

Condensed Half-Year Financial Report

31 December 2012

People first.



Heritage Bank Limited

ABN 32 087 652 024. AFSL 240984. Australian Credit Licence 240984.

CONDENSED HALF-YEAR FINANCIAL REPORT 31 DECEMBER 2012

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Auditors

Ernst & Young

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Information contained in this report should be read in conjunction with the June 2012 Financial Report

Directors' Report

Your directors submit their report of the consolidated entity (the "Group"), being Heritage Bank Limited ("Heritage") and its controlled entities, for the half-year ended 31 December 2012.

DIRECTORS

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

Mr Kerry J. Betros (Chairman)
Dr Dennis P. Campbell (Deputy Chairman)
Mrs Vivienne A. Quinn
Professor Peter Swannell AM
Ms Susan M. Campbell
Mr Brendan P. Baulch
Mr Stephen Davis
Mr David W. Thorpe

REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the half-year after income tax was \$19.558 million (2011 - \$14.735 million). The Group reported total consolidated assets in the period to 31 December 2012 of \$8.271 billion (June 2012 - \$8.221 billion).

EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the half-year to the date of this report which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

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:



KERRY J. BETROS
Chairman



DENNIS P. CAMPBELL
Deputy Chairman

TOOWOOMBA
21 February 2013

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED	
		December 2012 \$'000	December 2011 \$'000
Interest revenue	4 (a)	237,077	270,267
Interest expense	4 (c)	(169,022)	(210,410)
Net interest income		68,055	59,857
Other income	4 (b)	19,413	16,305
Total income		87,468	76,162
Impairment losses on loans and receivables		(1,063)	(1,127)
Marketing expense		(3,268)	(3,468)
Occupancy expense		(5,149)	(4,932)
Employee benefits expense	4 (d)	(32,279)	(28,296)
Administrative expense		(10,815)	(10,751)
Other expense	4 (e)	(7,234)	(6,834)
Share of net profit of associates		227	300
Profit before tax		27,887	21,054
Income tax expense		(8,329)	(6,319)
Profit after tax		19,558	14,735

Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED	
		December 2012 \$'000	December 2011 \$'000
Profit after tax		19,558	14,735
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Gain/(loss) on cash flow hedge taken to members' funds		1	(3,492)
Gain on revaluation of available for sale financial investments		538	1,355
Net gain on sale of Visa shares reclassified to the Income Statement		(2,966)	-
Income tax gain/(expense) on above items of other comprehensive income	4 (f)	728	641
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on defined benefit plan		278	(1,582)
Income tax gain/(expense) on above items of other comprehensive income		-	-
Other comprehensive (loss) for the period, net of tax		(1,421)	(3,078)
Total comprehensive income for the period		18,137	11,657

Statement of Financial Position

AS AT 31 DECEMBER 2012

	Note	CONSOLIDATED	
		December 2012 \$'000	June 2012 \$'000
Assets			
Cash and cash equivalents	5	219,920	133,081
Receivables due from other financial institutions		270,185	277,809
Other receivables		40,088	48,959
Loans and receivables		6,754,324	6,637,957
Held to maturity financial assets		944,422	1,079,857
Investments accounted for using the equity method		4,175	3,948
Available for sale financial investments		479	4,299
Derivatives		4,561	3,180
Property, plant and equipment		20,852	20,593
Other assets		2,250	1,509
Intangibles		1,289	1,049
Deferred tax assets		8,830	8,841
Total Assets		8,271,375	8,221,082
Liabilities			
Deposits and borrowings		7,688,590	7,585,481
Accounts payable and other liabilities		164,596	220,507
Derivatives		29,678	35,810
Current tax liabilities		4,120	2,471
Deferred tax liabilities		2,065	3,732
Provisions		10,715	10,041
Retirement benefit liability		1,985	2,424
Subordinated debt		54,893	64,020
Total Liabilities		7,956,642	7,924,486
Net Assets		314,733	296,596
Members' Funds			
Retained profits		312,247	292,411
Reserves		2,486	4,185
Total Members' Funds		314,733	296,596

Information contained in this report should be read in conjunction with the June 2012 Financial Report

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Retained profits	Asset revaluation reserve	Cash flow hedge reserve	Available for sale asset reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July 2012	292,411	5,714	(3,229)	1,700	296,596
Profit for the period	19,558	-	-	-	19,558
Other comprehensive income	278	-	1	(1,700)	(1,421)
Total as at 31 December 2012	312,247	5,714	(3,228)	-	314,733
Balance 1 July 2011	262,940	5,714	1,860	1,507	272,021
Profit for the period	14,735	-	-	-	14,735
Other comprehensive income	(1,582)	-	(2,445)	949	(3,078)
Total as at 31 December 2011	276,093	5,714	(585)	2,456	283,678

Information contained in this report should be read in conjunction with the June 2012 Financial Report

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Note	CONSOLIDATED	
		December 2012 \$'000	December 2011 \$'000
Cash flows from operating activities			
Interest received		238,924	272,612
Dividend received		15	21
Borrowing costs and interest paid		(182,683)	(207,343)
Other non-interest income received		17,850	17,783
Payments to suppliers and employees		(61,954)	(50,326)
Income tax paid		(7,609)	(7,569)
Net cash flows from operating activities		4,543	25,178
Cash flows from investing activities			
(Increase) / decrease in investment securities and receivables due from other financial institutions		97,055	(155,982)
Proceeds from sale of Visa shares		8,221	-
(Increase) / decrease in loans, receivables and other receivables		(67,558)	151,274
Proceeds from sale of property, plant and equipment		134	137
Acquisition of property, plant and equipment		(3,187)	(3,411)
Net cash flows used in investing activities		34,665	(7,982)
Cash flows from financing activities			
Increase in deposits and other borrowings		57,631	43,444
Payment for redemption of subordinated debt		(10,000)	(35,000)
Net cash flows from financing activities		47,631	8,444
Net (decrease) / increase in cash and cash equivalents		86,839	25,640
Cash and cash equivalents at beginning of the period		133,081	40,649
Cash and cash equivalents at end of the period	5	219,920	66,289

Information contained in this report should be read in conjunction with the June 2012 Financial Report

Notes to the half-year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

1. CORPORATE INFORMATION

This half-year report for the six months ended 31 December 2012 covers the consolidated entity comprising the parent entity, Heritage Bank Limited and the Special Purpose Vehicles (SPVs).

The parent entity, Heritage Bank Limited ("Heritage") is a mutual bank 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 eight trust vehicles that have been established for the purpose of securitising Heritage's loans. The SPVs have been consolidated as the Bank 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 Bank Limited and the SPVs for the half-year ended 31 December 2012 was authorised for issue in accordance with a resolution of the directors on 21 February 2013.

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 2012, 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 Heritage Notes 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 2012.

(c) Basis of consolidation

The half-year consolidated financial statements include those of Heritage and the Special Purpose Vehicles (SPVs) relating to the securitisation of Heritage's loans, referred to as the "Group". The SPVs underlying assets, liabilities, revenues, expenses and cash flows are reported in the Group's Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow Statement. 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.

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	December 2012 \$'000	December 2011 \$'000
4. INCOME AND EXPENSES		
(a) Interest revenue		
Deposits and investment securities including fair value adjustment	25,543	39,662
Loans and receivables	213,019	233,874
Interest rate swaps	1,019	746
Gain on fair value hedges	185	1,431
Gain on derivatives held at fair value	1,916	-
Add: Loan application direct revenue	1,477	751
Less: Commission and agent direct costs	(5,691)	(5,689)
Less: Securitisation establishment costs	(391)	(508)
Total interest revenue	237,077	270,267
(b) Other income		
Fees and commissions	15,381	15,210
Dividends - other corporations	15	21
Income from property	216	214
Impairment losses on loans recovered	187	174
Realised gain on sale of Visa shares transferred from Other Comprehensive Income	2,966	-
Other revenue	648	686
Total other income	19,413	16,305
(c) Interest expense		
Deposits	125,580	137,093
Subordinated debt including fair value adjustment	3,639	4,869
Interest bearing notes	37,246	66,905
Interest rate swaps	2,282	1,063
Loss on fair value hedges	275	480
Total interest expense	169,022	210,410

Information contained in this report should be read in conjunction with the June 2012 Financial Report

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	December 2012 \$'000	December 2011 \$'000
4. INCOME AND EXPENSES (continued)		
(d) Employee benefits expense		
Salaries, wages and allowances	24,161	21,322
Net defined benefit fund expense	160	174
Contribution to accumulation fund	2,236	1,983
Other employee costs	5,722	4,817
	32,279	28,296
(e) Other expense		
Depreciation		
Plant and equipment	2,499	2,203
Buildings	300	298
	2,799	2,501
Amortisation	370	471
Communication	2,946	2,652
Fees and commissions	1,120	1,199
Net (profit)/loss on disposal of property, plant and equipment	(1)	11
	4,435	4,333
Total other expense	7,234	6,834
(f) Income tax amounts charged directly to equity		
Deferred income tax related to items charged directly to equity		
Cash flow hedges	(1)	1,048
Available for sale asset reserve	729	(407)
Total income tax on items of other comprehensive income	728	641
5. CASH AND CASH EQUIVALENTS		
For the purpose of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:		
Cash at bank and on hand	32,860	31,289
Deposits at call	187,060	35,000
	219,920	66,289

Information contained in this report should be read in conjunction with the June 2012 Financial Report

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED	
	December 2012 \$'000	June 2012 \$'000
6. 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	464,696	474,398

7. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the half-year to the date of this report which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

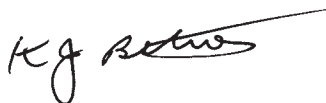
Directors' Declaration

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

In the opinion of the directors:

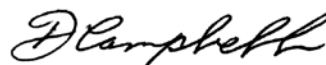
- (a) the half-year financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2012 and the performance for the half-year ended on that date of the consolidated 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 Heritage will be able to pay its debts as and when they become due and payable.

On behalf of the Board



TOOWOOMBA
21 February 2013

KERRY J. BETROS
Chairman



DENNIS P. CAMPBELL
Deputy Chairman



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Auditor's Independence Declaration to the Directors of Heritage Bank Limited

In relation to our review of the financial report of Heritage Bank Limited for the half-year ended 31 December 2012, 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
21 February 2013

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under Professional Standards Legislation



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To the members of Heritage Bank Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Heritage Bank Limited, which comprises the statement of financial position as at 31 December 2012, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company 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 company 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 controls as the directors determine are 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 a Financial Report 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 2012 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 Bank Limited and the entities it controlled during the half-year, 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 company a written Auditor's Independence Declaration.

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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 Bank 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 2012 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.

Ernst & Young

Ernst & Young

P McLuskie

Paula McLuskie
Partner
Brisbane
21 February 2013