

29 May 2014

## APS 330: PUBLIC DISCLOSURE ASX RELEASE

Attached is the prudential information required to be disclosed in accordance with Prudential Standard APS 330.

The disclosures provided have been prepared as at 31 March 2014.

**Main Features - Heritage Notes as at 31 March 2014**

| Disclosure Template for Main Features of Regulatory Capital Instruments |   |   |
|---|---|---|
| 1   | Issuer  | Heritage Bank Limited   |
| 2   | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)            | ASX - HBSHA   |
| 3   | Governing law(s) of the instrument  | Queensland  |
| <i>Regulatory treatment</i>   |   |   |
| 4   | Transitional Basel III rules  | Tier 2  |
| 5   | Post-transitional Basel III rules   | Ineligible  |
| 6   | Eligible at solo/group/group & solo   | Solo  |
| 7   | Instrument type (ordinary shares/preference shares/subordinated notes/other)                | Subordinated Notes  |
| 8   | Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date) | \$45 million<br>(Issue amount \$50M less \$5M Basel III Transition)   |
| 9   | Par value of instrument   | \$50 million<br>(\$100 per Heritage Note)   |
| 10  | Accounting classification   | Liability - fair value option   |
| 11  | Original date of issuance   | 26 October 2009   |
| 12  | Perpetual or dated  | Dated   |
| 13  | Original maturity date  | 25 October 2019   |
| 14  | Issuer call subject to prior supervisory approval   | Yes   |
| 15  | Optional call date, contingent call dates and redemption amount                             | Prior to the Maturity Date, Heritage may, with the prior written approval of APRA, Redeem:<br>- some or all Heritage Notes on the Step-Up Date (27 October 2014) or any subsequent Interest Payment Date;<br>- any affected Heritage Notes on any Interest Payment Date if a Tax Event occurs; or<br>- all Heritage Notes at any time if a Regulatory Event or Change of Control Event occurs<br>Redemption amount will be face value plus accrued interest |
| 16  | Subsequent call dates, if applicable  | Refer item 15 above   |
| <i>Coupons/dividends</i>  |   |   |
| 17  | Fixed or floating dividend/coupon   | Fixed to Floating   |
| 18  | Coupon rate and any related index   | 10% per Annum Fixed until 27 October 2014 following which the interest rate will change to Floating (90 day BBSW plus 4.435% x 1.5)   |
| 19  | Existence of a dividend stopper   | Not applicable  |
| 20  | Fully discretionary, partially discretionary or mandatory                                   | Mandatory   |
| 21  | Existence of step up or other incentive to redeem   | Yes   |
| 22  | Noncumulative or cumulative   | Cumulative  |

**Main Features - Heritage Notes as at 31 March 2014**

|    |   |   |
|----|---|---|
| 23 | Convertible or non-convertible  | Non-convertible   |
| 24 | If convertible, conversion trigger(s)   | Not applicable  |
| 25 | If convertible, fully or partially  | Not applicable  |
| 26 | If convertible, conversion rate   | Not applicable  |
| 27 | If convertible, mandatory or optional conversion  | Not applicable  |
| 28 | If convertible, specify instrument type convertible into  | Not applicable  |
| 29 | If convertible, specify issuer of instrument it converts into   | Not applicable  |
| 30 | Write-down feature  | No  |
| 31 | If write-down, write-down trigger(s)  | Not applicable  |
| 32 | If write-down, full or partial  | Not applicable  |
| 33 | If write-down, permanent or temporary   | Not applicable  |
| 34 | If temporary write-down, description of write-up mechanism  | Not applicable  |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | In the event of a winding-up of Heritage, the claims of Holders against Heritage in respect of Heritage Notes will be subordinated in right of payments to the claims of all Senior Creditors (including Trade Creditors) |
| 36 | Non-compliant transitioned features   | Yes   |
| 37 | If yes, specify non-compliant features  | If Heritage Notes are not redeemed on the Step-Up Date the initial margin will increase, refer item 18. The Notes will not be eligible for inclusion in Regulatory Capital after this date.                               |

The full prospectus for Heritage Notes can be obtained from the About Heritage section at [www.heritage.com.au](http://www.heritage.com.au)

**Capital Adequacy as at 31 March 2014**

|                             | Risk-Weighted Assets<br>(A\$m) |
|-----------------------------|--------------------------------|
| <b>Capital Requirements</b> |                                |
| <i>Credit Risk</i>          |                                |
| Corporate                   | 0.0                            |
| Government                  | 0.0                            |
| ADIs                        | 306.0                          |
| Residential Mortgage        | 1,798.5                        |
| Other Retail                | 236.7                          |
| Other                       | 43.0                           |
| Off Balance Sheet           | 38.5                           |
|                             | 2,422.7                        |
| Securitisation              | 24.3                           |
| Equity Exposures            | 0.0                            |
| Market Risk                 | 0.0                            |
| Operational Risk            | 395.7                          |
| Interest Rate Risk          | 0.0                            |
|                             | 2,842.7                        |
| Common Equity Tier 1        | 12.07%                         |
| Tier 1                      | 12.07%                         |
| Total Capital Ratio         | 13.58%                         |

**Credit Risk as at 31 March 2014**

|                                   | Gross Credit<br>Exposure | Average Gross<br>Credit Exposure for<br>Quarter |
|-----------------------------------|--------------------------|---|
|                                   | (A\$m)                   | (A\$m)  |
| <b>Exposure Type</b>              |                          |   |
| Cash and Investment Securities    | 1,322.2                  | 1,379.8   |
| Loans and Advances                | 5,263.3                  | 5,221.8   |
| Other Assets                      | 126.2                    | 115.2   |
| Total on Balance Sheet Exposures  | <u>6,711.7</u>           | <u>6,716.8</u>                                  |
| Loans Approved not yet Advanced   | 99.3                     | 99.6  |
| Other Off Balance Sheet           | 5.2                      | 5.5   |
| Total Off Balance Sheet Exposures | <u>104.5</u>             | <u>105.1</u>                                    |
| Total Exposures                   | <u>6,816.2</u>           | <u>6,821.9</u>                                  |
| <b>Exposure by Portfolio</b>      |                          |   |
| Corporate                         | 0.0                      | 0.0   |
| Government                        | 182.5                    | 194.5   |
| ADIs                              | 1,139.7                  | 1,185.3   |
| Residential Mortgage              | 5,125.2                  | 5,082.9   |
| Other Retail                      | 237.4                    | 238.6   |
| Other                             | 131.4                    | 120.6   |
|                                   | <u>6,816.2</u>           | <u>6,821.9</u>                                  |

**Credit Risk as at 31 March 2014**

|  | Impaired<br>Loans | Past Due<br>Loans | Specific Provision<br>Balance | Charges for<br>Specific Provision | Write-Offs  |
|--|-------------------|-------------------|-------------------------------|-----------------------------------|-------------|
|  | (A\$m)            | (A\$m)            | (A\$m)                        | (A\$m)                            | (A\$m)      |
| <b>Exposure by Portfolio</b>   |                   |                   |                               |                                   |             |
| Corporate  | 0.0               | 0.0               | 0.0                           | 0.0                               | 0.0         |
| Government   | 0.0               | 0.0               | 0.0                           | 0.0                               | 0.0         |
| ADIs   | 0.0               | 0.0               | 0.0                           | 0.0                               | 0.0         |
| Residential Mortgage   | 6.6               | 25.5              | 0.6                           | 0.0                               | 0.1         |
| Other Retail   | 3.0               | 1.3               | 1.4                           | 0.2                               | 0.2         |
| Other  | 0.0               | 0.0               | 0.0                           | 0.0                               | 0.0         |
| <b>Total</b>   | <b>* 9.6</b>      | <b>** 26.8</b>    | <b>2.0</b>                    | <b>0.2</b>                        | <b>0.3</b>  |
| <b>General Reserve for Credit Losses</b>   |                   |                   |                               |                                   |             |
| General Reserve for Credit Losses  |                   |                   |                               |                                   | 3.0         |
| Total impaired items per accounting disclosure                                       |                   |                   |                               |                                   | 5.8         |
| Additional items defined as restructured as per the prudential standard              |                   |                   |                               |                                   | 3.8         |
|  |                   |                   |                               | *                                 | <u>9.6</u>  |
| Total past due items per accounting disclosure                                       |                   |                   |                               |                                   | 7.0         |
| Loans under hardship arrangements classified as past due per the prudential standard |                   |                   |                               |                                   | 19.8        |
|  |                   |                   |                               | **                                | <u>26.8</u> |

**Securitisation Exposures as at 31 March 2014**

|                                      | Total Exposures<br>Securitized<br>(A\$m) | Recognised<br>Gain<br>or Loss on Sale<br>(A\$m) |
|--------------------------------------|--|---|
| <b>Securitisation Exposure Types</b> |  |   |
| Residential Mortgage *               | 399.8                                    | 0.0   |
| <b>Total Exposures</b>               | <b>399.8</b>                             | <b>0.0</b>                                      |

|                                      | On Balance<br>Sheet<br>(A\$m) | Off Balance<br>Sheet<br>(A\$m) | Total<br>Exposures<br>(A\$m) |
|--------------------------------------|-------------------------------|--------------------------------|------------------------------|
| <b>Securitisation Exposure Types</b> |                               |                                |                              |
| Liquidity Facilities                 | 0.0                           | 7.6                            | 7.6                          |
| Funding Facilities                   | 0.0                           | 0.0                            | 0.0                          |
| Swaps                                | 0.0                           | 23.7                           | 23.7                         |
| Holdings of Securities               | 29.0                          | 0.0                            | 29.0                         |
|                                      | <b>29.0</b>                   | <b>31.3</b>                    | <b>60.3</b>                  |

\*Loans for new term transaction HBS Trust 2014-1 sourced from securitisation warehouses.