax gain / (expense) on items of other comprehensive income	4 (e)	(1,204)	(5,075)
Other comprehensive income / (loss) for the period, net of tax		2,216	14,604
Total comprehensive income / (loss) for the period		16,679	30,656

Statement of Financial Position

AS AT 31 DECEMBER 2010

	Note	CONSOLIDATED	
		December 2010 \$'000	June 2010 \$'000
Assets			
Cash and cash equivalents	5	43,510	81,531
Receivables due from other financial institutions	6	363,406	418,029
Other receivables		57,767	53,533
Loans and receivables		6,404,445	6,280,188
Held to maturity financial assets		794,762	686,381
Investments accounted for using the equity method		4,801	5,840
Available for sale financial investments		4,854	5,721
Derivatives		284	1,355
Property, plant and equipment		21,987	21,458
Other assets		1,962	1,554
Intangibles		1,719	1,849
Deferred tax assets		6,167	7,601
Total Assets		7,705,664	7,565,040
Liabilities			
Deposits and borrowings		7,168,617	7,063,822
Accounts payable and other liabilities		117,833	114,485
Derivatives		54,990	36,889
Current tax liabilities		2,571	5,001
Deferred tax liabilities		3,467	4,262
Provisions		8,915	8,889
Retirement benefit liability		858	529
Subordinated debt		95,998	95,427
Total Liabilities		7,453,249	7,329,304
Net Assets		252,415	235,736
Members' Funds			
Retained profits		245,459	231,420
Reserves		6,956	4,316
Total Members' Funds		252,415	235,736

Information contained in this report should be read in conjunction with the June 2010 Financial Report

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Retained profits \$'000	Asset revaluation reserve \$'000	Cash flow hedge reserve \$'000	Available for sale asset reserve \$'000	Total \$'000
Balance 1 July 2010	231,420	5,714	(3,105)	1,707	235,736
Profit for the period	14,463	-	-	-	14,463
Other comprehensive income	(424)	-	3,246	(606)	2,216
Total as at 31 December 2010	245,459	5,714	141	1,101	252,415
Balance 1 July 2009	201,773	5,714	(13,344)	1,125	195,268
Profit for the period	16,052	-	-	-	16,052
Other comprehensive income	(225)	-	13,783	1,046	14,604
Total as at 31 December 2009	217,600	5,714	439	2,171	225,924

Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	CONSOLIDATED	
		December 2010 \$'000	December 2009 \$'000
Cash flows from operating activities			
Interest received		254,035	217,749
Dividend received		1,505	762
Borrowing costs and interest paid		(192,010)	(142,791)
Other non-interest income received		16,035	17,101
Payments to suppliers and employees		(54,384)	(57,346)
Income tax paid		(8,502)	(8,359)
Net cash flows from operating activities		16,679	27,116
Cash flows from investing activities			
(Increase) / decrease in investment securities and receivables due from other financial institutions		(53,757)	(137,358)
(Increase) / decrease in loans, receivables and other receivables		(126,641)	(210,327)
Proceeds from sale of property, plant and equipment		174	138
Acquisition of property, plant and equipment		(3,745)	(2,268)
Net cash flows used in investing activities		(183,969)	(349,815)
Cash flows from financing activities			
Increase in deposits and other borrowings		129,269	320,327
Proceeds from issuance of subordinated debt		-	50,000
Payment for redemption of subordinated debt		-	(5,000)
Net cash flows from financing activities		129,269	365,327
Net (decrease) / increase in cash and cash equivalents		(38,021)	42,628
Cash and cash equivalents at beginning of the period		81,531	29,949
Cash and cash equivalents at end of the period	5	43,510	72,577

Notes to the half-year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

This half-year report for the six months ended 31 December 2010 covers the consolidated entity comprising the parent entity, Heritage Building Society Limited and the Special Purpose Vehicles (SPVs).

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 3.

The SPVs are made up of ten trust vehicles that have been established for the purpose of securitising the Society's loans. 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

The consolidated financial report of Heritage Building Society Limited and the SPVs for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 17 February 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of

the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of the Group as at 30 June 2010, which was prepared based on Australian Accounting Standards, together with any other public announcements.

(a) Basis of preparation

The half-year consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards, including AASB 134 *Interim Financial Reporting*. The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments, listed ASX debt 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 dollars (\$'000) unless otherwise stated under the option available to the Group under ASIC Class Order 98/0100.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2010.

(c) Basis of consolidation

The half-year 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 Statement of Cash Flows. All inter-company transactions and balances have been eliminated including any unrealised profit.

3. SEGMENT INFORMATION

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

4. INCOME AND EXPENSES

(a) Interest revenue

Deposits and investment securities	
Loans and receivables	
Interest rate swaps	
Gain on fair value hedges	
Add: Loan application direct revenue	
Less: Commission and agent direct costs	
Less: Securitisation establishment costs	

Total interest revenue

(b) Other income

Fees and commissions	
Dividends - other corporations	
Income from property	
Impairment losses on loans recovered	
Other revenue	

Total other income

(c) Interest expense

Deposits	
Subordinated debt including fair value adjustment	
Interest bearing notes	
Interest rate swaps	
Loss on fair value hedges	

Total interest expense

CONSOLIDATED	
December 2010 \$'000	December 2009 \$'000
28,981	20,222
225,482	195,864
441	355
-	190
1,233	1,561
(6,015)	(7,477)
(323)	(573)
249,799	210,142
15,472	15,151
7	13
214	217
101	97
664	549
16,458	16,027
118,412	78,245
4,341	3,560
69,463	56,994
1,185	11,295
1,071	-
194,472	150,094

CONSOLIDATED

	December 2010 \$'000	June 2010 \$'000
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS		
Interest earning deposits	339,657	394,280
Deposits with other authorised deposit-taking institutions	23,749	23,749
	363,406	418,029
7. CAPITAL EXPENDITURE COMMITMENTS		
Estimated capital expenditure contracted for at balance date but not provided for:		
<i>Property, plant and equipment</i>		
Payable not later than one year	99	226
Estimated capital expenditure contracted at balance date	99	226
8. 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	447,015	385,145

9. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 31 December 2010, the Group was affected by severe flooding in Queensland. As a result, business has been disrupted and some branch assets have been damaged. There are members of the Society who have had their property and income impacted by these natural disasters. No adjustment has been made to the carrying value of assets or liabilities or commitments as at 31 December 2010. However management expects to incur additional costs subsequent to this event to restore the business to its normal operations and to recognise impairment charges relating to its members impacted by these natural disasters. The directors are unable to reliably estimate the additional costs expected to be incurred, nor reliably quantify the extent of impairment charges to be made as a result of this event at the date of this report. The Group has in place insurance policies and the directors are still assessing the extent to which the damage and additional costs will be covered by these policies.

Information contained in this report should be read in conjunction with the June 2010 Financial Report

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 half-year financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2010 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) 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
17 February 2011



1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

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

In relation to our review of the financial report of Heritage Building Society Limited for the half-year ended 31 December 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.

Ernst & Young

Ernst & Young

P McLuskie

Paula McLuskie
Partner
17 February 2011



1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

To the members of Heritage Building Society Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Heritage Building Society Limited (the Society), which comprises the statement of financial position as at 31 December 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the Society and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Society are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Heritage Building Society Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the Society a written Auditor's Independence Declaration.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Heritage Building Society Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

Ernst & Young

Ernst & Young

PMcLuskie

Paula McLuskie
Partner
Brisbane
17 February 2011