



Glen Alpine, Toowoomba - 2006

HALF-YEARLY REPORT

For The Period Ended 31 December 2006

People first.

 **Heritage**
Building Society

FINANCIAL HIGHLIGHTS

Heritage Building Society is pleased to announce the following results for the six months ended 31 December, 2006.

	6 months to 31.12.06 \$m	6 months to 31.12.05 \$m	Movement %
Profit After Tax	9.466	8.871	6.7
Additional Member Value	15.432	16.311	-5.4

PERFORMANCE

The Society has a strong growth story, consistently delivering solid profits that have been sustainable in an increasingly competitive market.

	31.12.06 \$b	30.06.06 \$b	Movement %
Total Assets	6.061	5.808	4.4
Total Loans	5.314	5.098	4.2
Total Deposits	5.784	5.585	3.6

During the reporting period, Heritage reached the milestone of \$6 billion in total consolidated assets. This result was achieved through managed growth with a focus on consolidating our position in the market for future expansion.

During the past three years, Heritage has achieved its strategic objectives of delivering managed growth and continued member value.

The ongoing strong performance is reflected in the quality of the Society's loan book along with increasing the touch points available to members. This has included an expansion in the branch network with the opening of one new branch at Noosa and two mini branches at Wyalla in Toowoomba and Childers during the six-month period.

With trends leaning towards the convenience of online banking, Heritage continued to invest in its technology and payment systems by completing several IT upgrades. The improved technology has not only delivered benefits to Heritage members in the form of enhanced security and faster response times, it has laid the foundation for future growth.

The past six months have seen Heritage move into the advanced stages of developing a strategy that will be a roadmap through to 2010 and beyond. Underpinning the strategic objectives is groundwork in the areas of customer service and technology infrastructure that has already been delivered upon.

GROWTH

Heritage continued its strong growth projection during the six months to 31 December 2006.

The profit from ordinary activities after tax was \$9.466 million. This represents a 6.71% increase for the same period last year.

Mortgage lending remains a solid contributor to the Society's bottom line with total loan approvals for the six months under review reaching \$1.008 billion. This was an increase in 26.1% over the same period last year.

CREDIT QUALITY

The quality of the Society's lending book is reflected in the mortgage arrears greater than 30 days representing only 0.37% of the total portfolio balance as at 31 December 2006. This result is approximately one third of the average SPIN industry benchmark and is reflective of the continuing prudent approach to risk management and the importance placed by the Board and management on maintaining credit quality.

PRUDENTIAL REGULATION

The Society is supervised by the Australian Prudential Regulation Authority (APRA) that sets prudential standards for Authorised Deposit Taking Institutions (ADIs).

The Society continues to maintain sound prudential ratios with both the capital adequacy and the liquidity ratios being comfortably above the regulatory requirements. The capital adequacy ratio as at 31 December 2006 was 12.43% and the liquidity ratio was 15.96%.

INVESTING IN THE FUTURE

In recent years the Society has worked hard to continue to deliver to members the highest standard of service through all distribution channels. To maintain this standard the Society continues to invest in its branch network, technology infrastructure and its people.

During the six-month reporting period, the Society has focused on consolidating the business and establishing the building blocks for future growth. This has included developing: additional business analytical tools; a credit attrition model and ongoing work to the storage area network facility.

With growth in business, Heritage has also experienced growth in staff numbers. This has resulted in the Society investing significant funds in upgrading existing building infrastructure. Most of the work will be completed during the 2006/07 financial year.

MEMBER VALUE – 'PEOPLE FIRST'

On 1 November 2006, Heritage celebrated its 25-year anniversary. It was on this date in 1981 that Toowoomba Permanent Benefit Building and Investment Society, founded in 1875 and Darling Downs Permanent Building Society, founded in 1897, merged to form Heritage Building Society.

During the past 25 years, the way the Society conducts its business and processes its transactions has changed a great deal in all areas except one. Despite the technological advances, the expansion in our retail distribution network and the introduction of intermediaries such as brokers, Heritage has and always will remain committed to its 'People first' philosophy.

Under the mutual model, Heritage provides benefits to members as Additional Member Value (AMV). AMV is the value of the better deal provided to members in the form of lower fees, higher deposit rates and lower lending rates as compared to the major banks. AMV is calculated with the assistance of independent financial analyst CANNEX.

The AMV for the six month period was \$15.432 million which is over and above the after tax profit of \$9.466 million.

The AMV for the six months to 31 December 2006, was down by 5.39% compared with the previous corresponding reporting period. This is due to the banking sector improving its rates, fees and charges in an effort to meet the competitive standard and member focused pricing set by Heritage. Despite their efforts, as the result indicates, Heritage still leads the way by a considerable margin.

PERFORMANCE

	6 months to 31.12.06 \$m	6 months to 31.12.05 \$m	Movement %
Profit After Tax	9.466	8.871	6.7
Additional Member Value	15.432	16.311	-5.4
Total Aggregate Member Value	24.898	25.182	-1.1

Heritage continues to record the highest member satisfaction rating of any financial institution in the country. The Roy Morgan data in respect of the reporting period indicates Heritage's member satisfaction rating¹ is 92.3%.

This result clearly indicates that members are satisfied with the continued delivery of competitive low cost deposit and lending products and a standard of customer service that other financial institutions can only aspire to deliver.

¹ Roy Morgan data to December 2006. The rating refers to an institution's total customers.

WORKING WITH OUR COMMUNITIES

Heritage is committed to the communities it works and operates within. The Society continues to invest and support sponsorships and charitable activities throughout South East Queensland.

Additionally, Heritage's network of Community Branches continue to deliver tangible benefits to the communities of Crows Nest, Highfields, Nanango, Karalee, Forest Lake and Palmwoods.

To encourage Heritage staff to support local charities, the Society has introduced a staff volunteer day leave initiative. This initiative entitles each staff member fully paid leave to work at a registered charity of his or her choice.

OUR MUTUALITY

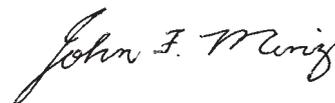
The Society's strong performance is confirmation that Heritage is living its commitment to return practical benefits to members ahead of maximising profit.

Heritage is a strong and robust mutual organisation and remains fully committed to its mutual philosophy and to reinvesting the economic value generated for the ongoing benefit to members.

The Society intends to ensure that members continue to have access to our services as we position ourselves as a competitive banking alternative for the benefit of all members.

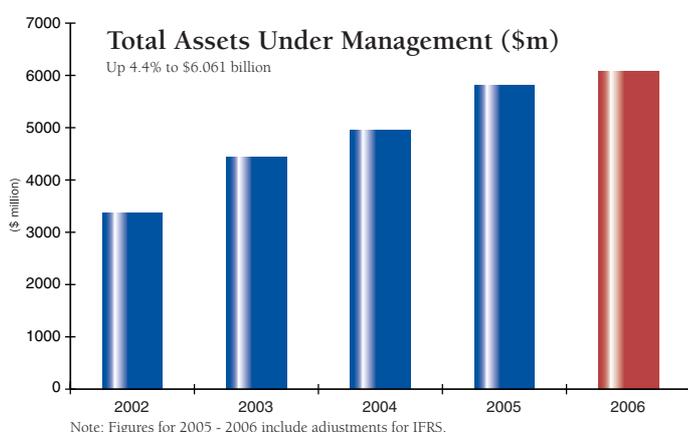
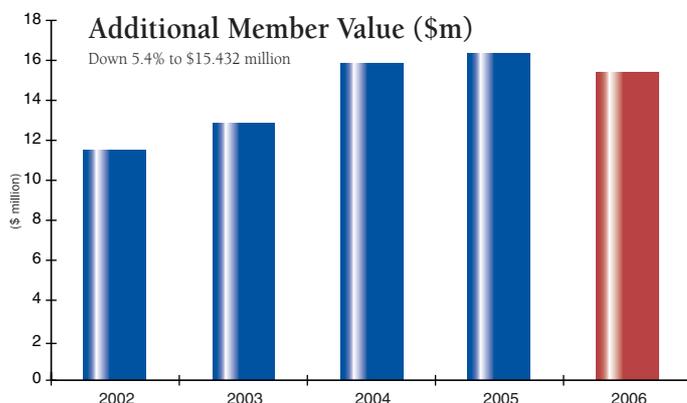


Brian R Carter
Chairman



John F Minz
Chief Executive Officer

PERFORMANCE SUMMARY



CONSOLIDATED INCOME STATEMENT

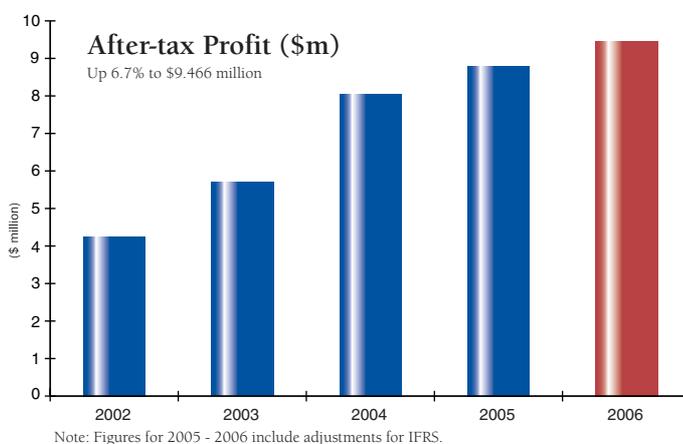
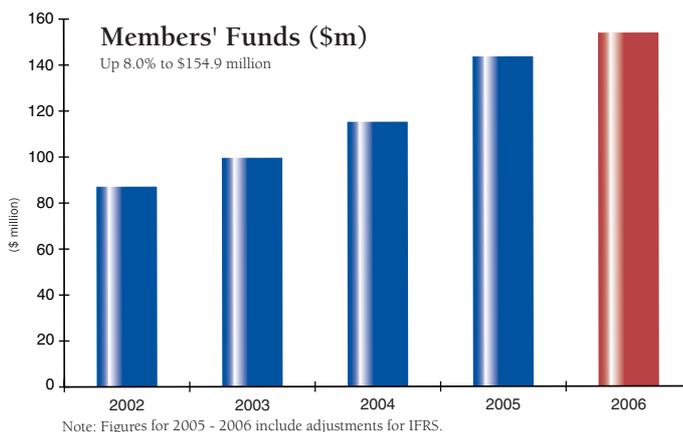
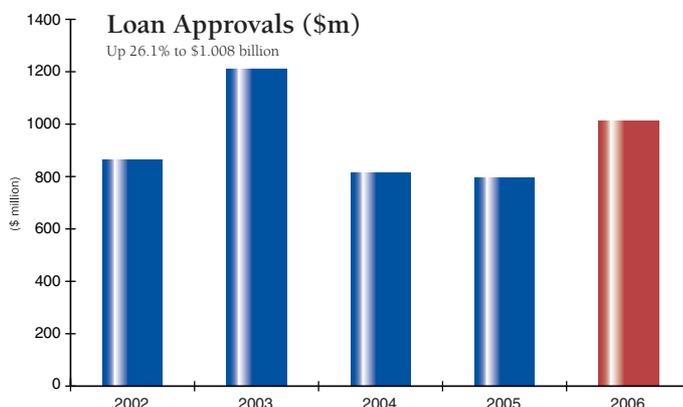
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	DEC 2006 (\$ '000)	DEC 2005 (\$ '000)
Total Income	57,143	51,626
Total Expenses	43,013	38,676
Impairment Losses	224	209
Profit from Ordinary Activities Before Tax	13,906	12,741
Tax	4,440	3,870
Profit from Ordinary Activities After Tax	9,466	8,871

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	DEC 2006 (\$ '000)	JUN 2006 (\$ '000)
Assets		
Cash and Receivables	49,864	66,871
Investment Securities	587,709	522,825
Loans and Receivables	5,313,908	5,098,085
Property, Plant and Equipment	24,211	22,971
Other Assets	85,243	97,428
Total Assets	6,060,935	5,808,180
Liabilities		
Deposits and Borrowings	5,784,173	5,584,515
Accounts Payable and Other Liabilities	41,313	29,337
Provisions	5,554	5,354
Subordinated Debt	75,000	45,500
Total Liabilities	5,906,040	5,664,706
Net Assets	154,895	143,474
Members' Funds		
Retained Profits	147,425	138,758
Reserves	7,470	4,716
Total Members' Funds	154,895	143,474



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 **Heritage**
Building Society

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