

**Capital Disclosure Template Reconciliation as at 30 June 2019
Updated Annually**

The Bank is using the post 1 January 2018 Capital Disclosure Template because Heritage is fully applying the Basel III regulatory adjustments as implemented by APRA.

		A\$m
Common Equity Tier 1 Capital: Instruments and Reserves		
2	Retained earnings	567.0
3	Accumulated other comprehensive income (and other reserves)	7.1
6	Common Equity Tier 1 capital before regulatory adjustments	574.1
Common Equity Tier 1 Capital: Regulatory Adjustments		
11	Cash-flow hedge reserve	1.6
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	0.5
26	National specific regulatory adjustments (sum of rows 26e, 26f and 26j)	42.7
26e	of which: deferred tax assets	8.6
26f	of which: capitalised expenses	31.8
26j	of which: other national specific regulatory adjustments not reported in rows 26e and 26f	2.3
28	Total regulatory adjustments to Common Equity Tier 1	44.8
29	Common Equity Tier 1 Capital (CET1)	529.3
Additional Tier 1 Capital: Instruments		
36	Additional Tier 1 Capital before regulatory adjustments	0.0
Additional Tier 1 Capital: Regulatory Adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	0.0
44	Additional Tier 1 capital (AT1)	0.0
45	Tier 1 Capital (T1=CET1+AT1)	529.3
Tier 2 Capital: Instruments and Provisions		
46	Directly issued qualifying Tier 2 instruments	50.0
50	Provisions	8.4
51	Tier 2 Capital before regulatory adjustments	58.4
Tier 2 Capital: Regulatory Adjustments		
57	Total regulatory adjustments to Tier 2 capital	0.0
58	Tier 2 capital (T2)	58.4
59	Total capital (TC=T1+T2)	587.7
60	Total risk-weighted assets based on APRA standards	4,077.7
Capital Ratios and Buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	13.0%
62	Tier 1 (as a percentage of risk-weighted assets)	13.0%
63	Total capital (as a percentage of risk-weighted assets)	14.4%
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	8.4
77	Cap on inclusion of provisions in Tier 2 under standardised approach	43.9

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	Consolidated Published Statement of Financial Position (A\$m)	Adjustment (1) (A\$m)	Level 1 Regulatory Statement of Financial Position (A\$m)	Reference to Regulatory Statement of Financial Position
Assets				
Cash and cash equivalents	49.5	(5.1)	44.4	Cash and liquid assets
Receivables due from other financial institutions	165.1	(122.6)	42.5	Investment securities & cash and liquid assets
Other receivables	14.5	(0.1)	14.4	Other assets
Loans and advances to members	8,470.9	(901.0)	7,569.9	Loans and advances
Financial assets at amortised cost	1,318.0	(2.0)	1,316.0	Investment securities
Financial assets at fair value through the profit and loss	0.5	14.9	15.4	Other investments
Derivatives	0.4	4.1	4.5	Other assets
Deferred tax assets	11.3	(0.6)	10.7	Other assets
Property, plant and equipment	33.9	-	33.9	Fixed assets
Other assets	4.4	124.9	129.3	Other assets
Intangibles	20.0	-	20.0	Intangible assets
Total Assets	10,088.5	(887.5)	9,201.0	

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Liabilities				
Deposits and borrowings	9,066.5	(927.6)	8,138.9	Deposits, bonds, notes and long-term borrowings
Accounts payable and other liabilities	365.6	36.8	402.4	Creditors and other liabilities
Derivatives	4.1	-	4.1	Creditors and other liabilities
Current tax liabilities	1.9	(0.8)	1.1	Income tax liability
Provisions	22.7	0.4	23.1	Provisions
Deferred tax liabilities	2.1	0.7	2.8	Income tax liability
Subordinated debt	49.9	0.1	50.0	Bonds, notes and long-term borrowings
Total Liabilities	9,512.8	(890.4)	8,622.4	
Net Assets				
	575.7	2.9	578.6	
Members' Funds				
Retained profits	571.5	(4.5)	567.0	General reserve & retained profits
Reserves	4.2	7.4	11.6	Asset revaluation reserve & cash flow hedge reserve
Total Members' Funds	575.7	2.9	578.6	

Expanded Regulatory Statement of Financial Position as at 30 June 2019

The following is an expanded Statement of Financial Position under the APRA Level 1 Regulatory Capital that provides details on the components of capital reported in the Capital Disclosure Template.

ASSETS	(A\$m)	(A\$m)	Capital Disclosure Template Reference
Cash and liquid assets		77.7	
Investment Securities		1,325.2	
Loans and advances to members (net) which includes:		7,569.9	
	Gross loans and advances to members	7,583.0	
	Provision for impairment - specific	(4.7)	
	General reserve for credit losses	(8.4)	<i>Row 50</i>
		<u>7,569.9</u>	
Other Investments		0.5	<i>Row 18</i>
Fixed Assets		33.9	
Intangible Assets		20.0	<i>Row 26f</i>
Other Assets which includes:	Other Assets	162.0	
	Securitisation establishment costs	1.3	<i>Row 26f</i>
	Commission and agent direct costs	10.1	<i>Row 26f</i>
	Debt raising establishment cost	0.4	<i>Row 26f</i>
		<u>173.8</u>	
TOTAL ASSETS		<u>9,201.0</u>	
LIABILITIES			
Deposits and short term borrowings		7,738.9	
Current Tax Liability		1.1	
Deferred Tax Liability		2.8	
Provisions		23.1	
Bonds, notes and long-term borrowings which includes:	Other bonds and notes	400.0	
	Subordinated debt	50.0	<i>Row 46</i>
		<u>450.0</u>	
Creditors and other liabilities		406.5	
TOTAL LIABILITIES		<u>8,622.4</u>	
NET ASSETS		<u>578.6</u>	

Expanded Regulatory Statement of Financial Position as at 30 June 2019
MEMBERS' FUNDS

Retained profits		567.0	
which includes:			
	Current year retained earnings	43.3	
	Trust securitisation income (not yet distributed)	2.3	<i>Row 26j</i>
	General reserve excluding trust income	<u>521.4</u>	
		<u>567.0</u>	<i>Row 2</i>
Reserves			
which includes:			
	Cash flow hedge reserve	1.6	<i>Row 3</i>
	Asset revaluation reserve	5.5	<i>Row 3</i>
	General reserve for credit losses	<u>4.5</u>	
		<u>11.6</u>	
TOTAL MEMBERS' FUNDS		<u>578.6</u>	

Capital Adequacy as at 30 June 2019

	Risk-Weighted Assets
	(A\$m)
Capital Requirements	
<i>Credit Risk</i>	
Corporate	0.0
Government	0.0
ADIs	449.8
Residential Mortgage	2,658.0
Other Retail	271.3
Other	60.9
Off Balance Sheet	70.0
	3,510.0
Securitisation	63.7
Equity Exposures	0.0
Market Risk	0.0
Operational Risk	503.9
	4,077.6
Common Equity Tier 1	12.98%
Tier 1	12.98%
Total Capital Ratio	14.42%

Credit Risk as at 30 June 2019

	Gross Credit Exposure	Average Gross Credit Exposure for Quarter
	(A\$m)	(A\$m)
Exposure Type		
Cash and Investment Securities	1,404.5	1,391.3
Loans and Advances	7,594.0	7,540.6
Other Assets	141.8	136.5
Total On Balance Sheet Exposures	9,140.3	9,068.4
Loans Approved not yet Advanced	168.3	164.4
Other Off Balance Sheet	987.8	971.2
Total Off Balance Sheet Exposures	1,156.1	1,135.6
Total Exposures	10,296.4	10,204.0
Exposure by Portfolio		
Corporate	0.0	0.0
Government	195.4	198.1
ADIs	1,209.1	1,193.2
Residential Mortgage	8,263.7	8,189.2
Other Retail	480.8	481.4
Other	147.4	142.1
	10,296.4	10,204.0

Credit Risk as at 30 June 2019 (continued)

	Impaired Loans	Past Due Loans	Specific Provision Balance	Charges for Specific Provision	Write-Offs
	(A\$m)	(A\$m)	(A\$m)	(A\$m)	(A\$m)
Exposure by Portfolio					
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	7.1	40.0	2.3	0.4	0.0
Other Retail	3.9	0.9	2.4	0.4	0.5
Other	0.0	0.0	0.0	0.0	0.0
Total	11.0	40.9	4.7	0.8	0.5
General Reserve for Credit Losses					
General Reserve for Credit Losses					8.4

Securitisation Exposures as at 30 June 2019

	Total Exposures Securitized (A\$m)	Recognised Gain or Loss on Sale (A\$m)
Securitisation Activity for Quarter		
Residential Mortgage	0.0	0.0
Total Exposures	0.0	0.0

	On Balance Sheet (A\$m)	Off Balance Sheet (A\$m)	Total Exposures (A\$m)
Securitisation Exposure Types			
Liquidity Facilities	0.0	0.0	0.0
Funding Facilities	0.0	0.0	0.0
Swaps	0.0	12.5	12.5
Holdings of Securities	4.8	0.0	4.8
	4.8	12.5	17.3

Remuneration Disclosure as at 30 June 2019

Qualitative disclosures		Heritage Disclosure
(a)	Information relating to the bodies that oversee remuneration. Disclosures must include:	
	the name, composition and mandate of the main body overseeing remuneration;	The Remuneration and Nominations Committee is made up of three non-executive directors. The Remuneration and Nominations Committee is appointed and authorised by Heritage’s Board to assist the Board in fulfilling its regulatory obligations. Accordingly, the Remuneration and Nominations Committee exercises the authority and power delegated to it by the Board. Members of the Remuneration and Nominations Committee during the period to 30 June 2019 have been Mr Kerry Betros, Dr Dennis Campbell and Mrs Vivienne Quinn.
	the name of external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;	No external consultants have been recently engaged in connection with Heritage senior executive remuneration. However, industry benchmarks and externally available data is generally used to obtain industry comparisons.
	a description of the scope of the ADI’s Remuneration Policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches; and	Heritage’s Remuneration Policy provides a framework for rewarding senior executives, other staff and business partners and encourages behaviour that supports Heritage’s long-term financial soundness and risk management framework. The policy applies to, among others; any person employed directly by Heritage and covers all entities within the Heritage group.
	a description of the types of persons considered as material risk takers and as senior managers as defined in paragraph 22 of this Prudential Standard, including the number of persons in each group.	Heritage’s “senior managers” and “material risk takers” as defined in paragraph 17 of this Prudential Standard include those persons defined as Heritage’s “senior executives”. They include the Chief Executive Officer, the Company Secretary / General Counsel, the Chief Financial Officer, the Chief Operating Officer, the Chief Product and Marketing Officer, the Chief People Officer, the Chief Information Officer, the Chief Customer Officer, the Chief Transformation Officer and the Chief Risk Officer.
(b)	Information relating to the design and structure of remuneration processes. Disclosures must include:	

Remuneration Disclosure as at 30 June 2019

	<p>an overview of the key features and objectives of remuneration policy;</p>	<p>A key objective of Heritage’s remuneration philosophy is to provide a framework for the Heritage approach to remuneration (including performance based components) for staff and a range of business partners. Inherent within the Heritage Remuneration Policy objectives is the design of remuneration structures that: reward people fairly and at competitive levels taking into account appropriate internal relativities, external market rates and the nature of the work; are financially responsible and consistent with Heritage’s long term viability; and encourages behaviour that supports Heritage’s long-term financial soundness and risk management framework. In this regard, Heritage’s Human Resources department has a set of policies and procedures in connection with remuneration including incentives and other benefits.</p>
	<p>whether the Remuneration Committee reviewed the ADI’s Remuneration Policy during the past year, and if so, an overview of any changes that were made; and</p>	<p>The Remuneration and Nominations Committee reviewed Heritage’s Remuneration Policy in May 2019.</p>
	<p>a discussion of how the ADI ensures that risk and financial control personnel (as defined in paragraph 48(b) of CPS 510) are remunerated independently of the businesses they oversee.</p>	<p>Risk and financial control personnel are paid a fixed component of remuneration that reflects their core performance requirements and the expectations associated with their particular position. These personnel are eligible to be paid an annual incentive based upon a performance assessment against a range of criteria. Such personnel are not provided with a yearly incentive payment on the sole basis of Heritage’s financial performance.</p>
(c)	<p>Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures must include:</p> <p>an overview of the key risks that the ADI takes into account when implementing remuneration measures;</p> <p>an overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed);</p>	<p>Sound Risk management is built into the performance management framework for senior executives to ensure effective risk management and compliance outcomes. Specific key risk areas include there being no material statutory breaches and adherence to APRA prudential ratios.</p> <p>Heritage utilises a Balanced Scorecard approach to measuring Senior Executives performance with performance metrics set across a range of financial and non-financial measures. In addition a number of performance measures act as “gate openers” to at risk remuneration outcomes and these measures include adherence to APRA prudential ratios and no material statutory breaches.</p>

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	<p>a discussion of the ways in which these measures affect remuneration; and</p>	<p>All performance based payments for Senior Executives are made at the discretion of Heritage and subject to approval by the Remuneration and Nominations Committee. For Senior Executives, any performance based component of remuneration is designed to align remuneration with prudent risk-taking and incorporate adjustments to reflect the outcomes of business activities. Decisions about performance based remuneration for Senior Executives takes into account the performance of Heritage as measured by the Balanced Scorecard and an assessment of the individual contribution to the Senior Executive Group Members. The Balanced Scorecard incorporates appropriate risk and compliance measures as “gate opener” measures and also regulates eligibility for participation in incentive arrangements.</p>
	<p>a discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.</p>	<p>The implementation of the Balanced Scorecard approach to setting key performance measures across a range of financial and non-financial criteria continues to be refined each year. Key performance metrics are aligned and weighted to reflect a focus on the Bank’s strategy. Linking performance pay outcomes to a range of financial and non-financial measures is appropriate for the environment and in supporting the delivery of key business objectives. The introduction and continued review of a Balanced Scorecard approach has strengthened alignment between overall business performance and the performance pay outcomes of Senior Executives.</p>
(d)	<p>Description of the ways in which the ADI seeks to link performance during a performance measurement period with levels of remuneration. Disclosures must include:</p> <p>an overview of the main performance metrics for the ADI, top-level business lines and individuals;</p>	<p>Senior executives are paid a competitive fixed component of remuneration that reflects their core performance requirements and the expectations associated with their particular position. No senior executive is provided with an incentive payment based solely on Heritage’s financial performance.</p> <p>Senior Executive performance is primarily measured against a Balanced Scorecard against key metrics across the categories of; Financial Strength; Customer; People; and Business Process/Strategy. The individual Executive’s contribution to the Senior Executive Group is also considered in determining short term incentive outcomes.</p>

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	<p>a discussion of how amounts of individual remuneration are linked to institution-wide and individual performance; and</p>	<p>The opportunity for senior executives to be granted an annual incentive payment is designed to support Heritage's overall performance across a range of key measures. The Balanced Scorecard approach adopted utilises a common organisational wide set of metrics together with specific objectives relevant to each individual Senior Executive. A Senior Executive's individual performance and overall contribution to the Senior Executive Group is also assessed and taken into account in determining individual incentive outcomes.</p> <p>The overall approach supports linking short term incentive payments to the organisational overall outcomes as measured by the Balanced Scorecard whilst also factoring in an individual Executives contribution to those outcomes.</p> <p>Heritage does not offer any long term incentive benefits nor utilises any remuneration deferral mechanism for Senior Executives.</p>
	<p>a discussion of the measures the ADI will in general implement to adjust remuneration in the event that performance metrics are weak.</p>	<p>The Board may adjust performance-based components of senior executive remuneration downwards, to zero if appropriate, if such adjustments are necessary to protect the financial soundness of Heritage or respond to significant unexpected or unintended consequences that were not foreseen by the Remuneration and Nominations Committee.</p>
(e)	<p>Description of the ways in which the ADI seeks to adjust remuneration to take account of longer-term performance. Disclosures must include:</p> <p>a discussion of the ADI's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across persons or groups of persons, a description of the factors that determine the fraction and their relative importance; and</p> <p>a discussion of the ADI's policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.</p>	<p>Not applicable</p>
(f)	<p>Description of the different forms of variable remuneration that the ADI utilises and the rationale for using these different forms. Disclosures must include:</p>	<p>Variable remuneration is paid as cash with no deferral.</p>

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	<p>an overview of the forms of variable remuneration offered (i.e., cash, shares and share-linked instruments and other forms); and</p> <p>a discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across persons or groups of persons), a description the factors that determine the mix and their relative importance.</p>	
Quantitative disclosures		
(g)	<p>Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members.</p>	<p>The Remuneration and Nominations Committee met four times during the year.</p>
(h)	<p>The number of persons having received a variable remuneration award during the financial year.</p> <p>Number and total amount of guaranteed bonuses awarded during the financial year.</p> <p>Number and total amount of sign-on awards made during the financial year.</p> <p>Number and total amount of termination payments made during the financial year.</p>	<p>Nil</p> <p>Nil</p> <p>Nil</p>
(i)	<p>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.</p> <p>Total amount of deferred remuneration paid out in the financial year.</p>	<p>Not applicable</p>
(j)	<p>Breakdown of the amount of remuneration awards for the financial year in accordance with Table 22A below to show:</p> <p>fixed and variable;</p> <p>deferred and non-deferred; and</p> <p>The different forms used (cash, shares and share-linked instruments and other forms).</p>	<p>Fixed 89% / Variable 11%</p> <p>Not applicable</p> <p>Cash, Superannuation, Motor Vehicles, Long Service Leave</p>

Remuneration Disclosure as at 30 June 2019

(k)	<p>Quantitative information about persons' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:</p>	Not applicable
	<p>Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.</p>	
	<p>Total amount of reductions during the financial year due to ex post explicit adjustments.</p>	
	<p>Total amount of reductions during the financial year due to ex post implicit adjustments.</p>	

Table 22A: Total value of remuneration awards for senior managers/material risk-takers

Total value of remuneration awards for the financial year ended 30 June 2019	Unrestricted	Deferred
Fixed remuneration		
Cash-based	\$3,538,000	Not applicable
Shares and share-linked instruments	Not applicable	Not applicable
Other	\$410,000	Not applicable
Variable remuneration		
Cash-based	\$486,000	Not applicable
Shares and share-linked instruments	Not applicable	Not applicable
Other	Not applicable	Not applicable

Notes:

- 1 The qualitative disclosures in must be completed by reference to an ADI's Remuneration Policy and any Board Remuneration Committee established under CPS 510.
- 2 The quantitative disclosures in must be completed separately for senior managers and material risk-takers as defined in paragraph 22 of this Prudential Standard.