

CONDENSED FINANCIAL REPORT

For The Half-Year Ended 31 December 2007

Easy to do business with...



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Building communities...





HERITAGE BUILDING SOCIETY LIMITED

ABN 32 087 652 024 AFS Licence No. 240984

CONDENSED FINANCIAL REPORT

For The Half-Year Ended 31 December 2007

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Principal Solicitors

Clewett Lawyers

Auditors

Ernst & Young

Registered Office

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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 half-year ended 31 December 2007.

DIRECTORS

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

Mr Brian R. Carter AM, LLB, HonDUniv, FAICD (Chairman)

Mr Graeme G. Kidd BBus (Fin Plan), FAPI, FREI, REIV (Aust) (Deputy Chairman)

Mr Kerry J. Betros BBus, FCPA, MAICD

Mrs Vivienne A. Quinn MAHRI, MRCSA, FAICD

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

Professor Peter Swannell AM, BSc, PhD, HonDUniv, CPEng, FIE Aust

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

Mr Brendan P. Baulch BCom, LLB, CA

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 half-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 half-year.

REVIEW AND RESULT OF OPERATIONS

The period has been marked by the impacts of the global credit crunch and the increased cost of funding. The operating profit of the group for the half-year after income tax was \$9,107,000 (2006 - \$9,466,000). This is a decrease of 4% but is a solid result given the external conditions.

Highlights for the period include very strong retail deposit growth, increased loan approvals and asset quality as measured by loan arrears remain excellent.

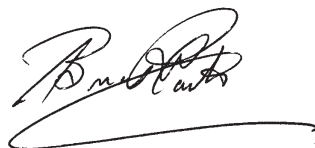
ROUNDING

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

AUDITOR'S INDEPENDENCE DECLARATION

In relation to the Auditor's Independence, the Directors have sought and received a report that there have been no breaches of the Auditor's Independence requirement of the *Corporations Act 2001*. The report is shown on page 15.

Signed in accordance with a resolution of the directors:



BRIAN R. CARTER
Chairman



GRAEME G. KIDD
Deputy Chairman

TOOWOOMBA
27 March 2008

INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

| | Note | CONSOLIDATED | |
|--|------|---------------|---------------|
| | | 2007 | 2006 |
| | | \$'000 | \$'000 |
| Interest revenue | 4 | 237,826 | 197,582 |
| Interest expense | 5 | (193,725) | (155,769) |
| Net interest income | | 44,101 | 41,813 |
| Other income | 4 | 16,698 | 15,025 |
| Total income | | 60,799 | 56,838 |
| Impairment losses on loans and receivables | 5 | (727) | (224) |
| Other expenses | 5 | (47,394) | (43,009) |
| Share of net profit of associates | 4 | 394 | 301 |
| Profit before tax | | 13,072 | 13,906 |
| Income tax expense | 6 | (3,965) | (4,440) |
| Profit after tax | | 9,107 | 9,466 |

BALANCE SHEET

AS AT 31 DECEMBER 2007

| | Note | CONSOLIDATED | |
|---|------|-----------------------|-----------------------|
| | | 31 Dec 2007 \$'000 | 30 Jun 2007 \$'000 |
| Assets | | | |
| Cash and cash equivalents | | 85,327 | 85,319 |
| Receivables due from other financial institutions | | 241,162 | 262,376 |
| Other receivables | | 48,197 | 32,866 |
| Loans and receivables | | 6,092,313 | 5,615,075 |
| Held to maturity financial assets | | 375,531 | 385,918 |
| Investments accounted for using the equity method | | 6,048 | 5,654 |
| Available for sale financial investments | | 479 | 479 |
| Derivatives | 13 | 49,791 | 15,473 |
| Property, plant and equipment | | 27,121 | 25,996 |
| Other assets | | 2,770 | 2,214 |
| Retirement benefit asset | 9 | 507 | 533 |
| Deferred tax asset | | 4,007 | 4,075 |
| Total Assets | | 6,933,253 | 6,435,978 |
| Liabilities | | | |
| Deposits and borrowings | | 6,642,280 | 6,146,599 |
| Accounts payable and other liabilities | | 18,895 | 28,462 |
| Derivatives | 13 | 2,956 | 16,319 |
| Current tax liabilities | | 665 | 2,883 |
| Deferred tax liabilities | | 14,338 | 8,600 |
| Provisions | | 6,326 | 6,039 |
| Subordinated debt | | 57,000 | 57,000 |
| Total Liabilities | | 6,742,460 | 6,265,902 |
| Net Assets | | 190,793 | 170,076 |
| Members' Funds | | | |
| Retained profits | 12 | 166,684 | 157,779 |
| Reserves | 12 | 24,109 | 12,297 |
| Total Members' Funds | | 190,793 | 170,076 |

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

| | CONSOLIDATED | |
|--|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Actuarial gain / (loss) on defined benefit plan | (202) | (240) |
| Gain / (loss) on cash flow hedge taken to members' funds | 16,948 | 3,311 |
| Income tax on items taken directly to or transferred from equity | (5,136) | (1,116) |
| Net income recognised directly in members' funds | 11,610 | 1,955 |
| Profit for the period | 9,107 | 9,466 |
| Total recognised income and expense for the period | 20,717 | 11,421 |

CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

| | Note | CONSOLIDATED | |
|--|------|------------------|------------------|
| | | 2007 \$'000 | 2006 \$'000 |
| Cash flows from operating activities | | | |
| Interest received | | 242,260 | 203,126 |
| Borrowing costs and interest paid | | (188,191) | (152,910) |
| Other non-interest income received | | 21,115 | 14,106 |
| Payments to suppliers and employees | | (57,448) | (50,649) |
| Income tax paid | | (5,514) | (3,591) |
| Net cash flows from operating activities | | 12,222 | 10,082 |
| Cash flows from investing activities | | | |
| (Increase) / decrease in investment securities and receivables due from other financial institutions | | 31,601 | (64,884) |
| Increase in loans, receivables and other receivables | | (492,522) | (228,262) |
| Proceeds from sale of property, plant and equipment | | 183 | 82 |
| Acquisition of property, plant and equipment | | (4,097) | (3,849) |
| Net cash flows used in investing activities | | (464,835) | (296,913) |
| Cash flows from financing activities | | | |
| Increase in deposits and other borrowings | | 452,621 | 240,324 |
| Proceeds from issuance of subordinated debt | | - | 35,000 |
| Payment for redemption of subordinated debt | | - | (5,500) |
| Net cash flows from financing activities | | 452,621 | 269,824 |
| Net (decrease) / increase in cash held | | 8 | (17,007) |
| Cash - beginning of the period | | 85,319 | 66,871 |
| Cash - end of the period | 7 | 85,327 | 49,864 |

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

1. CORPORATE INFORMATION

This half-year report 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 eleven 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.

The consolidated financial report of the Heritage Building Society Limited and the SPVs for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 27 March 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the 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 2007 and 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 land and buildings, 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 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 2007.

(c) Basis of consolidation

The half-year consolidated financial statements include those of the Society and the 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 balance sheet, income statement 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

| | CONSOLIDATED | |
|---|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| 4. INCOME | | |
| (a) Interest revenue | | |
| Interest revenue | 244,835 | 204,333 |
| Add: Loan application direct revenue | 2,296 | 1,966 |
| Less: Commission and agent direct costs | (8,054) | (7,179) |
| Less: Securitisation establishment costs | (1,251) | (1,538) |
| Total interest revenue | 237,826 | 197,582 |
| (b) Other income | | |
| Fees and commissions | 15,352 | 14,075 |
| Realised profit on securities available for sale | 373 | 3 |
| Income from property | 220 | 263 |
| Impairment losses on loans recovered | 128 | 171 |
| Net gain on disposal of property, plant and equipment | - | 7 |
| Other revenue | 625 | 506 |
| Total other income | 16,698 | 15,025 |
| (c) Share of net profits of associates using the equity method | 394 | 301 |
| 5. EXPENSES | | |
| (a) Interest expense | 193,725 | 155,769 |
| (b) Impairment losses on loans and receivables | 727 | 224 |
| (c) Other expenses | | |
| <i>Depreciation and amortisation</i> | | |
| Depreciation | | |
| Plant and equipment | 2,845 | 2,180 |
| Buildings | 276 | 212 |
| | 3,121 | 2,392 |
| Amortisation | 87 | 106 |
| | 3,208 | 2,498 |
| Fees and commissions | 1,237 | 1,071 |
| Operating costs | 10,241 | 11,593 |
| Administration and staff | 23,269 | 19,683 |
| Marketing and communications | 5,550 | 4,543 |
| Borrowing costs | 55 | 130 |
| Rental - operating leases | 3,828 | 3,491 |
| Net loss on disposal of property, plant and equipment | 6 | - |
| | 44,186 | 40,511 |
| Total other expenses | 47,394 | 43,009 |

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

CONSOLIDATED

2007 2006
\$'000 \$'000

6. INCOME TAX EXPENSE

The major components of income tax expense for the half-year ended 31 December 2007 and 31 December 2006 are:

Income statement

Current income tax

| | | |
|---|-------|-------|
| Current income tax charge | 3,959 | 3,492 |
| Under / (over) provision of previous year | 196 | 233 |

Deferred income tax

| | | |
|---|-------|-----|
| Deferred income tax relating to temporary differences | (190) | 715 |
|---|-------|-----|

| | | |
|---|--------------|--------------|
| Income tax expense reported in the income statement | <u>3,965</u> | <u>4,440</u> |
|---|--------------|--------------|

7. CASH AND CASH EQUIVALENTS

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

| | | |
|--------------------------|---------------|---------------|
| Cash at bank and on hand | 35,327 | 29,864 |
| Deposits at call | 50,000 | 20,000 |
| | <u>85,327</u> | <u>49,864</u> |

8. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the half-year ended 31 December 2007, the Group acquired assets with a cost of \$4,445,000 (2006 - \$4,755,000).

Assets with a written down value of \$187,000 were disposed of by the Group during the half-year ended 31 December 2007 (2006 - \$74,000), resulting in a net loss on disposal of \$6,000 (2006 - net gain on disposal of \$7,000).

Impairment losses

The major drivers and triggers of impairment were identified and reviewed, with no trigger events. Therefore, no impairment loss or gain was recognised in the half-year financial statements.

9. RETIREMENT BENEFIT OBLIGATIONS

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 Society 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.

The net financial position of the plan for the half-year ended 31 December 2007 is a net asset of \$507,000 (30 June 2007 - net asset \$533,000). This movement is primarily due to the actuarial loss for the half-year ended 31 December 2007.

The net benefit revenue recognised in the half-year income statement is \$176,000 (2006 - net benefit revenue \$113,000).

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

| CONSOLIDATED | |
|--------------|-------------|
| 31 Dec 2007 | 30 Jun 2007 |
| \$'000 | \$'000 |

10. 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 | 320 | 818 |
|---------------------------------|-----|-----|

| | | |
|--|-----|-----|
| Estimated capital expenditure contracted at balance date | 320 | 818 |
|--|-----|-----|

11. 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) Contingent liabilities

Guarantees provided to third parties for Group members are secured by a formal charge over the deposits held by members with the Group.

| | | |
|------------|-------|-------|
| Guarantees | 2,646 | 2,557 |
|------------|-------|-------|

(b) 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 | 538,992 | 505,193 |
|--|---------|---------|

12. RESERVES AND RETAINED PROFITS

(a) Retained profits

Movements in retained profits were as follows:

| | | |
|---|---------|---------|
| Opening balance | 157,779 | 138,758 |
| Defined benefit superannuation plan | | |
| Actuarial gain / (loss) on defined benefit plan | (202) | 5 |
| Employee equity benefit reserve (on transition) | - | (559) |
| Net profit for the period | 9,107 | 19,575 |
| Closing balance | 166,684 | 157,779 |

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

12. RESERVES AND RETAINED PROFITS (continued)

| | CONSOLIDATED | |
|--|-----------------------|-----------------------|
| | 31 Dec 2007 \$'000 | 30 Jun 2007 \$'000 |
| (b) Reserves | | |
| Asset revaluation reserve | 5,714 | 5,714 |
| Employee equity benefits reserve | - | - |
| Cash flow hedge reserve | 18,395 | 6,583 |
| | 24,109 | 12,297 |
| Movements: | | |
| <i>Asset revaluation reserve</i> | | |
| Opening balance | 5,714 | 5,714 |
| Revaluation of land | - | - |
| Revaluation of buildings | - | - |
| Closing balance | 5,714 | 5,714 |
| <i>Employee equity benefits reserve</i> | | |
| Opening balance | - | (559) |
| Transfer to retained profits | - | 559 |
| Closing balance | - | - |
| <i>Cash flow hedge reserve</i> | | |
| Opening balance | 6,583 | (439) |
| Gain / (loss) on cash flow hedging instruments | 16,948 | 9,499 |
| Deferred tax | (5,136) | (2,477) |
| Closing balance | 18,395 | 6,583 |

13. FINANCIAL INSTRUMENTS

Set out below is the carrying amounts of the Group's derivatives recognised in the half-year financial statements.

| | | |
|--|---------------|---------------|
| <i>Financial assets - derivatives</i> | | |
| Interest rate swaps | 20,057 | 12,678 |
| Cross currency swap | 29,734 | 2,795 |
| | 49,791 | 15,473 |
| <i>Financial liabilities - derivatives</i> | | |
| Cross currency swap | 2,956 | 16,319 |
| | 2,956 | 16,319 |

For the half-year ended 31 December 2007, some of the cash flow hedges were assessed to be ineffective with a net unrealised gain of \$144,000 (2006 - net unrealised gain \$372,000) recognised in the income statement.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

14. EVENTS SUBSEQUENT TO REPORTING DATE

In the 30 June 2007 Financial Report, the Group noted that work had been substantially completed on issuing a hybrid capital transaction that will qualify as Tier 1 capital for prudential purposes. This instrument will only be issued subject to satisfactory market conditions and at the date of this report the ongoing volatile conditions have caused the delay of this transaction.

There has been no other significant event since the end of the half-year which will affect the operating results or state of affairs of the Group in subsequent years.

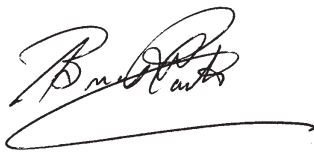
DIRECTORS' DECLARATION

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 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 2007 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

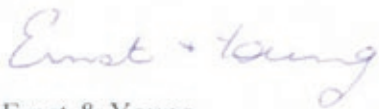


GRAEME G. KIDD
Deputy Chairman

TOOWOOMBA
27 March 2008

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 2007, 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



Mark Hayward
Partner
27 March 2008

Report on the Condensed Half-Year Financial Report to the members of Heritage Building Society Limited

We have reviewed the accompanying half-year financial report of Heritage Building Society Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of recognised income and expense and condensed cash flow statement 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 and fair presentation of the half-year financial report in accordance with 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 half-year 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.

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 an Interim 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 2007 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 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.

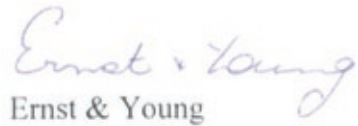
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Society a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

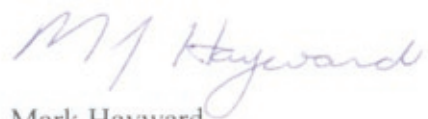
Conclusion

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Mark Hayward
Partner
Brisbane
27 March 2008