ASX ANNOUNCEMENT

Issuer Code: HBS **Date: 22 September 2014**

Customer Report and Financial Report 2013/2014

Heritage Bank has today issued its Customer Report and Financial Report in relation to the 2013/14 financial year (copies **attached**).

The Financial Report outlines Heritage's overall performance for the year and the Chairman's Report contained in the Customer Report makes reference to the anticipated performance in the 2014/15 financial year.

Heritage expects revenue to remain solid in 2014/15, in line with the 2013/14 results.

However, expenses are expected to rise, as Heritage invests in its future via additional capital expenditure in its digital capability and staff to meet changing customer needs.

Customers are rapidly shifting to online and mobile transactions channels and Heritage must invest in upgrading its digital offerings to meet those demands.

Heritage also faces increased staffing and compliance costs as a result of ongoing changes to its prudential and regulatory framework.

It is anticipated that this increase in expenses will be reflected in the 2014/15 profit figure.

ENDS

For more information please contact:

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Customer Report 2013/14

People first.

Heritage Bank

Heritage Bank Limited
ABN 32 087 652 024. AFSL and Australian Credit Licence 240984.

Customer Report 2013/2014

Auditors
Ernst & Young

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Heritage Bank Limited
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Chairman's Report

Independent research by analysts Canstar found that in 2013/14 our customers were more than $48.29 million better off by banking with Heritage rather than the big four banks.

Kerry Betros, Chairman

Heritage Bank is justly proud of our mutual status and our core mission of delivering great value to customers. In 2013/14, we have continued to strike the right balance between the need to meet capital and regulatory requirements, and the imperative to give our customers the best value possible, whether they be depositors or borrowers.

Our profit result in 2013/14 was strong, given the fierce competition in the marketplace. Our pre-tax profit was down 5.5% on the previous year. However, as the prior year contained the proceeds from the sale of our Visa shares, the underlying pre-tax profit was up 0.1% from the previous year to $50.04 million. Our loan approvals were up 7.5% to $1.440 billion, a great result in a competitive environment. Significantly, our loan approvals in the second half of the financial were up 19% on the first half, a satisfying trend.

Whilst delivering a strong profit, we also delivered great value to our customers. Independent research by analysts Canstar found that in 2013/14 our customers were more than $48.29 million better off by banking with Heritage rather than the big four banks. This was the benefit that Heritage customers receive on fees and interest rates when compared to the average of the banks fees and rates. This is a compelling demonstration of our *People first* proposition in action. This year, the Federal Government launched the Financial Systems Inquiry (FSI), part of which includes a review of the current banking system. We fully support the Customer Owned Banking Association (COBA) submissions which highlight the need to level the playing field and reduce the unfair advantage the big banks receive via their "too big to fail" status. We need stability in the banking system with common sense regulation and supervision. But the system also needs the competition that the mutual sector provides. At the same time, APRA has imposed regulatory frameworks that in overseas jurisdictions only apply to systemically-important, large financial institutions. I am hopeful that the FSI outcomes will stress the importance of competition in APRA's mandate.

Competition will continue to affect how we operate. So, too, will the fact that Australia's banking sector is currently undergoing a rapid upheaval as digital technologies transform the way people interact with their financial institutions. People increasingly want to access their banking needs at any time of the day or night, wherever they might be, whilst using their mobile device of choice.

Heritage is meeting this challenge with a five-year Digital Blueprint that outlines how we will transform the business to meet the new demands of the digital age. This includes a program of significant investments in upgrading our online banking services; in upgrading our data systems; and in simplifying our processes. We will start making substantial investments from the 2014/15 financial year. Future years will incorporate the amortised cost of this investment. However, the magnitude of this investment is significant and is likely to have an impact on our profit results in coming years. To offset this impact, we will be targeting increased loan volumes and cost efficiencies. This investment in transforming our business for the digital age is non-negotiable – we must make these changes to stay relevant to our customers. We will also take prudent decisions to meet our ongoing funding and regulatory requirements. In March 2014 we undertook a $400 million residential mortgage-backed securities (RMBS) transaction. This received an overwhelmingly positive response from investors, with the final pricing a great outcome for Heritage. We also made the decision this year to redeem the ASX-listed Heritage Notes debt securities in October 2014, due to changes in their capital treatment. We have no immediate need to replace the Notes with another issue, but will keep our options open.

I acknowledge the quality and experience of our staff, led by the CEO John Minz. Their efforts have enabled Heritage to continue to deliver strong financial performance and meaningful value for customers. Their efforts are noteworthy given the challenges of a rapidly changing environment for all financial institutions in Australia.

Kerry J Betros
Chairman

CEO's Report

Heritage Board and CEO 2013/14

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

John Minz, CEO

Heritage Bank has maintained our strong and stable financial performance in 2013/14. While our pre-tax profit of $50.04 million was 5.5% down on the previous year, our underlying profit actually rose marginally. We grew our assets slightly to $8.519 billion, and our retail deposits grew by $337 million to $4.706 billion. We also lifted our liquidity ratio from 20.31% at 30 June 2013 to 22.23% at 30 June 2014. Our performance was aided by our decision to mature $400 million of government guaranteed debt earlier than scheduled. This has helped us manage interest margin and balanced growth.

By 30 June 2014, Heritage had managed mortgage loan arrears greater than 30 days to just 0.39% of loan balances. This is approximately one third of the industry average, as measured by SPIN. In addition, impairment losses on loans were down by 27% from the previous year. Our corporate ratings remain stable at Moody's A3/P2 and Fitch BBB+/F2.

At the same time, we continue to invest in the future of our business by increasing our workforce in strategically important areas. These include the mobile commerce and card-based prepaid programs within our Emerging Business Streams and the technology applied to provide our customers with an evolving set of products and services. Heritage added 20 staff to our workforce in 2013/14 to effect this growth, after adding 40 positions in the previous year. We also plan to add a further 23 positions in the 2014/15 financial year, predominately in the IT area to support our transformation for the digital age.

Transformation is a key concept for Heritage moving forward, as the move to digital banking by customers continues with remarkable speed. I'm delighted that we have taken the decision to move our website and internet banking development in-house, rather than having these services supplied by a third party. We are also investing in the staff and resources needed to develop our own mobile banking facilities and apps. These investments will enable us to move quickly and flexibly in responding to the changing demands of our online customers.

Improvements to our online channels are just part of our determination to enhance the customer experience. To help achieve this we have set up a Business Process Management team to look at cutting paperwork and streamlining processes across the business. These initiatives are designed to improve the customer experiences and make dealing with Heritage simpler and easier.

We also continue to be innovative in maximising the potential of our market-leading expertise in pre-paid card technologies, such as our partnerships with Qantas, Optus and Australia Post. We will continue to look for new opportunities in this market sector.

Heritage has a vibrant culture, which is one of the reasons we provide such wonderful customer service. Heritage collected two awards at the 2014 Australian Business Awards – winning the Employer of Choice for the fourth year in a row, and winning the inaugural Human Resource Management award. The results of our annual Your Viewpoint staff survey were also outstanding, with 92% staff participation in the voluntary poll, and 13 of the 19 criteria receiving a positive score above 80% - which is considered "world class".

With outstanding staff, great products and wonderful service, we collected the 2014 Canstar Cannex Award for the most satisfied customers in the country in the Challenger Bank category. Our monthly Roy Morgan customer advocacy rate – the likelihood of customers recommending us to their friends has averaged almost 25 in 2013/14, while three of the four big banks were in negative outcomes.

One reason our customers have such a positive view of Heritage is because of our commitment to community. We continue to support numerous events and activities across our branch footprint, particularly in our heartland around Toowoomba. We recognise that serving our customers means not just providing them with financial products and services, but also using our resources to improve the prosperity and lifestyles of the communities in which they live.

Heritage continues to deliver fantastic results. I congratulate management and staff for their commitment to our customers and this organisation. I also thank our Chairman, Mr Kerry Betros, and all our Directors for their professional stewardship and sustained support throughout the year.

John Minz
Chief Executive Officer

With more than

$8.5b

in total assets, we are Australia's largest customer-owned bank.

About Heritage

Heritage Bank is Australia's largest-customer owned bank. Our origins go back to 1875 when the Toowoomba Permanent Building Society was formed, followed by the Darling Downs Building Society in 1896. Those two organisations co-existed in Toowoomba until 1981 when they merged to become Heritage Building Society. In 2011, Heritage Building Society changed its name to Heritage Bank.

Heritage is a mutual bank – owned by customers, not shareholders. When you open an account at Heritage you become a part-owner with a voice in our future. Heritage does not pay dividends, so all profits we make stay with us.

Heritage now has 61 branches in southern Queensland and 39 mini branch outlets. Heritage also sells home loans via a network of mortgage brokers in every state and territory in Australia, making us a national player in the home loan market. With more than $8.5 billion in total assets, we are Australia's largest customer-owned bank.

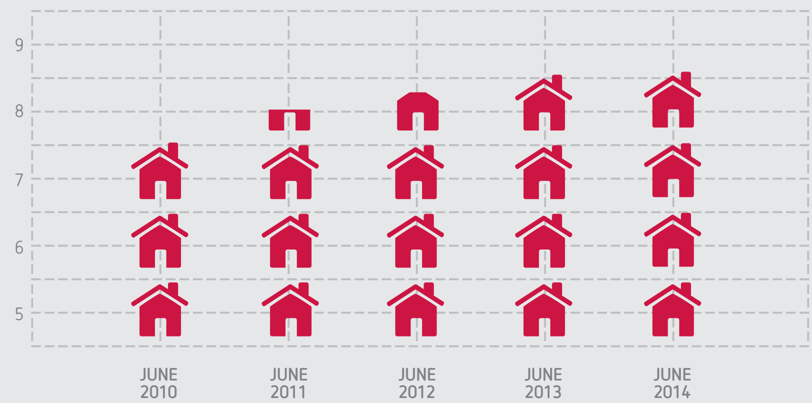
Heritage offers a full suite of banking products, including savings and transaction accounts, term deposits, home loans, personal loans, business banking, credit and debit cards, superannuation and financial planning, insurance, and foreign currency and travel finance products.

VALUE TO HERITAGE CUSTOMERS

Additional value for customers by banking with Heritage compared to the big four banks*.

*Canstar Member Valuation, June 2014

CONSOLIDATED ASSETS (BILLIONS)



The Customer Owned Advantage

The big difference between Heritage and the big banks is that we are owned by our customers, not by shareholders.

So, why does that matter?

It's simple. Our sole focus is on giving value to our customers, because they are also our owners. Everything we do is designed to benefit customers. The profits we make stay at Heritage and we use them to improve our products, services and interest rates. Our goal is to maximise the value we provide for customers.

The big banks are different because they are owned by shareholders, not by customers. They exist for the financial benefit of those shareholders, who want a financial return on their investment. That means the big banks are always looking to maximise profits so they can pay higher dividends to their owners – the shareholders. Their goal is to make money from their customers to benefit their shareholders.

In fact, for the 2013/14 financial year, Australia's big banks will post combined profits of close to $30 billion. That's around $1330 for every man, woman and child in the country, or about $82 million in profit every single day of the year!

WE GIVE BETTER VALUE

Our focus on customers translates into financial benefits for them. Because we don't seek massive profits, we can give our customers a better deal.

Independent analysis by research company Canstar found that our customers were more than $48.29 million a year better off in 2014 through banking with Heritage rather than one of the big four banks*. Our customers gained a $15.23 million benefit in rates and fees on our lending products, and around $33.06 million because of better interest rates and fees on deposit products.

In fact, over the last three financial years, Heritage customers have received a total additional benefit of $117.979 million by banking with us, rather than with one of the big banks.

That's a compelling demonstration of the value that banking with a customer-owned institution can deliver.

WE CARE

We call our approach the *People first* difference. Everything we do is underpinned by this philosophy, which means we listen to you, we're friendly and we actually care about your needs. Our goal is to give customers great value, and help them realise their financial dreams. We strive to provide loans that cost you less, savings products that earn you more and transaction accounts with low (or no) fees.

WE'RE SAFE AND SECURE

Heritage has a history stretching back to 1875, so we are one of the longest-standing financial institutions in the country – in fact, we've been around longer than the Commonwealth Bank! We are also the largest customer-owned bank in the country, with more than $8.5 billion in total assets. That makes us big enough to matter yet still small enough to care. As a customer-owned bank, we are mindful of our obligations to protect the interests of our owners – you, the customers. That's why we take a responsible and low-risk approach in the way we operate. We also face the same regulatory framework as the big banks and have to meet strict financial standards and requirements.

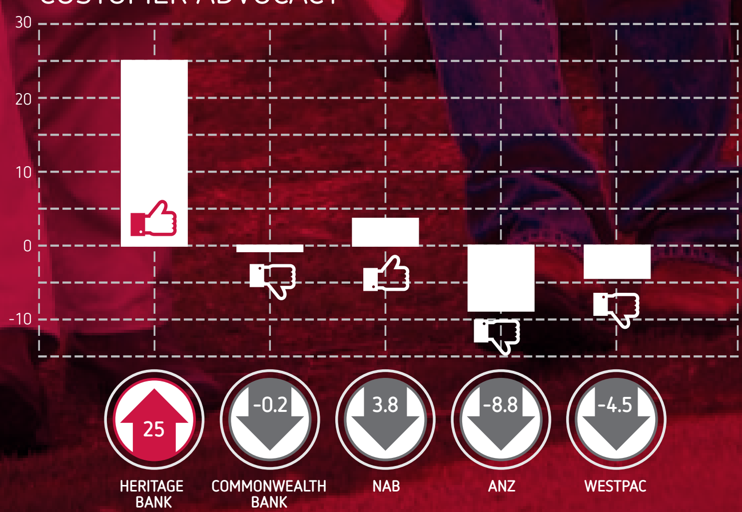
WE GIVE BACK TO THE COMMUNITY

Heritage works to create better communities for our customers. We understand that it's not just the financial products we offer customers that can make a difference to their lives. It's also the prosperity and sustainability of their communities that counts.

*Canstar Member Valuation, June 2014

Our average Roy Morgan main financial institution customer satisfaction score for 2013/14 was 86% - higher than all the big banks.

CUSTOMER ADVOCACY



Average of monthly Roy Morgan Research Consumer Banking Advocacy Reports, July 2013 - June 2014.

*Roy Morgan Research Consumer Banking in Queensland, Customer Satisfaction, average of monthly scores 2013/14.

Putting Customers First

Heritage has always been focussed on providing great value to our customers, above all else.

That's why we have been opening branches in recent years, while other organisations have been closing them. We know that many of our customers like the personal service they get at their local branch and the fact that our staff know their name.

Putting customers first means providing great value to them through the way we price our products. Because we don't chase massive profits, our goal is always to offer better value to our customers than the big banks. That's why the interest rate on our standard variable home loan was lower than that offered by each of the big four banks throughout the 2013/14 financial year.

Our standard variable rate at 30 June 2014 was 5.64% - 0.27 percentage points lower than the average of the big four banks.

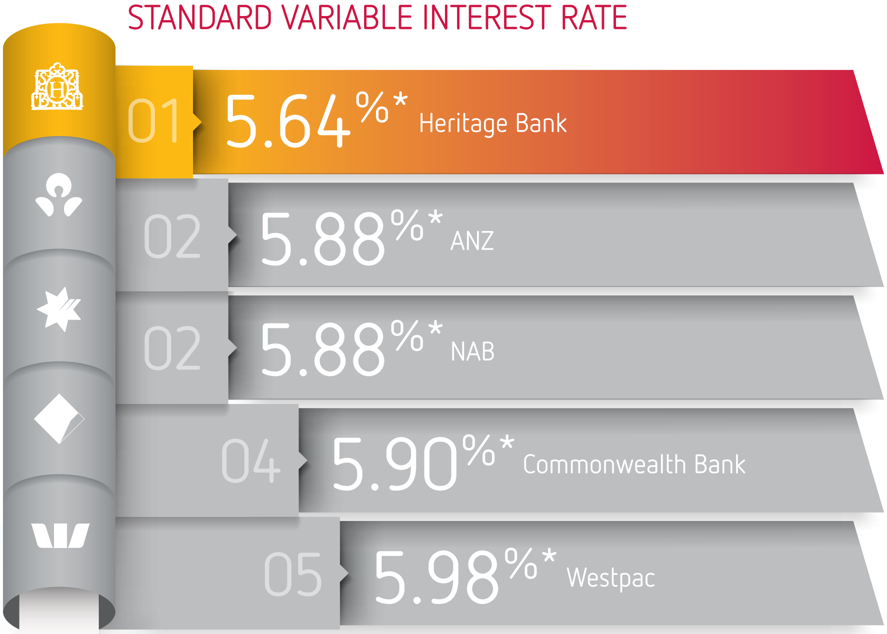
Our average Roy Morgan main financial institution customer satisfaction score for 2013/14 was 86% - higher than all the big banks. Roy Morgan also provide us with customer advocacy results, which measures the likelihood that customers would recommend their financial institution to someone else. The higher the "net promoter score", the more likely it is that customer will recommend their bank to friends or colleagues. Across the 2013/14 year, Heritage scored an average net promoter score of 24.97 in the monthly results, indicating a strong likelihood of customers recommending Heritage to others.

CANSTAR BLUE CHALLENGER BANK AWARD

Heritage Bank outperformed a line-up of Australian competitors to top the nation in customer satisfaction ratings released in early 2014. Canstar Blue announced Heritage as the winner of the 2014 Challenger Bank award for the Most Satisfied Customers. Heritage outscored Bendigo Bank, BOQ, ING Direct, ME Bank, St. George, Suncorp, UBank, Teachers Mutual, BankSA, Bankwest, and HSBC to take out the award. Heritage Bank received five star ratings in 7 of the 8 criteria being judged - overall satisfaction, branch service, call centre service, internet banking, product range, inquiry resolution and mobile banking. The next best competitor received just one five star rating in one category.

Heritage CEO John Minz receives the national Canstar Blue award for Most Satisfied Customers in the Challenger Bank category from Canstar Head of Research, Product and Strategy Steve Mickenbecker.

STANDARD VARIABLE INTEREST RATE



*Standard variable home loan annual percentage rate sourced from relevant websites as at 30 June 2014.

Heritage is continuing to roll-out a program of branch refurbishments and relocations to improve the customer experience and better fit the modern patterns of banking.

ADVANCES IN ONLINE BANKING

Heritage recognises that customers today increasingly want to carry out their banking online, especially from mobile devices. We have adopted a five-year Digital Blueprint that sets out our ongoing upgrades to online banking services that will keep pace with customer demand. We now have Heritage banking apps available for both iPhone and Android users. We automatically alert customers to these apps, if they try to log into our normal internet banking site from their mobile device. We introduced the ability this year for customers to change the PIN on all their Heritage EFTPOS, Visa Debit and Visa Credit cards via online banking. We also brought in the capability for customers to "nickname" their accounts in online banking, to make it easier to identify them.

INTERNATIONAL MONEY TRANSFERS

Heritage this year introduced easier ways for customers to complete international money transfers, with specialist partner Western Union. The Western Union Money in Minutes service allows customers to send cash to more than 498,000 locations in over 200 countries around the world. The receiver does not need to have a bank account – they simply pick up the money in cash from a local Western Union agent. Customers can also receive money more easily from overseas via Western Union's telegraphic transfer system. This enables people overseas to send money directly into a customer's Heritage account, which is a faster, more reliable and cheaper method.

IN 2013/14, WE CARRIED OUT THE FOLLOWING UPGRADES:

Caloundra Branch
Refurbishment of existing premises.

Kippa-Ring Branch
Refurbishment of existing premises.

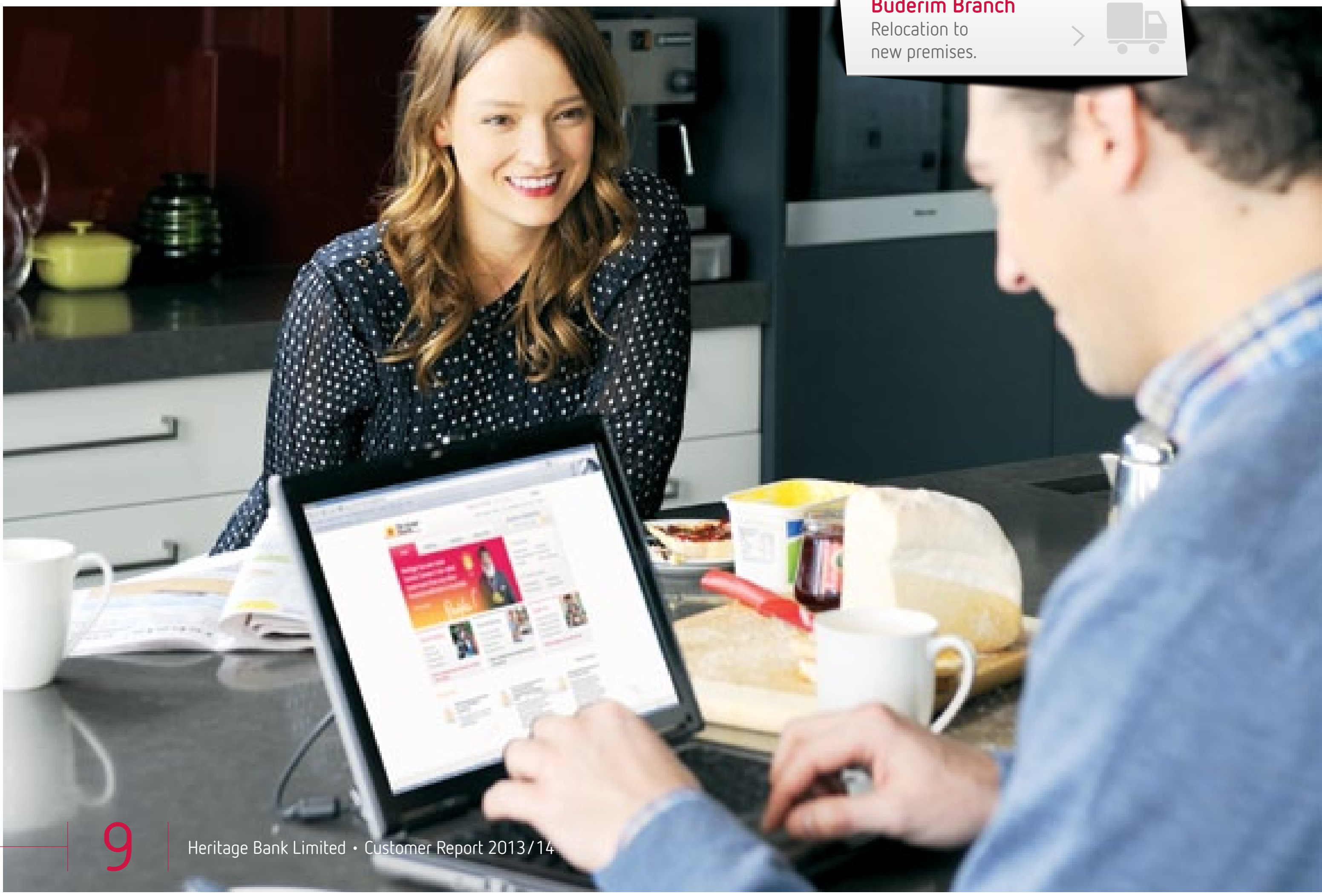
Indooroopilly Branch
Refurbishment of existing premises.

Mt Ommaney Branch
Refurbishment of existing premises.

Mermaid Waters Branch
Refurbishment of existing premises.

Toombul Branch
Refurbishment of existing premises.

Buderim Branch
Relocation to new premises.



Heritage this year introduced easier ways for customers to complete international money transfers, with specialist partner Western Union.

Putting Communities First

Supporting our communities is extremely important to Heritage Bank – in fact, community is one of our core values. We actively seek out ways that we can make a positive difference to the overall well-being of the communities we operate in. That means throwing our support behind the key events and activities that are important to communities. It's also about developing close links to our communities, which helps us know what those key events and activities are.

- Heritage each year holds a Charity Golf Day in Toowoomba to raise money to support worthy local charity and community organisations. The 2013 Charity Golf Day raised a record $46,500, with donations distributed to eleven local organisations. This year's event brought the total raised in the event's 16-year history to over $526,000.
- Heritage is now the major sponsor of the Bundy Flavours Festival, held each year in September in Bundaberg. The festival is the region's biggest celebration of locally grown produce and gardening, with plenty of family-friendly activities.
- Heritage is the major sponsor of the annual Ipswich 100 bike ride, held each year in April. The 2014 event raised $84,990 in funds for Queensland charities for recipients including 24/7 Cycling Safety Fund, Youngcare, SES QLD, Epilepsy QLD, Lions Youth Emergency Accommodation Centre, McIntyre Centre, Ipswich Hospital Foundation and Team Cupcake.
- The Heritage Calendar continues to raise money to support community activities across southern Queensland. The 2014 calendar raised more than $23,000. This year's recipients included Ronald McDonald House in Brisbane, the Pyjama Foundation in Toowoomba, Little Haven Palliative Care in Gympie, Rosies Youth Mission on the Gold Coast, the RSPCA and Youth Services Bundaberg.
- Heritage Bank was the sponsor of the inaugural Gratitude Walk in Gympie in July last year. The event involved a 5km trek around Gympie, raising vital funds for Little Haven Palliative Care.
- Pink is the theme for the annual Heritage Bank Stanthorpe Charity Golf Day in October, which raises money for the ongoing fight against breast cancer. Players are encouraged to dress in pink and vie for awards for the best outfits.

HERITAGE COMMUNITY BRANCHES

Two of our Heritage Community Branches gave away a total of $730,000 in grants to deserving local community organisations in 2013, in a very tangible demonstration of the success of our community banking model.

Both the Nanango and Palmwoods Community Branches held ceremonies to present the 2013 grants to the recipients from their local area.

In Palmwoods, 34 local organisations shared in the $230,000 community funding grants, including the following:

- $20,000 going to the Palmwoods State School P & C for the resurfacing of the prep/junior playground;

- $12,508 to Palmwoods Tennis Club for court upgrades to competition level;
- $12,000 to the Chevallum State School P & C to help build a new shed for sporting equipment and motorised specialist equipment for children with special needs; and
- $12,000 to the Compass Institute at Palmwoods towards a retail training facility.

In Nanango, 27 local organisations shared in the $500,000 in community funding grants, which included:

- $130,000 for the Heritage Lodge community housing project;
- $56,500 for the Nanango Men's Shed project;
- $46,674 to help fund restoration work at historic Ringsfield House;
- $38,150 for school hall equipment at the Nanango State High School; and
- $35,896 to the Nanango Sporting Association for canteen renovations.

HERITAGE PHOTOGRAPHIC AWARDS – 25 YEARS

We celebrated the 25th edition of our annual Heritage Photographic Awards with a special commemorative exhibition at the Queensland Performing Arts Centre (QPAC) in Brisbane in late 2013. For the past 25 years Heritage has been encouraging photographers around the country to hone their skills through the awards. Not only has this produced many stunning images, but it has also helped boost interest in photography in communities around the country. Supporting the arts through photography is just another way Heritage puts *People first*. The QPAC exhibition featured the top 50 images from the 2013 awards, an image from each of the 25 years of the Photographic Awards, a timeline portraying Heritage Bank's history, newspaper articles and photos representing our expansion out of the Toowoomba region.

HERITAGE BANK AUDITORIUM

Heritage Bank reinforced its support for the Toowoomba community by becoming the naming rights sponsor of the Empire Theatre's new 350-seat Toowoomba Regional Arts and Community Centre. Under the 15-year agreement, the new theatre will be known as the Heritage Bank Auditorium. The building is an exciting addition to the region's cultural facilities, providing a much needed medium-sized venue for the performing arts and for functions of all kinds. Our support for this project is part of our commitment to building stronger, more diverse and more prosperous communities for our customers.

HEAD OFFICE REFURBISHMENT

We completed a $3 million refurbishment of the exterior of the Heritage Head Office building in Toowoomba's inner-city, including an upgrade to the ground floor arcade surrounds. The work has given a fresher and more modern feel to that part of Toowoomba's CBD.

The 2013 Heritage Bank Employee of the Year – Jan Johnson, Community & Sponsorship Manager

Putting Staff First

The foundation that underpins Heritage operations is our *People first* philosophy. That's an attitude that applies just as much to the way we treat staff as it does to our customers. Heritage continues to forge a reputation as a progressive and responsive employer that cares for its employees and is always looking for new ways to make it a great place to work.

HEALTH AND WELLBEING PROGRAM

Heritage has had a Health and Wellbeing program in place for over seven years. In 2014, we improved the program and added a range of new initiatives based on employee feedback. The program now includes the following initiatives:

- Employee Assistance Program where staff and their families have 24/7 access to confidential professional counselling to help resolve any work related or personal issues affecting their well-being.
- Healthy Weight Challenge – participants received a 12 week booklet and weekly emails with tips, hints, challenges and recipes.
- Quit Smoking Program – run in winter to promote education on health risks, identifying triggers and creating a support network.
- Wellness Portal – powered by Bupa, an online portal which includes an e-magazine, tools, videos, food database, recipe book and an Online Health Assessment (OHA).
- A comprehensive Workplace Rehabilitation Policy with a proactive approach for all long term illness and injury.
- Annual Workplace Assessments as requested/required.
- Flexible Work Arrangements – accessed by over 11% of staff.

OUR PEOPLE REWARDS

In 2014, Human Resources launched the Our People Rewards program. This is an online portal where staff can gain access to a wide variety of products and services, including discounted accommodation, travel, theme park admission, and movie tickets. This program also includes the option of cash back - enabling staff to earn credits based on the purchase of products and services. The introduction of these lifestyle benefits and initiatives is just another way Heritage is helping staff to achieve a healthy work life balance.

Heritage's commitment to creating an excellent working environment for staff has not gone unnoticed, with multiple external awards received in 2013/14. Heritage won the Recommended Employer category in the Australian Business Awards for the fourth year in succession and is the inaugural winner for Human Resource Management.

HERITAGE IN-HOUSE TRAINING

Heritage is one of the few Australian financial institutions to also be a Registered Training Organisation (RTO), which enables us to deliver training courses that provide nationally recognised qualifications for our staff.

Heritage also has a well-developed focus on delivering training online, which makes it much easier and more convenient for staff to meet their training requirements.

TRAINING QUALIFICATIONS COMPLETED BY HERITAGE STAFF

5725
eLearning Courses

3183
Learning Blasts (additional knowledge)

309
Face-to-face courses

103
Certificate IV in Banking Services

26
Certificate IV in Frontline Management

17
Diploma of Management

37
Certificate IV in Credit Management

Heritage this year teamed up with Australian tailor M.J. Bale to create the "power suit" – a first in wearable technology.

Transforming Through Innovation

EMERGING BUSINESS STREAMS

Heritage continues to diversify its business operations by targeting growth in a number of key areas where we have specialist expertise. One of those areas is the pre-paid card market. Heritage is already one of the largest issuers of pre-paid cards in Australia, working with a number of companies that sell pre-paid cards – for instance gift cards, or debit cards that can be re-loaded and used instead of cash. Heritage currently supports brands including MasterCard's Multi-currency CashPassport product, and Australia Post's *Load&Go* product.

QANTAS

Heritage has partnered with iconic Australian airline Qantas on an update of its Frequent Flyer card. In August 2013, Qantas released its new Frequent Flyer membership card, developed in collaboration with Heritage, which can be used to store foreign currency, access cash worldwide via ATM withdrawals, and earn points on spending in Australia and overseas.

Using the card's Qantas Cash functionality, members can load funds, choosing up to nine different currencies and lock in exchange rates. Members can use the card to make purchases anywhere MasterCard is accepted electronically and earn points on their expenditure.

Heritage acts as the Authorised Deposit-taking Institution (ADI) that supports this product and looks after issuing and settlement of funds. The new functionality has been welcomed by Qantas Frequent Flyer card holders and provides a diversified income stream for Heritage.

POWER SUIT

As well as developing new partnerships involving traditional pre-paid card technology applications, Heritage is also pioneering new uses that are opening up exciting possibilities.

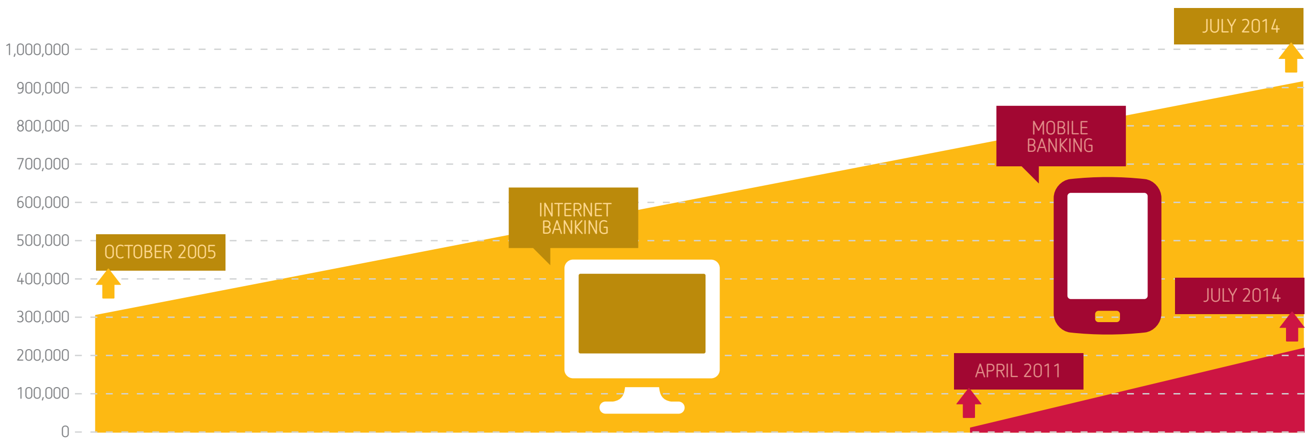
Heritage this year teamed up with Australian tailor M.J. Bale to create the "power suit" – a first in wearable technology.

The stylish men's suit came with a special technology addition – a contactless payment chip and antenna fused into the sleeve. This allowed the wearer to pay for purchases "invisibly" with just a wave of their sleeve in bars, restaurants, or anywhere Visa payWave is accepted.

Heritage and M.J. Bale made a limited number of these prototype suits as a way of testing the technology.

Former rugby league and rugby union legend Mat Rogers launched the suit for the first time in Queensland in April. Heritage then auctioned his suit on line, with proceeds going to the charity 4 ASD Kids which Mat and his wife established to support children with autism spectrum disorders.

FINANCIAL TRANSACTION VOLUMES BY CHANNEL

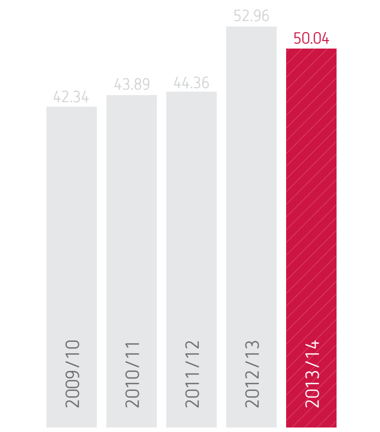


Volume of Internet Banking transactions between October 2005 and July 2014.

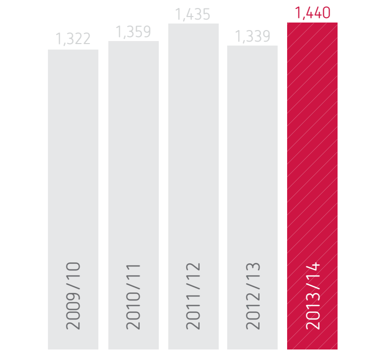
Volume of Mobile Banking transactions between April 2011 and July 2014.

Financial Highlights

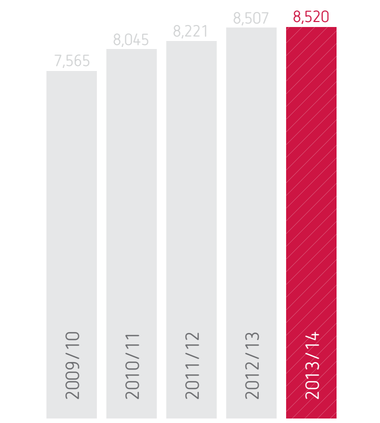
	2014	2013
Profit before tax	**$50.04 million**	$52.96 million
Profit after tax	**$35.76 million**	$37.05 million
Loan approvals	**$1.44 billion**	$1.34 billion
Total consolidated assets	**$8.52 billion**	$8.51 billion
Capital adequacy	**13.33%**	12.81%
Liquidity	**22.23%**	20.31%
Mortgage loan arrears greater than 30 days	**0.39%**	0.31%



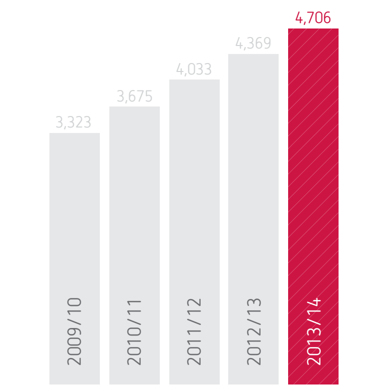
PRE TAX PROFIT ($M)



LOAN APPROVALS ($M)



CONSOLIDATED ASSETS ($M)



RETAIL DEPOSITS ($M)

People first.

Financial Report 2013/14

People first.

Heritage Bank


Heritage

Heritage Bank Limited

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

Financial Report for the year ended 30 June 2014

Contents

Auditors
Ernst & Young

Registered Office
Heritage Bank Limited
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Directors' Report

Your directors submit their report of the consolidated entity (the "Group"), being Heritage Bank Limited ("Heritage") and its controlled entities, for the year ended 30 June 2014.

DIRECTORS

The name and details of the directors of the Group in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

NAME AND QUALIFICATIONS

Mr Kerry J. Betros
BBus, FCPA, MAICD
Chairman of Directors

Mr Betros is Managing Director of Betros Bros Holdings Pty Ltd and associated companies, Darling Downs based wholesalers and retailers, established in 1938. He graduated from DDIAE (now USQ) with a Bachelor of Business majoring in management and accounting and was awarded the College Medal. He has previously served on various other boards and organisations and was awarded the Centenary of Federation Medal for distinguished service to the community. He is a Fellow of CPA Australia. Mr Betros has been a Director of Heritage since 1991. He was the inaugural Chairman of Heritage's Finance Committee, Chairman of the Internal Audit Committee and has served on a number of other committees. He was appointed to the role of Deputy Chairman in July 2011 and became Chairman of Directors on 21 June 2012.

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

Dr Campbell was previously a Chief Executive Officer in both the public and private health sectors. He held the position of CEO at St Vincent's Hospital, Toowoomba for ten years. He also served as a Corporate Director with Legal Aid, Queensland for ten years. He serves as a member of numerous Boards and Advisory Committees, representing both public and private health sectors and has legal and health qualifications. Dr Campbell joined the Heritage Bank Board in 2000 and became Chairman of the Finance Committee on 19 July 2012 and is a member of the Remuneration and Governance Committee. He also serves as a trustee of the Queensland Museum Foundation, is Chairperson of the Management Advisory Committee of the Cobb & Co Museum, Toowoomba and is Deputy Chairman of the Darling Downs Hospital and Health Board. In 2007, he was awarded an Australia Day Medallion for his services to the Australian College of Health Service Executives. In 2008, he was awarded the Gold Medal for Leadership and Achievement in Health Services Management recognising his contribution and professional achievements in shaping health care policy at the institutional, state and national levels. Dr Campbell was appointed Deputy Chairman of Heritage on 21 June 2012.

Mrs Vivienne A. Quinn
MAHRI, MRCSA, FAICD

Mrs Quinn is the Director of Quinn & Associates Pty Ltd, a Brisbane-based staff recruitment consultancy which operates throughout Australia. She has had over 30 years in staff recruitment and has a depth of marketing experience. She is also a partner in a primary production / tourism business on the Southern Downs. Mrs Quinn has served on various Federal and State Government Boards and on the State Councils of human resource industry bodies. She has served on the Heritage Bank Board since 1995, is a member of the Audit and Compliance, the Remuneration and Governance, and Finance (appointed July 2014) Committees and is Chairman of the Superannuation Policy Committee.

Professor Peter Swannell AM
BSc, PhD, HonDUniv,
FIEAust, CPEng(Ret)

Emeritus Professor Swannell was the Vice-Chancellor and President of the University of Southern Queensland from October 1996 until September 2003 having joined the University as Foundation Professor and Dean of the Faculty of Engineering and Surveying in 1990. This appointment followed an academic career spanning nearly 30 years in the United Kingdom and Australia. He has served as a Chairman and member of a number of Boards and Committees and is currently the Chairman of Empire Theatres Pty Ltd (since 1999). Professor Swannell joined the Heritage Bank Board in 2003 and was Chairman of the Insurance Committee and a member of the Finance Committee until 30 June 2011. He is currently a member of the Audit and Compliance Committee and was Chairman of Permanent LMI Pty Limited until August 2013, having been a Director since 1 July 2011. He was appointed as a Member in the General Division of the Order of Australia in 2005, "For services to higher education, particularly through the advancement of distance education and on-line learning opportunities, to engineering and as researcher and teacher, and to the community". He was also awarded the Centenary of Federation Medal for services to education, particularly as Vice-Chancellor of the University of Southern Queensland.

Ms Susan M. Campbell
FCPA, FFin, MAICD, BCom, GradDip(SIA), MBA, Cert IV Training & Assessment

Ms Campbell was appointed as a Director in 2005 and brings with her a range of finance skills from the banking and financial services sector. She is managing director of ARGYLL, a specialist risk consulting services firm, and is Heritage Bank's first interstate director. Ms Campbell is a member of the Risk Management Committee having been its inaugural chairman and was a member of the Finance Committee. Susan is active with the Institute of Chartered Accountants Australia and the Australian Financial Markets Association and works with many organisations in Australia and Asia developing their treasury and risk management skills. Her previous employment has included working with global banks in Melbourne and London, corporate treasuries, and as a senior lecturer at RMIT University.

Mr Brendan P. Baulch
BCom, LLB, CA, MAICD

Mr Baulch is a Chartered Accountant based in Toowoomba. He began his career with PriceWaterhouse in their corporate tax division in Melbourne, after which he spent a total of eight years in London, gaining international accounting experience in a range of business sectors including telecommunications (Cable & Wireless plc), investment banking (Société Générale) and insurance (Lloyd's of London). He is currently the principal of Baulch & Associates, a Toowoomba-based accounting practice providing taxation, audit and management accounting services. Mr Baulch is a registered tax agent and a registered company auditor. He was appointed as Director in 2007, has been a member of the Audit and Compliance Committee and was appointed Chairman of the Audit and Compliance Committee on 1 July 2011. He is also a member of the Risk Management Committee.

Mr Stephen Davis
CRV, AAPI, MAICD

Mr Davis is a licensed valuer, auctioneer and real estate agent and has since 1989 been the Managing Director of David W. Swan & Associates Pty Ltd. He is also the Managing Director of Australian Strata Title Services Pty Ltd trading as Toowoomba Body Corporate Management. Mr Davis has been involved in community organisations and is currently the Deputy Chairman and Treasurer of the Toowoomba Hospice Association. Mr Davis was appointed to the Heritage Bank Board on 1 July 2011 and is a member of the Audit & Compliance, Finance (appointed July 2014) & the Superannuation Policy Committees.

Mr David W. Thorpe
BEc (Hons), FCPA, GAICD

Mr Thorpe is a financial services executive based in Brisbane. Mr Thorpe was Chief Executive Officer of the Queensland Association of Permanent Building Societies for more than 20 years and Associate Director of the Australian Finance Conference. He also worked in executive positions in private and public companies as well as the Commonwealth and Queensland Governments. Mr Thorpe was appointed to the Heritage Board on 18 April 2012 and has been a member of the Finance (to July 2014) and Risk Management (Chairman from July 2014) Committees.

COMPANY SECRETARIES

Mr T. William Armagnacq
BCom, FCA, FAICD
Company Secretary / Assistant Chief Executive Officer

Mr Armagnacq has been with Heritage Bank Limited since May 2003. From January 1998 to April 2003 he was company secretary of a number of Ergon Energy Corporation Limited Group companies. From July 1989 to December 1997, Mr Armagnacq was a partner of KPMG Chartered Accountants. He is Chair of The Glennie School Council and a director of Empire Theatres Pty Ltd and Permanent LMI Pty Limited.

Mr David Janetzki
LLB (Hons), BEcon, AMusA
Head of Legal and Governance

Mr Janetzki joined Heritage in October 2007. He previously worked as UK and Ireland Inhouse Counsel for the Manpower Group in London and as a senior lawyer for Corrs Chambers Westgarth. He holds economics and law (honours) degrees from the University of Queensland and currently serves as Deputy Chairman of the Empire Theatres Foundation and as an independent member on the Southern Downs Regional Council Audit and Risk Management Committee.

Directors' Report (continued)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director were as follows:

	Board		Finance		Audit and Compliance		Risk Management		Remuneration and Governance	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Betros	11	11	12	12	6	5	4	1	1	1
Dr Campbell	11	11	12	12	-	-	-	-	1	1
Mrs Quinn	11	11	-	-	6	6	-	-	1	1
Prof Swannell AM	11	11	-	-	6	6	-	-	-	-
Ms Campbell	11	11	12	12	-	-	4	4	-	-
Mr Baulch	11	11	-	-	6	6	4	4	-	-
Mr Davis	11	11	-	-	5	5	-	-	-	-
Mr Thorpe	11	11	12	12	-	-	4	4	-	-

The meetings held during the year indicate the number of meetings held during the period the individual was a director or committee member.

The Supervisory Committee did not meet during the financial year. The Superannuation Policy Committee is not a Board Committee, however Mrs Quinn and Mr Davis were employer representatives during the financial year.

Mr Betros is an ex officio member, not an appointed member of the Audit and Compliance Committee, Risk Management Committee and Finance Committee.

PRINCIPAL ACTIVITIES

Heritage Bank Limited is a mutual bank that is incorporated and domiciled in Australia. The principal activity of the Group during the year was the provision of financial products and services to customers. There has been no significant change in the nature of these activities during the year.

The Group employed 765 full time equivalent employees as at 30 June 2014 (2013 – 743 employees).

REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the financial year after income tax was $35.757 million (2013 - $37.052 million). This represents a 3.5% decrease compared to the previous year. The prior year included a gain on the sale of Visa shares. Excluding that amount the profit after tax was 2.2% higher than the previous year, this underlying profit performance held up very well in the extremely competitive environment.

The Group reported a slight increase in total consolidated assets to a total of $8.519 billion (2013 - $8.507 billion).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group during the year ended 30 June 2014 not otherwise listed in the report or the financial statements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There are no significant events since the end of the financial year which will affect the operating results or state of affairs of the Group in subsequent years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

A statement on the likely developments in the operations of the Group, and the expected results of these operations has not been included in the report because, in the opinion of the Directors, it could prejudice the interest of the economic entity.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Group paid premiums in respect of insurance contracts which insure each person who is or has been a director or executive officer of the Group against certain liabilities arising in the course of their activities to the Group.

The directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the contract.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

REMUNERATION REPORT (AUDITED)

This Remuneration Report has been prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2014. The information provided in the Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

INTRODUCTION

The Remuneration Report provides members with information relating to the Group's remuneration policies and practices and outlines remuneration arrangements applying to the Group's "key management personnel". This Remuneration Report forms part of the Directors' Report.

"Key management personnel" are defined as "those persons having authority and responsibility for planning, directing and controlling the major activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity".

REMUNERATION AND GOVERNANCE

The Remuneration and Governance Committee is appointed and authorised by Heritage's Board to assist the Board in fulfilling its regulatory obligations.

Accordingly, the Remuneration and Governance Committee exercises the authority and power delegated to it by the Board.

The Remuneration and Governance Committee's role is to report to the Board and review, oversee and provide appropriate advice and recommendations on matters relating to:

- Remuneration policies (including incentive payments);
- Appointment and remuneration of the Chief Executive Officer (CEO); and
- Senior executive appointments and senior executive remuneration in conjunction with the CEO.

Key responsibilities include, among others:

- Conduct regular reviews of, and make recommendations to the Board on the remuneration policy and related policies; and
- Make annual recommendations to the Board on the remuneration of the CEO and senior executives, other persons whose activities may in the opinion of the Remuneration and Governance Committee affect the financial soundness of Heritage and any other person specified by APRA.

In exercising its responsibilities, the Remuneration and Governance Committee assesses the appropriateness of the nature and amount of remuneration of non-executive directors and senior executives on an annual basis with the overarching objective of ensuring maximum member benefit from the retention of a high quality and high performing Board and senior executive group.

All members of the Remuneration and Governance Committee are non-executive directors. Members of the Remuneration and Governance Committee during the period to 30 June 2014 have been Mr Kerry Betros, Dr Dennis Campbell and Mrs Vivienne Quinn.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Key Management Personnel

Directors	Position
Kerry Betros	Chairman (Non-executive)
Dennis Campbell	Deputy Chairman (Non-executive)
Vivienne Quinn	Director (Non-executive)
Peter Swannell	Director (Non-executive)
Susan Campbell	Director (Non-executive)
Brendan Baulch	Director (Non-executive)
Stephen Davis	Director (Non-executive)
David Thorpe	Director (Non-executive)

Senior Executives	Position	Contract Duration	Notice Period (Executive to Heritage)
John Minz	Chief Executive Officer	2 years	–
Bill Armagnacq	Company Secretary/Assistant Chief Executive Officer	3 years	3 months
Jane Calder	General Manager, Marketing	3 years	3 months
Peter Cavanagh	General Manager, Emerging Business Streams	3 years	3 months
Peter Cleary	Chief Financial Officer	3 years	3 months
Paul Francis	General Manager, Retail Services	3 years	3 months
Bob Hogarth	General Manager, People and Culture	3 years	3 months
Dunstin Lynch	General Manager, Technology	3 years	3 months
John Williams	Chief Operating Officer	3 years	3 months
Paul Williams	Chief Treasury and Business Strategy Officer	3 years	3 months

No termination payments are made by Heritage in the event key management personnel contracts are terminated. Notice and any statutory payments or entitlements are paid as appropriate.

There have been no changes to those persons defined as "key management personnel" between 1 July 2013 and the date of this Remuneration Report.

REMUNERATION REPORT (AUDITED) (continued)

Non-Executive Directors' Remuneration

Background

Directors' remuneration is reviewed annually by the Remuneration and Governance Committee. Based on the review undertaken by the Remuneration and Governance Committee, the Board may make recommendations to members at the Annual General Meeting taking into account an individual's responsibilities, performance, qualifications, experience, industry standards, Heritage's profitability and fees paid by comparable institutions. Much of this information is derived from independent remuneration sources.

Recommendations also take into account the need to attract and retain appropriately qualified and experienced non-executive directors.

Directors' fees are set by members at the Annual General Meeting in the aggregate and the individual allocation is determined and approved by the Board.

Directors' Fees

The non-executive directors' aggregate fee amount as set by members at the annual general meeting on 23 October 2013 was $1,038,026 plus a pro-rata amount in the event an additional director was appointed. This aggregate fee amount was frozen for the year commencing 1 July 2013 in view of the continuing challenging economic and regulatory environment. The individual allocation is provided in the Remuneration Table. This amount does not include superannuation, retirement allowances or any other entitlements.

Directors are entitled to payment of superannuation contributions at the rate of 9.25% of fees paid (9.50% from 1 July 2014), payment of directors' liability and personal accident insurance and related fringe benefits tax. Under Heritage's Constitution, directors are entitled to a lump sum retiring allowance calculated as one-fourth of the aggregate amount of directors' fees which the director has received or has become entitled to receive. With the consent of the Board all or part of the retiring allowance to which a director has or will become entitled may be paid to a superannuation fund of which the director is a member.

No part of non-executive director remuneration is based on the financial performance of Heritage or the performance of the director and is not otherwise at risk.

Non-executive directors do not participate in Heritage incentive schemes. Heritage does not have share capital and non-executive directors do not receive any shares, award rights, share options, securities or any other benefit howsoever arising.

Directors may maintain loan and credit facilities from Heritage at normal member rates of interest and therefore no additional remuneration is obtained by way of a benefit.

Directors' fees are not payable to senior executives for serving as directors or company secretaries on any subsidiary, associated or joint venture companies or industry organisations in which Heritage has an interest or membership.

Other Directors' Fees

Permanent LMI Pty Limited was a joint venture lender's mortgage insurance arrangement between Heritage Bank Limited and QBE Lenders' Mortgage Insurance Limited. The joint venture arrangement was terminated effective 31 March 2013.

Professor Peter Swannell (Chairman) and Mr Stephen Davis received fees and associated superannuation as directors of Permanent LMI Pty Limited until their resignation as directors on 23 August 2013.

Senior Executives' Remuneration

Background

A key objective of Heritage's remuneration philosophy is to enable Heritage to attract, motivate and retain high performing senior executives.

Remuneration, including any performance based component, is designed to appropriately reward senior executives (and all employees) to encourage 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, commissions and other benefits.

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;
- the risks related to the business activities taking account, where relevant, of the cost of the associated capital; and
- the time necessary for the outcomes of those business activities to be reliably measured.

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 Governance Committee.

REMUNERATION REPORT (AUDITED) (continued)

Senior Executive Remuneration

Senior executive remuneration is currently a mix of fixed salary and short term (yearly) incentive payments.

Fixed Remuneration

Senior executives are paid a competitive fixed component of remuneration that reflects their core performance requirements and the expectations associated with their particular position. The fixed component of remuneration includes matters such as salary, superannuation, motor vehicle novated leases and leave entitlements. Senior executive base salary is reviewed annually taking into account the individual executive's position, external market trends and personal performance.

Short Term Incentive Benefits

No senior executive is provided with a yearly incentive payment on the basis of Heritage's financial performance.

However, Heritage provides an opportunity for senior executives to be paid a yearly incentive dependent on the individual's performance throughout the year and the duties and responsibilities undertaken. Any incentive payments are made on the basis of specified, quantifiable results, which may include the completion of a particular business project or the introduction of a new system which improves Heritage's ability to provide products and services to its members.

The opportunity for senior executives to be granted a yearly incentive payment is designed to support Heritage's overall remuneration policy by focussing senior executives on achieving yearly personal performance goals which contribute to sustainable Heritage growth and member value.

Linking short-term incentive payments to individual performance ensures that senior executives establish a *People first* work culture that continually supports Heritage's long-term financial soundness.

Long Term Incentive Benefits

Heritage does not offer any long-term incentive benefits to senior executives. Heritage does not have share capital and senior executives do not receive any shares, award rights, share options, securities or any other long-term benefits howsoever arising.

Senior Executive Performance

Heritage's senior executive employment contracts are fixed term in nature. The terms and conditions of such employment contracts are commensurable with the banking and finance industry in which Heritage operates.

Senior executives complete an annual performance review with the CEO at which time their performance and remuneration will be discussed. The CEO completes an annual performance review with the Chairman of the Board.

In the case of the CEO, any decisions in respect of remuneration are made on the recommendation of the Remuneration and Governance Committee and approved by the Board. In the case of senior executives, any decisions in respect of remuneration are made on the recommendation of the CEO and approved by the Remuneration and Governance Committee and the Board.

LOANS TO KEY MANAGEMENT PERSONNEL

This section provides details for loans made to non-executive directors and executives.

All loans to key management personnel and their related parties are on similar terms and conditions available to members.

The following tables provide details of loans made to key management personnel and their related parties.

	Balance 1 July 2013 $'000	Written off $'000	Interest charged $'000	Interest not charged $'000	Balance 30 June 2014 $'000	Number in group
Key management personnel and their related parties	2,111	-	98	-	1,952	8

Individuals and their related parties with loans above $100,000 during the period.

Director / Executive	Balance 1 July 2013 $'000	Written off $'000	Interest charged $'000	Interest not charged $'000	Balance 30 June 2014 $'000	Highest indebted-ness in period $'000
Jane Calder	305	-	7	-	288	305
Steve Davis	249	-	13	-	217	249
Paul Francis	311	-	17	-	295	311
Dunstin Lynch	793	-	42	-	771	793
John Williams	261	-	10	-	230	261
Paul Williams	192	-	9	-	151	193

Directors' Report (continued)

Remuneration table

This section provides the remuneration details for non-executive directors and executives.

		SHORT TERM BENEFITS			LONG TERM BENEFITS		TOTAL
		Fees	Other Group Company Fees	Non-Cash Benefits	Superannuation Contributions	Retiring Allowance	
Non - Executive Directors		$ ' 000	$ ' 000	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Mr K.J. Betros Chairman	**2014**	**262**	**-**	**2**	**24**	**65**	**353**
	2013	262	-	2	23	65	352
Dr D.P. Campbell Deputy Chairman	**2014**	**199**	**-**	**2**	**19**	**49**	**269**
	2013	199	-	2	18	49	268
Mrs V.A. Quinn Director	**2014**	**90**	**-**	**2**	**8**	**23**	**123**
	2013	90	-	2	8	23	123
Professor P. Swannell AM Director	**2014**	**90**	**-**	**2**	**8**	**23**	**123**
	2013	90	-	2	8	23	123
Ms S.M. Campbell Director	**2014**	**99**	**-**	**2**	**9**	**25**	**135**
	2013	99	-	2	9	25	135
Mr B.P. Baulch Director	**2014**	**118**	**-**	**2**	**12**	**28**	**160**
	2013	118	-	2	11	28	159
Mr S. Davis Director	**2014**	**90**	**-**	**2**	**8**	**23**	**123**
	2013	90	-	2	8	23	123
Mr D.W. Thorpe Director	**2014**	**90**	**-**	**2**	**8**	**23**	**123**
	2013	90	-	2	8	23	123
Total for 2014		**1,038**	**-**	**16**	**96**	**259**	**1,409**
Total for 2013		1,038	-	16	93	259	1,406

Non-executive directors do not participate in Heritage incentive schemes.

		SHORT TERM BENEFITS			LONG TERM BENEFITS		TOTAL
		Salary	Incentive	Non-Cash Benefits	Superannuation Contributions	Long Service Leave Entitlements	
Executives		$ ' 000	$ ' 000	$ ' 000	$ ' 000	$ ' 000	$ ' 000
John Minz Chief Executive Officer	**2014**	**596**	**65**	**15**	**111**	**12**	**799**
	2013	578	55	24	107	20	784
Bill Armagnacq Company Secretary / Assistant CEO	**2014**	**284**	**36**	**22**	**25**	**5**	**372**
	2013	284	35	24	25	9	377
Jane Calder General Manager, Marketing	**2014**	**248**	**36**	**15**	**23**	**5**	**327**
	2013	248	35	15	25	5	328
Peter Cavanagh General Manager, Emerging Business Streams	**2014**	**263**	**40**	**19**	**22**	**5**	**349**
	2013	264	32	17	25	7	345
Peter Cleary Chief Financial Officer	**2014**	**277**	**38**	**15**	**53**	**5**	**388**
	2013	271	35	20	53	9	388
Paul Francis General Manager, Retail Services	**2014**	**318**	**43**	**15**	**18**	**4**	**398**
	2013	316	40	15	25	13	409
Bob Hogarth General Manager, People and Culture	**2014**	**231**	**38**	**6**	**44**	**4**	**323**
	2013	207	35	17	56	6	321
Dunstin Lynch General Manager, Technology	**2014**	**201**	**35**	**29**	**30**	**6**	**301**
	2013	202	30	26	31	8	297
John Williams Chief Operating Officer	**2014**	**277**	**43**	**13**	**43**	**5**	**381**
	2013	270	40	20	42	11	383
Paul Williams Chief Treasury & Business Strategy Officer	**2014**	**347**	**45**	**-**	**25**	**6**	**423**
	2013	336	40	-	33	8	417
Total for 2014		**3,042**	**419**	**149**	**394**	**57**	**4,061**
Total for 2013		2,976	377	178	422	96	4,049

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 55.

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.

Signed in accordance with a resolution of the directors:

TOOWOOMBA
21 August 2014

KERRY J. BETROS
Chairman

DENNIS P. CAMPBELL
Deputy Chairman

Income Statement

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED		PARENT	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest revenue	3 (a)	404,787	456,842	404,787	456,842
Interest expense	4 (a)	(268,936)	(319,473)	(268,936)	(319,473)
Net interest income		135,851	137,369	135,851	137,369
Other income	3 (b)	38,430	36,870	38,430	36,870
Total income		174,281	174,239	174,281	174,239
Impairment losses on loans and receivables	4 (b)	(1,571)	(2,143)	(1,571)	(2,143)
Marketing expense		(6,847)	(6,940)	(6,847)	(6,940)
Occupancy expense		(11,292)	(10,539)	(11,292)	(10,539)
Employee benefits expense	4 (c)	(66,530)	(63,737)	(66,530)	(63,737)
Administrative expense		(23,148)	(23,789)	(23,148)	(23,789)
Other expense	4 (d)	(15,053)	(14,576)	(15,053)	(14,576)
Share of net profit of associates	3 (c)	201	449	201	449
Profit before tax		50,041	52,964	50,041	52,964
Income tax expense	5 (a)	(14,284)	(15,912)	(14,284)	(15,912)
Profit after tax		35,757	37,052	35,757	37,052

The accompanying notes form part of these financial statements

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED		PARENT	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Profit after tax		35,757	37,052	35,757	37,052
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Gain/(loss) on cash flow hedge taken to members' funds		1,300	799	1,300	799
Gain on revaluation of available for sale financial investments		-	538	-	538
Net gain on sale of Visa shares reclassified to the Income Statement		-	(2,966)	-	(2,966)
Revaluation of land and buildings		3,493	-	3,493	-
Income tax gain/(expense) on above items of other comprehensive income	5(b)	(1,438)	488	(1,438)	488
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain/(loss) on defined benefit plan		965	988	965	988
Income tax gain/(expense) on above items of other comprehensive income		-	-	-	-
Other comprehensive income / (loss) for the year, net of tax		4,320	(153)	4,320	(153)
Total comprehensive income for the year		40,077	36,899	40,077	36,899

The accompanying notes form part of these financial statements

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	CONSOLIDATED		PARENT	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Assets					
Cash and cash equivalents	7	**188,302**	231,776	**188,302**	231,776
Receivables due from other financial institutions	8	**370,881**	462,984	**370,881**	462,984
Other receivables	9	**34,614**	38,722	**34,614**	38,722
Loans and receivables	10	**6,573,647**	6,670,248	**6,573,647**	6,670,248
Held to maturity financial assets	12	**1,313,811**	1,059,833	**1,313,811**	1,059,833
Investments accounted for using the equity method	13	**-**	4,397	**-**	4,397
Available for sale financial investments		**478**	478	**478**	478
Derivatives		**616**	5,188	**616**	5,188
Property, plant and equipment	15	**24,466**	21,478	**24,466**	21,478
Other assets	16	**1,929**	1,542	**1,929**	1,542
Intangibles	17	**2,234**	1,573	**2,234**	1,573
Deferred tax assets	5 (d)	**7,909**	8,828	**7,909**	8,828
Total Assets		**8,518,887**	8,507,047	**8,518,887**	8,507,047
Liabilities					
Deposits and borrowings	18	**7,760,498**	7,774,969	**7,760,498**	7,774,969
Accounts payable and other liabilities	19	**309,424**	307,412	**309,424**	307,412
Derivatives		**2,985**	15,400	**2,985**	15,400
Current tax liabilities		**4,265**	5,645	**4,265**	5,645
Deferred tax liabilities	5 (e)	**972**	765	**972**	765
Provisions	20	**15,256**	15,173	**15,256**	15,173
Retirement benefit liability		**199**	1,135	**199**	1,135
Subordinated debt	21	**51,716**	53,053	**51,716**	53,053
Total Liabilities		**8,145,315**	8,173,552	**8,145,315**	8,173,552
Net Assets		**373,572**	333,495	**373,572**	333,495
Members' Funds					
Retained profits		**372,887**	330,451	**372,887**	330,451
Reserves		**685**	3,044	**685**	3,044
Total Members' Funds		**373,572**	333,495	**373,572**	333,495

The accompanying notes form part of these financial statements

Statement of Changes in Equity

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED				
	Retained profits	Asset revaluation reserve	Cash flow hedge reserve	Available for sale asset reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance 1 July 2013	**330,451**	**5,714**	**(2,670)**	-	**333,495**
Profit for the year	**35,757**	-	-	-	**35,757**
Other comprehensive income	**965**	**2,445**	**910**	-	**4,320**
Transfer of Pre IFRS reserve	**5,714**	**(5,714)**	-	-	-
Total as at 30 June 2014	**372,887**	**2,445**	**(1,760)**	-	**373,572**
Balance 1 July 2012	292,411	5,714	(3,229)	1,700	296,596
Profit for the year	37,052	-	-	-	37,052
Other comprehensive income	988	-	559	(1,700)	(153)
Total as at 30 June 2013	330,451	5,714	(2,670)	-	333,495

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

The accompanying notes form part of these financial statements

Cash Flow Statement

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED		PARENT	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash flows from operating activities					
Interest received		414,387	462,759	414,387	462,759
Dividend received		2,851	15	2,851	15
Borrowing costs and interest paid		(270,359)	(330,097)	(270,359)	(330,097)
Other non-interest income received		39,340	37,117	39,340	37,117
Payments to suppliers and employees		(129,762)	(122,645)	(129,762)	(122,645)
Income tax paid		(16,424)	(15,208)	(16,424)	(15,208)
Net cash flows from operating activities	22 (a)	40,033	31,941	40,033	31,941
Cash flows from investing activities					
(Increase) / decrease in investment securities and receivables due from other financial institutions		(168,414)	(194,497)	(168,414)	(194,497)
Proceeds from sale of Visa shares		-	8,221	-	8,221
Return of capital - investment in associate		1,747	-	1,747	-
(Increase) / decrease in loans, receivables and other receivables		93,445	2,631	93,445	2,631
Proceeds from sale of property, plant and equipment		262	306	262	306
Acquisition of property, plant and equipment		(5,147)	(7,008)	(5,147)	(7,008)
Net cash flows used in investing activities		(78,107)	(190,347)	(78,107)	(190,347)
Cash flows from financing activities					
Increase / (decrease) in deposits and other borrowings		(2,454)	267,101	(2,454)	267,101
Premium paid on buyback of term debt		(2,946)	-	(2,946)	-
Payments for redemption of subordinated debt		-	(10,000)	-	(10,000)
Net cash flows from / (used in) financing activities		(5,400)	257,101	(5,400)	257,101
Net (decrease) / increase in cash held		(43,474)	98,695	(43,474)	98,695
Cash - beginning of the year		231,776	133,081	231,776	133,081
Cash - end of the year	22 (b)	188,302	231,776	188,302	231,776

The accompanying notes form part of these financial statements

Notes to the Financial Statements

1. CORPORATE INFORMATION

The consolidated financial report of Heritage Bank Limited and the Consolidated Structured Entities (CSEs) previously referred to as Special Purpose Vehicles (SPVs) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 21 August 2014.

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 28.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* including applicable Australian Accounting Standards.

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, land and buildings and subordinated debt 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.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollar ($'000) unless otherwise stated under the option available to the Group under ASIC Class Order 98/0100.

Heritage Bank Limited is a for-profit entity.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The following Australian Accounting Standards and Amendments to Australian Accounting Standards have been identified as those which may impact the Group in the period of initial application.

Reference	Title	Nature of change to accounting policy	Application date of standard	Application date for Group
AASB 2013-3	*Amendments to AASB 136 ***	Amends the disclosure requirements in AASB 136 *Impairment of Assets.*	1 January 2014	1 July 2014
AASB 2012-3	*Amendments to Offsetting Financial Assets and Financial Liabilities ***	Addresses inconsistencies in applying some of the offsetting criteria of AASB 132.	1 January 2014	1 July 2014

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Reference	Title	Nature of change to accounting policy	Application date of standard	Application date for Group
AASB 9	*Financial Instruments* **	Main changes that are relevant include: - option for designation and measurement at fair value through profit and loss at initial recognition - changes in the fair value accounting for financial liabilities - new hedge accounting requirements	1 January 2018	1 July 2018
AASB 15	*Revenue from Contracts with Customers* **	Establishes principles for reporting information on revenue arising from an entity's contracts with customers.	1 January 2017	1 July 2017

** The impact of this standard is yet to be assessed.

The following amendments are not applicable to the Group and therefore have no impact.

- *Levies*
- *Budgetary Reporting*
- *Novation of Derivatives and Continuation of Hedge Accounting*
- *Investment Entities*
- *Consolidation and Interests of Policyholders*

The following standards were applied for the first time during this financial year:

AASB 10 *Consolidated Financial Statements*

AASB 10 establishes a new control model that applies to all entities, the key change is that AASB 10 identifies control as the single basis for consolidation. An assessment has been undertaken and it has been concluded that Heritage controls the Consolidated Structured Entities (CSEs), refer 2(c) for further details. There is no effect on the classification, the CSEs continue to be consolidated consistent with prior periods.

AASB 12 *Disclosure of Interests in Other Entities*

AASB 12 includes disclosures relating to an entity's interests in structured entities and judgements made by management to determine whether control exists. Management's judgement relating to control is disclosed in Note 2(c), refer Note 25(c) for details on the Consolidated Structured Entities (CSEs).

AASB 13 *Fair Value Measurement*

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. It also expands on the disclosure requirements, refer Note 14(d) for detailed disclosures on fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The Group controls an entity when the Group is exposed to, or has rights to, variable return from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Heritage controls the Consolidated Structured Entities (CSEs) as it has the power to direct the activities and affect the variable returns. The CSEs are made up of eight trust vehicles that have been established for the purpose of securitising Heritage's loans (refer Note 25(c) for further details).

The consolidated financial statements include those of Heritage and the Consolidated Structured Entities (CSEs) relating to the securitisation of Heritage's loans, referred to as the "Group". The CSEs underlying assets, liabilities, revenues, expenses and cash flows are reported in the Group's Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement (refer to Note 25 (c)). Where entities have been acquired during the year, their operating results have been included from the date of acquisition. All inter-company transactions and balances have been eliminated.

The Parent entity financial statements include those of Heritage and the Consolidated Structured Entities (CSEs). As Heritage controls the CSEs the asset, liabilities, revenues and expenses have not been derecognised. The CSEs underlying assets, liabilities, revenues, expenses and cash flows are reported in the Parent's Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement.

(d) Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Revaluation of land and buildings (property, plant and equipment)

The Group re-assessed its accounting for property, plant and equipment with respect to measurement of land and buildings. The Group has previously measured all property, plant and equipment using the cost model whereby the asset was carried at cost less accumulated depreciation.

On 30 June 2014 the Group elected to change the method of accounting for land and buildings since the Group believes that the revaluation model more effectively demonstrates the financial position of land and buildings.

Under the revaluation model land and buildings will be measured at the fair value at the date of the revaluation less any subsequent accumulated depreciation.

(e) Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Loan provisioning
The Group determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows. The Group's policy for calculation of loan loss allowance is disclosed in 2 (i).

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

(i) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Payments made to brokers for the introduction of mortgage loan borrowers to Heritage are expensed over a period from the date of payment to match the cost of acquiring the loan to the income derived from it. In line with the effective interest rate method mortgage commission is reclassified to interest revenue.

Set up costs incurred for securitisation are carried forward and amortised over the period of probable future economic benefits. In line with the effective interest rate method securitisation establishment costs are reclassified to interest revenue.

(ii) Fees and commissions

Fees and commissions that form an integral part of interest are classified as part of interest revenue. Revenue is recognised as interest accrues using the effective interest method.

(g) Cash and cash equivalents

Cash in the Statement of Financial Position and Cash Flow Statement comprises of cash at bank and on hand.

(h) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate, basis, and foreign currency swaps to hedge its risks associated with interest rate and currency fluctuations. These instruments are initially recognised at cost on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as effective cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of swap contracts is determined by the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is remeasured to fair value and gains and losses from both the asset or liability and the derivative are taken to the Income Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Derivative financial instruments and hedging (continued)

(ii) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Income Statement.

Amounts taken to equity are transferred to the Income Statement when the hedged transaction affects the Income Statement, such as when hedged income or expenses are recognised.

Refer to Note 2 (m) for further detail.

(i) Loan provisioning

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. Loan impairment will only be recognised when objective evidence is available that a loss event has occurred and as a consequence it is not likely that all amounts owed will be received. Outlined below are the relevant accounting policies.

Specific provision

A specific provision is raised for losses that may be incurred for individual loans that are known to be impaired by assessing the recoverability against the security value. It also includes a prescribed provision in accordance with the Australian Prudential Regulation Authority's methodology.

Collective provision

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective provision is raised. From the analysis performed, the provision has been consistent with the historical level of bad debts experienced in those portfolios.

Impairment losses

The Group writes off a loan when it is determined that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(j) Income tax

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against the deductible temporary differences.

Tax effect accounting is applied using the balance sheet method whereby deferred income tax is provided on all timing differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(l) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are measured at fair value less accumulated depreciation on buildings since the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value does not differ materially from its carrying amount.

A revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Building - 40 years
Leasehold improvements - the lease term
Plant and equipment - 3 to 8 years

(i) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amounts being estimated when events or changes in circumstance indicate the carrying value may be impaired.

An impairment loss exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

(m) Classification of financial assets and financial instruments

(i) Financial instruments (derivatives)

Those derivatives that the Group does not apply hedge accounting to are classified as 'held for trading' financial assets. These are measured at fair value, with fair value changes charged to the Income Statement. Those derivatives where the Group is applying hedge accounting are designated and qualify as either cash flow hedges or fair value hedges. The various derivatives entered into are as follows:

(a) Cash flow hedge of variable rate liabilities

The Group's policy is to enter into pay fixed / receive floating swaps with approved external counterparties to mitigate against variability in cash flows of a portfolio of floating rate liabilities.

(b) Cash flow hedge of variable rate assets

The Group's policy is to enter into pay floating / receive fixed swaps to counteract against variability in cash flows of a portfolio of floating rate assets.

(c) Fair value hedge

The Group has entered into a pay floating / receive fixed swap with an approved external counterparty to mitigate against changes in the fair value of term subordinated debt due to movement in interest rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Classification of financial assets and financial instruments (continued)

(ii) Financial assets

Financial assets are classified into one of the following categories:

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method.

Held to maturity financial assets

These are non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has the intention and ability to hold to maturity. These assets are measured at amortised cost using the effective interest method less any impairment.

Available for sale financial investments

These are those non-derivative financial assets that are not classified in any of the above categories. These assets are measured at cost as the fair value is unable to be measured reliably.

Impairment - loans and receivables

Refer Note 2(i) for details.

Impairment - financial assets carried at amortised cost other than loans and receivables

For financial assets carried at amortised cost, the Group assesses individually whether objective evidence of impairment exists or collectively for financial assets that are not individually significant or have no individual impairment. If there is objective evidence that an impairment loss has been incurred the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(n) Employee benefits

Provision has been made for the liability to pay annual leave for all employees at the remuneration rates which are expected to be paid when the liability is settled. Based on an analysis of leave taken there has been no change to the classification or measurement of the Group's annual leave obligations as a result of the revised standard. Provision for the liability to pay long service leave is made for all employees from their date of commencement at discounted expected future values in accordance with AASB 119 *Employee Benefits*.

In accordance with AASB 119 the net position of the defined benefit plan is recognised in the Statement of Financial Position. Any gains or losses with the exception of the actuarial gain or loss, arising from changes in the net position between reporting periods is recognised through the profit and loss account. Actuarial gains or losses are recognised directly through retained earnings and disclosed in Other Comprehensive Income.

(o) Provision for directors' retiring allowance

Provision has been made for all directors in accordance with Rule 69.5 of the Constitution of Heritage. The retiring allowance is calculated as one-fourth of the aggregate amount of directors' fees which the director has received or has become entitled to receive. All or part of this retiring allowance can be paid to a complying superannuation fund.

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Make good provision and asset

A provision is made for the anticipated costs of restoring leased premises at the end of the leased term that reflects the present obligation to restore the premises. The estimate of the costs has been calculated by reviewing current and historical defit costs and calculating an average cost per square metre. A cost per branch has been calculated depending on its size. A provision and asset has then been recorded to reflect the cost at the end of each lease term. The asset is amortised over the lease term. Both the asset and liability is reassessed at the end of each financial year to account for new, amended and expired leases.

(q) Intangible assets

Intangible assets include the value of computer software which are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Amortisation is calculated on the straight line basis over three years.

(r) Subordinated debt

Subordinated debt includes debt listed with Australian Securities Exchange. The listed debt is initially recognised at fair value net of direct issue costs. Changes in the fair value are recognised in the Income Statement.

(s) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases which do not transfer to Heritage substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term.

3. INCOME

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
(a) Interest revenue				
Deposits and investment securities	48,511	50,249	48,511	50,249
Loans and receivables	362,645	411,598	362,645	411,598
Interest rate swaps	3,633	2,125	3,633	2,125
Gain on fair value hedges	-	254	-	254
Gain on derivatives held at fair value	-	2,857	-	2,857
Add: Loan application direct revenue	1,524	2,477	1,524	2,477
Less: Commission and agent direct costs	(10,972)	(11,303)	(10,972)	(11,303)
Less: Securitisation establishment costs	(554)	(1,415)	(554)	(1,415)
Total interest revenue	404,787	456,842	404,787	456,842
(b) Other income				
Fees and commissions	34,584	32,010	34,584	32,010
Income from property	283	343	283	343
Impairment losses on loans recovered	482	357	482	357
Realised gain on sale of Visa shares transferred from Other Comprehensive Income	-	2,966	-	2,966
Foreign exchange gain	2,207	-	2,207	-
Other revenue	874	1,194	874	1,194
Total other income	38,430	36,870	38,430	36,870
(c) Share of net profit of associate using the equity method	201	449	201	449

Notes to the Financial Statements (continued)

		CONSOLIDATED		PARENT	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000

4. EXPENSES

		2014 $'000	2013 $'000	2014 $'000	2013 $'000
(a) Interest expense					
Deposits		201,923	243,222	201,923	243,222
Subordinated debt including fair value adjustment		3,664	4,293	3,664	4,293
Interest bearing notes		52,671	66,288	52,671	66,288
Interest rate swaps		5,962	4,753	5,962	4,753
Loss on fair value hedges		1,542	917	1,542	917
Loss on derivatives held at fair value		3,174	-	3,174	-
Total interest expense		268,936	319,473	268,936	319,473
(b) Impairment losses on loans and receivables	10 (b)	1,571	2,143	1,571	2,143
(c) Employee benefits expense					
Salaries, wages and allowances		50,745	49,515	50,745	49,515
Net defined benefit fund expense		630	590	630	590
Contribution to accumulation fund		4,773	4,541	4,773	4,541
Other employee costs		10,382	9,091	10,382	9,091
Total employee benefits expense		66,530	63,737	66,530	63,737
(d) Other expense					
Depreciation					
Plant and equipment		4,920	4,877	4,920	4,877
Buildings		597	609	597	609
		5,517	5,486	5,517	5,486
Amortisation		970	890	970	890
Communication		4,269	4,588	4,269	4,588
Fees and commissions		1,351	2,307	1,351	2,307
Premium paid on buyback of term debt		2,946	-	2,946	-
Foreign exchange loss		-	1,305	-	1,305
		9,536	9,090	9,536	9,090
Total other expense		15,053	14,576	15,053	14,576

5. INCOME TAX

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
(a) Income tax expense				
The major components of income tax expense are:				
Income statement				
Current income tax				
Current income tax charge	14,584	17,050	14,584	17,050
Under / (over) provision of previous year	11	1,323	11	1,323
Deferred income tax				
Deferred income tax relating to temporary differences	(311)	(2,461)	(311)	(2,461)
Income tax expense	14,284	15,912	14,284	15,912
(b) Other comprehensive income				
Cash flow hedges	(390)	(240)	(390)	(240)
Available for sale asset reserve	-	728	-	728
Asset revaluation reserve	(1,048)	-	(1,048)	-
Income tax gain / (expense) on items of other comprehensive income	(1,438)	488	(1,438)	488
(c) Reconciliation of income tax expense to prima facie tax payable				
Profit from ordinary activities before tax	50,041	52,964	50,041	52,964
Tax at the tax rate of 30%	15,012	15,889	15,012	15,889
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Dividend credits from share of associate	(806)	-	(806)	-
Other items (net)	75	44	75	44
Under / (over) provision of the previous year - non deductible expense	3	(21)	3	(21)
Income tax expense	14,284	15,912	14,284	15,912

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
5. INCOME TAX (continued)				
(d) Analysis of deferred tax assets				
Employee benefits	3,276	2,994	3,276	2,994
Provision for impairment	1,609	1,643	1,609	1,643
Other	2,270	3,047	2,270	3,047
Total	7,155	7,684	7,155	7,684
Amounts recognised directly in equity:				
Cash flow hedges	754	1,144	754	1,144
Total deferred tax assets	7,909	8,828	7,909	8,828
(e) Analysis of deferred tax liabilities				
Fixed assets	(345)	(991)	(345)	(991)
Investment in associate	-	786	-	786
Other	269	970	269	970
Total	(76)	765	(76)	765
Amounts recognised directly in equity:				
Asset revaluation reserve	1,048	-	1,048	-
Total deferred tax liabilities	972	765	972	765

6. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	CONSOLIDATED		
As at 30 June 2014	Less than 12 months $'000	Over 12 months $'000	Total $'000
Assets			
Cash and cash equivalents	188,302	-	188,302
Receivables due from other financial institutions	370,881	-	370,881
Other receivables	34,614	-	34,614
Loans and receivables	549,183	6,024,464	6,573,647
Held to maturity financial assets	790,433	523,378	1,313,811
Available for sale financial investments	478	-	478
Derivatives	616	-	616
Property, plant and equipment	-	24,466	24,466
Other assets	1,737	192	1,929
Intangibles	-	2,234	2,234
Deferred tax assets	-	7,909	7,909
Total Assets	1,936,244	6,582,643	8,518,887
Liabilities			
Deposits and borrowings	6,044,290	1,716,208	7,760,498
Accounts payable and other liabilities	309,424	-	309,424
Derivatives	676	2,309	2,985
Current tax liabilities	4,265	-	4,265
Deferred tax liabilities	-	972	972
Provisions	7,416	7,840	15,256
Retirement benefit liability	-	199	199
Subordinated debt	51,716	-	51,716
Total Liabilities	6,417,787	1,727,528	8,145,315
Net Assets	(4,481,543)	4,855,115	373,572

6. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 30 June 2013	CONSOLIDATED Less than 12 months $'000	Over 12 months $'000	Total $'000
Assets			
Cash and cash equivalents	231,776	-	231,776
Receivables due from other financial institutions	462,984	-	462,984
Other receivables	38,722	-	38,722
Loans and receivables	559,320	6,110,928	6,670,248
Held to maturity financial assets	608,783	451,050	1,059,833
Investments accounted for using the equity method	4,397	-	4,397
Available for sale financial investments	478	-	478
Derivatives	2,150	3,038	5,188
Property, plant and equipment	-	21,478	21,478
Other assets	1,345	197	1,542
Intangibles	-	1,573	1,573
Deferred tax assets	-	8,828	8,828
Total Assets	1,909,955	6,597,092	8,507,047
Liabilities			
Deposits and borrowings	5,831,484	1,943,485	7,774,969
Accounts payable and other liabilities	307,412	-	307,412
Derivatives	2,356	13,044	15,400
Current tax liabilities	5,645	-	5,645
Deferred tax liabilities	-	765	765
Provisions	8,203	6,970	15,173
Retirement benefit liability	-	1,135	1,135
Subordinated debt	890	52,163	53,053
Total Liabilities	6,155,990	2,017,562	8,173,552
Net Assets	(4,246,035)	4,579,530	333,495

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

	CONSOLIDATED		PARENT	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000

7. CASH AND CASH EQUIVALENTS

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash at bank and on hand	188,302	231,776	188,302	231,776

These are interest and non-interest bearing.

8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest earning deposits	343,727	439,020	343,727	439,020
Deposits with other authorised deposit-taking institutions	27,154	23,964	27,154	23,964
	370,881	462,984	370,881	462,984

9. OTHER RECEIVABLES

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest receivable	9,090	8,689	9,090	8,689
Securitisation deposits	22,810	26,513	22,810	26,513
Other	2,714	3,520	2,714	3,520
	34,614	38,722	34,614	38,722

10. LOANS AND RECEIVABLES

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Credit cards	74,429	74,018	74,429	74,018
Term loans	4,794,024	4,745,476	4,794,024	4,745,476
Securitised loans	1,701,935	1,848,315	1,701,935	1,848,315
Other	473	406	473	406
Related parties - key management personnel	1,989	2,146	1,989	2,146
	6,572,850	6,670,361	6,572,850	6,670,361
Provision for impairment (b)	(5,364)	(5,478)	(5,364)	(5,478)
Add: Securitisation establishment costs	1,992	943	1,992	943
Add: Commission and agent direct costs	4,169	4,422	4,169	4,422
Net loans and advances	6,573,647	6,670,248	6,573,647	6,670,248

(a) Concentration of risk

The loan portfolio of the Group does not include any loan or groups of related loans which represent 10% or more of capital.

Notes to the Financial Statements (continued)

10. LOANS AND RECEIVABLES (continued)

(b) Provision for impairment

	Credit Cards $'000	Term Loans $'000	Other $'000	Total $'000
Consolidated				
2014				
Specific provision				
Opening balance	381	859	175	1,415
Impairment losses provided for / (reversed) during the year	289	491	(13)	767
Closing balance	670	1,350	162	2,182
Collective provision				
Opening balance	1,519	2,250	294	4,063
Impairment losses provided for / (reversed) during the year	(347)	(605)	71	(881)
Writeback of provision to members funds	-	-	-	-
Closing balance	1,172	1,645	365	3,182
Total provision for impairment	1,842	2,995	527	5,364
Charges to operating profit before tax for impairment losses on loans and receivables comprises:				
Specific provision	289	491	(13)	767
Collective provision	(347)	(605)	71	(881)
Impairment losses recognised directly	612	648	425	1,685
	554	534	483	1,571

10. LOANS AND RECEIVABLES (continued)

(b) Provision for impairment (continued)

	Credit Cards $'000	Term Loans $'000	Other $'000	Total $'000
Consolidated				
2013				
Specific provision				
Opening balance	511	813	151	1,475
Impairment losses provided for / (reversed) during the year	(130)	46	24	(60)
Closing balance	381	859	175	1,415
Collective provision				
Opening balance	1,474	1,760	284	3,518
Impairment losses provided for / (reversed) during the year	45	490	10	545
Writeback of provision to members funds	-	-	-	-
Closing balance	1,519	2,250	294	4,063
Total provision for impairment	1,900	3,109	469	5,478
Charges to operating profit before tax for impairment losses on loans and receivables comprises:				
Specific provision	(130)	46	24	(60)
Collective provision	45	490	10	545
Impairment losses recognised directly	906	523	229	1,658
	821	1,059	263	2,143

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000

11. IMPAIRMENT OF LOANS AND RECEIVABLES

The policy covering impaired loans and receivables is set out in Note 2 (i).

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Total impaired assets				
Gross loans no longer accruing interest	**5,726**	6,232	**5,726**	6,232
Less individually assessed provisions for impairment	**(1,546)**	(1,415)	**(1,546)**	(1,415)
Total net impaired assets	**4,180**	4,817	**4,180**	4,817
Restructured loans				
Balance	**411**	207	**411**	207
	411	207	**411**	207
Interest revenue foregone on past due / impaired and restructured loans	**381**	413	**381**	413

12. HELD TO MATURITY FINANCIAL ASSETS

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Bank debt securities	**998,887**	848,793	**998,887**	848,793
Government securities	**289,627**	170,968	**289,627**	170,968
Asset backed debt securities	**25,297**	40,072	**25,297**	40,072
	1,313,811	1,059,833	**1,313,811**	1,059,833

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Investment in associate	**-**	4,397	**-**	4,397

During the year, the Group received $2.851 million in dividend payments (2013 - Nil).

Permanent LMI Pty Limited was a joint venture arrangement between Heritage Bank Limited and QBE Lenders' Mortgage Insurance Limited. The joint venture arrangement was terminated effective 31 March 2013.

The contribution to consolidated profit after tax was $0.201 million (2013 - $0.449 million).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board and Management of Heritage are responsible for implementing a risk management process to limit risk to prudent levels. The Board has established the following committees with responsibilities to develop and monitor compliance and risk management frameworks within their respective areas; Audit and Compliance Committee, Finance Committee and Risk Management Committee.

Heritage's risk management policy and supporting framework are in place to enable the risks faced by Heritage to be identified, analysed, evaluated and monitored over time. The risk management framework is reviewed regularly to reflect changes from sources both internal and external to Heritage.

The Risk Management Committee has responsibility for formulating Heritage's risk management policies and procedures, and reviewing the adequacy of the risk management framework. The Risk Management Committee receives regular reports from management, the internal and external auditors, and can request investigations into one-off or special matters in accordance with their charter. The Finance Committee has responsibility for financial risk management oversight.

The Audit and Compliance Committee's role is to assist the Board to fulfil its oversight responsibilities, by providing an objective non-executive review of the effectiveness of Heritage's prudential APRA reporting, statutory reporting, other financial reporting and professional accounting requirements, internal and external audit and compliance with laws and regulations.

Heritage has exposure to the following risks from its use of financial instruments:

Market risk

Liquidity risk

Credit risk

Operational risk

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and exchange rates, will affect Heritage's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of Market Risks

Heritage does not undertake trading activities and all exposure to market risk is in its non-trading portfolio.

Overall authority for market risk is vested in the Board and delegated to the Finance Committee and Management. Management is responsible for the development of detailed risk management policies (subject to review by Finance Committee and approval by Board) and for the day-to-day review of their implementation.

Interest Rate Risk

Interest rate risk is the potential for loss of earnings to Heritage due to adverse movements in interest rates.

Heritage utilises two key risk management strategies; a pricing committee facilitates direct (pricing) intervention strategies and the Finance Committee facilitates indirect (hedging) intervention strategies.

Forward Rate Agreements, Interest Rate Swaps, Options (including Interest Rate Caps and Floors), Interest Rate Futures and Options on Interest Rate Futures are all authorised hedging instruments but are subject to approval by the Finance Committee where they have not been utilised within the previous 12 months.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands (set with reference to prudential capital base). The Finance Committee is the monitoring body for compliance with these limits and is assisted by the monitoring activities implemented by Management in its day-to-day operations.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Market risk (continued)

Sensitivity of net profit and loss and equity

The following demonstrates the sensitivity to a reasonable possible change in interest rates with all other variables held constant.

The sensitivity of the Income Statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2014, including the effect of hedging instruments.

The sensitivity of equity is calculated by determining the effect of an assumed change in interest rates on any swaps designated as cash flow hedges and the net interest income.

Change	Sensitivity of net interest income (NII)		Sensitivity of NII & cash flow hedge reserve	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
100 basis points	7,069	5,897	14,273	8,030
(100) basis points	(6,425)	(5,434)	(13,629)	(7,567)

Currency Risk

The Group maintains ten foreign currency accounts (US, GBP, EURO, NZ, HKD, SGD, BAHT, CAD, JPY, AED) which are used as float accounts to meet foreign currency card settlement obligations. The Income Statement exposure relating to these accounts results in unrealised and realised gains and losses as a result of converting the fee revenue earned on the floats from the overseas denominated currencies to Australian dollars.

The Group repatriates a significant portion of the three main foreign currency floats, (US dollars, Euros and British Pounds) to manage counterparty risk. Foreign currency swaps relating to the three currencies are taken out as part of the process which reduces the foreign currency exposure. For the remaining currencies any unrealised gains or losses on the float accounts are exactly offset by a corresponding unrealised loss or gain on the settlement obligation.

Prepayment Risk

Prepayment risk is the risk that Heritage will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Heritage manages the risk by monitoring the prepayment rate on the loans and taking the rate into account when adopting appropriate hedging strategies.

(b) Liquidity risk

Liquidity risk is the inability to access sufficient funds, both anticipated and unforseen that may lead to Heritage being unable to meet its cash flow and funding obligations as they arise.

Management of Liquidity Risk

Heritage's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal or stressed conditions, without incurring unacceptable losses or risking damage to Heritage's reputation.

Heritage has a Liquidity Management Policy that is supervised by the Chief Executive Officer and administered by the Chief Financial Officer, the Manager of Accounting Services and the Chief Treasury and Business Strategy Officer. To ensure liquidity requirements are met, Heritage maintains minimum liquidity holdings relative to its balance sheet liabilities including irrevocable commitments but excluding eligible capital. The minimum liquidity holdings comprise high quality liquid assets held within a Liquid Assets Portfolio.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. A daily report covers the daily liquidity position, liquidity forecasts are generated weekly and summary reports are provided to Finance Committee monthly.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarises the maturity profile of the Group's financial liabilities, commitments and contingencies. This is based on contractual undiscounted cash flows and will not agree directly to the amounts recognised in the Statement of Financial Position. The derivatives have been calculated using existing contractual terms and rates prevailing at 30 June 2014. The amount will differ accordingly from the Statement of Financial Position.

Consolidated	Up to 1 year	1 to 5 years	Over 5 years	Total
2014	$'000	$'000	$'000	$'000
Deposits and borrowings	**6,213,650**	**1,518,325**	**242,422**	**7,974,397**
Accounts payable and other liabilities	**309,424**	-	-	**309,424**
Subordinated debt	**50,000**	-	-	**50,000**
Derivatives	**16,052**	**16,782**	-	**32,834**
Credit related commitments	**459,862**	-	-	**459,862**
Financial guarantees	**4,837**	-	-	**4,837**
	7,053,825	**1,535,107**	**242,422**	**8,831,354**
2013				
Deposits and borrowings	6,033,972	1,492,203	518,048	8,044,223
Accounts payable and other liabilities	307,412	-	-	307,412
Subordinated debt	5,000	19,945	57,480	82,425
Derivatives	15,343	15,464	-	30,807
Credit related commitments	415,325	-	-	415,325
Financial guarantees	4,966	-	-	4,966
	6,782,018	1,527,612	575,528	8,885,158

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. The management of credit risk is supervised by the Chief Executive Officer and administered by the Company Secretary and the Head of Credit for loans and receivables. For cash, liquid investments and derivatives these are administered by the Chief Financial Officer and the Chief Treasury and Business Strategy Officer. Management of credit risk for loans and receivables includes:

· Formulating credit policies including credit assessment, documentary and legal procedures and compliance with regulatory and statutory requirements.

· Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to branch managers and loan assessment officers.

· Reviewing and assessing credit risk. The Chief Executive Officer, Company Secretary and the Head of Credit together with the credit committee assesses credit exposures in excess of designated limits, prior to facilities being committed to customers.

The table below shows the maximum exposure to credit risk:

Gross Maximum Exposure

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Cash and cash equivalents	**188,302**	231,776	**188,302**	231,776
Receivables due from other financial institutions	**370,881**	462,984	**370,881**	462,984
Other receivables	**34,614**	38,722	**34,614**	38,722
Loans and receivables	**6,573,647**	6,670,248	**6,573,647**	6,670,248
Held to maturity financial assets	**1,313,811**	1,059,833	**1,313,811**	1,059,833
Available for sale financial investments	**478**	478	**478**	478
Derivatives	**616**	5,188	**616**	5,188
	8,482,349	8,469,229	**8,482,349**	8,469,229
Financial guarantees	**4,837**	4,966	**4,837**	4,966
Credit related commitments	**459,862**	415,325	**459,862**	415,325
	464,699	420,291	**464,699**	420,291
	8,947,048	8,889,520	**8,947,048**	8,889,520

Counterparty Risk

As part of Heritage's investment policy individual counterparties need to have the appropriate investment grading and are monitored in respect to their limits and credit rating. The appropriate credit rating and limit levels ensures Heritage is not exposed to any significant individual counterparty exposure.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Credit exposure by credit rating

The following table outlines the credit ratings of the Group's investments with counterparties:

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
AAA to AA-	**1,003,298**	933,308	**1,003,298**	933,308
A+ to A-	**485,650**	423,977	**485,650**	423,977
BBB+ to BBB-	**285,729**	315,976	**285,729**	315,976
Unrated	**74,938**	59,921	**74,938**	59,921
	1,849,615	1,733,182	**1,849,615**	1,733,182

Credit risk of the loan portfolio

Heritage's lending portfolio is made up of predominantly residential properties. A credit assessment is completed for each loan which includes information about applicant's cost of living, capacity to repay, previous credit conduct and value of security. The majority of Heritage's loan portfolio is secured with mortgages over relevant properties and as a result manages credit risk by using the loan to value ratio (LVR). The LVR is calculated by dividing the total of the loan by the lower of Heritage approved valuation amount or the purchase price. The average of the Group's LVRs (by value) are as follows:

	CONSOLIDATED		PARENT	
LVR	**2014 %**	2013 %	**2014 %**	2013 %
0-60%	**35**	37	**35**	37
61-80%	**46**	45	**46**	45
81-90%	**15**	14	**15**	14
91-100%	**4**	4	**4**	4
> 100%	**-**	-	**-**	-
	100	100	**100**	100

Security

For mortgage lending the registered mortgage is held as security. Where the loan to valuation ratio is greater than 80% mortgage insurance is required.

Past due but not impaired loans

These relate to loans where the contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Past due items by individual facility as at 30 June are:

	Less than 30 days ($'000)	31 to 60 days ($'000)	61 to 90 days ($'000)	More than 90 days ($'000)	Total ($'000)
2014					
Residential owner occupied	1,851	43	30	793	2,717
Residential investor	795	18	13	340	1,166
Credit card	77	-	43	82	202
Other personal	258	-	143	236	637
Private unincorporated businesses	5	-	-	-	5
	2,986	61	229	1,451	4,727
2013					
Residential owner occupied	171	270	13	510	964
Residential investor	72	115	6	216	409
Credit card	59	-	25	64	148
Other personal	171	-	146	303	620
Private unincorporated businesses	2	-	-	354	356
	475	385	190	1,447	2,497

The total security relating to the above past due items greater than 90 days is $12,506,000 (2013 - $17,944,000).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Concentrations of credit risk

The Group minimises concentrations of credit risk by undertaking transactions with a large number of customers within the specified category. However, the majority of customers are concentrated in Queensland.

Concentrations of credit risk on loans arise in the following categories:

	Maximum credit risk exposure* for each concentration			
	CONSOLIDATED			
	Percentage of total loans receivable (%)		$'000	
Geographic	**2014**	2013	**2014**	2013
Queensland residents	**64%**	63%	**4,210,680**	4,189,808
Other	**36%**	37%	**2,356,806**	2,475,075
	100%	100%	****6,567,486**	****6,664,883**

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

** The total loans and receivables figure differs from that presented in the Statement of Financial Position in Note 10 by the securitisation establishment costs of $1.992 million (2013 - $0.943 million) and the broker commission of $4.169 million (2013 - $4.422 million), as the securitisation establishment costs and broker commission are reclassifications, as a result of the effective interest rate method and are not applicable for the analysis of the concentration of credit risk.

(d) Fair Values

The net fair value of assets and liabilities are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. The three levels are:

Level 1:

Valued by reference to quoted prices in active markets for identical assets and liabilities.

Level 2:

Valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3:

Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data.

Notes to the Financial Statements (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

The following assets and liabilities have not been included in the table below as their carrying amount is a reasonable approximation of fair value:

- Cash and cash equivalents
- Receivables due from other financial institutions
- Other receivables and other assets
- Accounts payable and other liabilities
- Customer deposits

Consolidated	Carrying amount	Fair value			
2014	$'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Interest rate swaps - fair value hedge	512	-	512	-	512
Foreign currency swaps - held at fair value	104	-	104	-	104
Other assets measured at fair value					
Land and buildings	12,800	-	12,800	-	12,800
	13,416	-	13,416	-	13,416
Financial assets not measured at fair value					
Held to maturity financial assets	1,313,811	-	1,325,651	-	1,325,651
Loans and receivables	6,572,850	-	-	6,580,950	6,580,950
	7,886,661	-	1,325,651	6,580,950	7,906,601
Financial liabilities measured at fair value					
Interest rate swaps - cash flow hedge	2,514	-	2,514	-	2,514
Foreign currency swaps - held at fair value	471	-	471	-	471
Subordinated debt	50,826	50,826	-	-	50,826
	53,811	50,826	2,985	-	53,811
Financial liabilities not measured at fair value					
Term debt	518,375	-	550,049	-	550,049
Interest bearing notes	1,414,064	-	1,449,607	-	1,449,607
	1,932,439	-	1,999,656	-	1,999,656

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

Consolidated	Carrying amount	Fair value			
2013	$'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Interest rate swaps - held at fair value	984	-	984	-	984
Interest rate swaps - fair value hedge	2,054	-	2,054	-	2,054
Foreign currency swaps - held at fair value	2,150	-	2,150	-	2,150
	5,188	-	5,188	-	5,188
Financial assets not measured at fair value					
Held to maturity financial assets	1,059,833	-	1,067,904	-	1,067,904
Loans and receivables	6,670,361	-	-	6,705,653	6,705,653
	7,730,194	-	1,067,904	6,705,653	7,773,557
Financial liabilities measured at fair value					
Interest rate swaps - cash flow hedge	2,978	-	2,978	-	2,978
Cross currency swaps - cash flow hedge	12,095	-	12,095	-	12,095
Foreign currency swaps - held at fair value	327	-	327	-	327
Subordinated debt	52,163	52,163	-	-	52,163
	67,563	52,163	15,400	-	67,563
Financial liabilities not measured at fair value					
Term debt	699,337	-	736,712	-	736,712
Interest bearing notes	1,571,060	-	1,613,610	-	1,613,610
	2,270,397	-	2,350,322	-	2,350,322

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

Transfers between Level 1 and 2

There were no transfers between Level 1 and Level 2 during the financial year.

Valuation techniques used to determine fair values

Interest rate, foreign currency and cross currency swaps

The Group enters into swaps with various counterparties who have investment grade credit ratings. The fair value is calculated as the present value of the estimated future interest cash flows based on observable yield curves. Other inputs include the credit quality of counterparties and foreign exchange spot and forward rates. A credit / debit valuation attributable to derivative counterparty default risk has been assessed, these are not significant and no adjustment has been made.

Held to maturity financial assets

The fair value for the held to maturity financial assets is based on the current quoted market price. For those assets where there is no quoted price the fair value is calculated as the present value of the estimated future interest cash flows based on observable yield curves.

Loans and receivables

The fair value is determined by adjusting the fixed rate loan portfolio for current market rates as at balance date. For variable rate loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2014. Where observable market transactions are not available to estimate the fair value of loans the fair value is estimated using valuation models such as discounted cash flow techniques.

Term debt and Interest bearing notes

The fair value is determined by a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

(e) Operational Risk

Operational risk is risk arising from inadequate or failed internal processes, people and information systems, or from external events (other than credit, market, and liquidity risks). Operational risks arise from Heritage's operational activities.

Heritage's objective is to manage the risks associated with its activities to realise opportunities and minimise the impact of undesired and unexpected events on its business activities.

Management of risks through the implementation of appropriate control strategies is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the reviews are provided to the responsible management of the subject business unit and reported to the Audit & Compliance Committee.

(f) Capital

Capital adequacy is calculated in accordance with the Prudential Standards issued by the Australian Prudential Regulation Authority (APRA). APRA has set minimum regulatory capital requirements under the Basel III Framework. During the year, the Group has complied in full with all its externally imposed capital requirements.

The Group's capital management policy is supervised by the Chief Executive Officer and administered by the Chief Financial Officer, the Manager Accounting Services and the Chief Treasury and Business Strategy Officer. Other objectives include making efficient use of capital in the pursuit of strategic objectives. The capital adequacy ratio is monitored on a daily basis.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(f) Capital (continued)

Regulatory Capital

	2014 $'000	2013 $'000
Tier 1 capital	353,270	310,128
Tier 2 capital	42,832	48,714
Total capital	396,102	358,842
Risk Weighted Assets	2,970,557	2,800,734
Capital Ratio	13.33%	12.81%

Tier 1 capital consists of general reserves and current year earnings. Tier 2 includes general reserve for credit losses and subordinated debt.

Full details of regulatory capital is provided on the Heritage website at heritage.com.au > About Heritage > Prudential Reporting.

15. PROPERTY, PLANT AND EQUIPMENT

		CONSOLIDATED			
		Freehold land $'000	Heritage Plaza building units $'000	Plant and equipment $'000	Total $'000
Year ended 30 June 2014					
At 1 July 2013, net of accumulated depreciation and impairment		1,800	7,501	12,177	21,478
Additions		-	603	4,629	5,232
Disposals		-	-	(220)	(220)
Revaluation	(a)	200	3,293	-	3,493
Depreciation charge for the year		-	(597)	(4,920)	(5,517)
As at 30 June 2014, net of accumulated depreciation and impairment		2,000	10,800	11,666	24,466
At 30 June 2014					
Cost		2,000	10,800	49,981	62,781
Accumulated depreciation and impairment	(b)	-	-	(38,315)	(38,315)
Net carrying amount		2,000	10,800	11,666	24,466

15. PROPERTY, PLANT AND EQUIPMENT (continued)

		CONSOLIDATED			
		Freehold land $'000	Heritage Plaza building units $'000	Plant and equipment $'000	Total $'000
Year ended 30 June 2013					
At 1 July 2012, net of accumulated depreciation and impairment		1,800	7,636	11,157	20,593
Additions		-	474	6,217	6,691
Disposals		-	-	(320)	(320)
Revaluation		-	-	-	-
Depreciation charge for the year		-	(609)	(4,877)	(5,486)
As at 30 June 2013, net of accumulated depreciation and impairment		1,800	7,501	12,177	21,478
At 30 June 2013					
Cost		1,800	12,064	51,120	64,984
Accumulated depreciation and impairment	(b)	-	(4,563)	(38,943)	(43,506)
Net carrying amount		1,800	7,501	12,177	21,478

(a) Revaluation of land and buildings

From 30 June 2014, the Group has changed its accounting policy for the measurement of land and buildings to the revaluation model.

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2014 $'000	2013 $'000
Cost	**14,467**	13,864
Accumulated depreciation and impairment	**(5,158)**	(4,563)
Net carrying amount	**9,309**	9,301

The revalued land and buildings consist of the Heritage Plaza and the associated freehold land. The fair value was determined by using the capitalisation approach. In determining the valuation a capitalisation rate of 9.5% was applied to the net market rentals. The valuation was performed by Porter Property Services, an accredited independent valuer.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Impairment of property, plant and equipment

An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The freehold land and buildings at 400 Ruthven Street Toowoomba is tested for impairment annually. The major drivers and triggers of impairment were identified and reviewed, and have not given rise to any identified impairment loss. Therefore, no impairment loss or gain has been recognised in the 2013 or 2014 financial statements.

The Parent data has not been disclosed separately as it is consistent with the consolidated position.

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000

16. OTHER ASSETS

Prepayments	**1,737**	1,345	**1,737**	1,345
Make good asset	**1,575**	1,546	**1,575**	1,546
Less: Amortisation	**(1,383)**	(1,349)	**(1,383)**	(1,349)
	192	197	**192**	197
	1,929	1,542	**1,929**	1,542

17. INTANGIBLES

Computer Software

Opening balance, net of accumulated amortisation and impairment	**1,573**	1,049	**1,573**	1,049
Additions	**1,598**	1,213	**1,598**	1,213
Disposals	**-**	-	**-**	-
Amortisation charge for the year	**(937)**	(689)	**(937)**	(689)
Closing balance, net of accumulated amortisation and impairment	**2,234**	1,573	**2,234**	1,573

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000

18. DEPOSITS AND BORROWINGS

Customer deposits	5,787,391	5,458,528	5,787,391	5,458,528
Term debt	518,375	699,337	518,375	699,337
Accrued interest on deposits / notes	38,059	43,608	38,059	43,608
Interest bearing notes	1,414,064	1,571,060	1,414,064	1,571,060
Related parties - key management personnel	2,609	2,436	2,609	2,436
	7,760,498	7,774,969	7,760,498	7,774,969

The Group's deposit portfolio does not include any deposit which represents 10% or more of total liabilities.

19. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Trade creditors	44,081	51,370	44,081	51,370
Prepaid card settlement liability	265,343	256,042	265,343	256,042
	309,424	307,412	309,424	307,412

20. PROVISIONS

Employee benefits	12,729	12,877	12,729	12,877
Directors' retiring allowance	952	750	952	750
Make good provision	1,575	1,546	1,575	1,546
	15,256	15,173	15,256	15,173

21. SUBORDINATED DEBT

Subordinated debt listed with Australian Securities Exchange at fair value through the Income Statement	50,649	51,986	50,649	51,986
Related parties - key management personnel	177	177	177	177
Accrued interest	890	890	890	890
	51,716	53,053	51,716	53,053

The Australian Prudential Regulation Authority (APRA) has given Heritage approval to redeem the subordinated debt on the step up date of 27 October 2014.

22. CASH FLOW STATEMENT RECONCILIATION

(a) Reconciliation of the operating profit after tax to the net cash flows from operations

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Operating profit after tax	35,757	37,052	35,757	37,052
Non cash items				
Share of associates' net profits	(201)	(449)	(201)	(449)
Impairment losses on loans	1,571	2,143	1,571	2,143
Defined benefit fund	29	(301)	29	(301)
Depreciation	5,517	5,486	5,517	5,486
Amortisation - loans and receivables	554	1,415	554	1,415
Amortisation - computer software and make good asset	970	890	970	890
Amortisation - establishment cost of borrowings	1,647	1,583	1,647	1,583
Provision for employee benefits	(147)	911	(147)	911
Changes in assets				
Loss from sale of property, plant and equipment	42	(2)	42	(2)
Realised gain on sale of investments	-	(2,289)	-	(2,289)
Premium paid on buyback of term debt	2,946	-	2,946	-
Accrued interest on investments	(401)	(1,426)	(401)	(1,426)
Intangibles	(1,598)	(1,213)	(1,598)	(1,213)
Sundry debtors	1,485	649	1,485	649
Prepayments	(138)	(310)	(138)	(310)
Expenditure carried forward	(1,603)	(78)	(1,603)	(78)
Swap asset	2,046	(4,558)	2,046	(4,558)
Deferred tax asset	919	13	919	13
Investment in Associate	2,851	-	2,851	-
Changes in liabilities				
Accrued investors interest	(5,548)	(11,350)	(5,548)	(11,350)
Current tax liability	(1,827)	3,172	(1,827)	3,172
Revaluation of term subordinated debt	(1,800)	(1,325)	(1,800)	(1,325)
Sundry creditors	(4,679)	1,625	(4,679)	1,625
Swap liability	2,670	2,576	2,670	2,576
Directors' retiring allowance	202	208	202	208
Deferred tax liability	(1,231)	(2,481)	(1,231)	(2,481)
Net cash flow from operating activities	40,033	31,941	40,033	31,941

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000

22. CASH FLOW STATEMENT RECONCILIATION (continued)

(b) Reconciliation of cash

Cash balance comprises:				
- Cash and cash equivalents (refer Note 7)	**188,302**	231,776	**188,302**	231,776

(c) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Cash Flow Statement:

(i) Customer deposits to and withdrawals from deposit accounts;

(ii) Borrowings and repayments on loans and receivables; and

(iii) Sale and purchase of investment securities.

23. EXPENDITURE COMMITMENTS

(a) Lease expenditure commitments

Estimated lease expenditure contracted for at balance date but not provided for:				
Operating leases (non-cancellable)				
Not later than 1 year	**9,811**	8,788	**9,811**	8,788
Later than 1 and not later than 5 years	**26,049**	25,019	**26,049**	25,019
Later than 5 years	**3,194**	3,700	**3,194**	3,700
Aggregate lease expenditure contracted for at balance date	**39,054**	37,507	**39,054**	37,507

These commitments represent payments due under non-cancellable operating leases for various premises occupied. The average lease term is five years.

24. 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.

Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

Approved but undrawn loans and credit limits	**459,862**	415,325	**459,862**	415,325

25. RELATED PARTY DISCLOSURES

(a) Remuneration of key management personnel

Remuneration of the key management personnel of the Group is as follows:

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
BENEFITS				
Short-term	**4,664**	4,585	**4,664**	4,585
Long-term	**57**	96	**57**	96
Post employment	**749**	774	**749**	774
Total remuneration	**5,470**	5,455	**5,470**	5,455
Total performance related (%)	**8%**	7%	**8%**	7%

(b) Transactions with key management personnel

The loan and savings accounts between the Group and key management personnel are transactions that are at arms length. Balances for the key management personnel include the following:

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000	PARENT 2014 $'000	PARENT 2013 $'000
Financial Assets				
Loan accounts	**1,952**	2,111	**1,952**	2,111
Financial Liabilities				
Savings accounts	**1,988**	2,006	**1,988**	2,006

(c) Consolidated Structured Entities (CSEs)

The CSEs which form part of the consolidated results include the following trusts:

HBS Trust No. 1	HBS Trust 2006-1
HBS Trust No. 2	HBS Trust 2008-1R
HBS Trust No. 4	HBS Trust 2011-1
HBS Trust 2005-1E	HBS Trust 2014-1

25. RELATED PARTY DISCLOSURES (continued)

(c) Consolidated Structured Entities (CSEs) (continued)

Heritage provides a number of facilities and services to the CSEs. The facilities and services can include the following:

Servicer

The role of servicer requires Heritage to collect monies and administer the securitised loans. During the year fee income of $5,905,000 (2013 - $6,387,000) was received for performing these functions.

Swap provider

Heritage enters into swaps with the CSEs. Interest revenue or expense in respect of these swaps is dependent on prevailing interest rates.

Heritage received $717,000 (2013 - $916,000) in interest relating to the securitisation deposits during the year. The average balance of the securitisation deposits held was $27,629,000 (2013 - $29,717,000).

Custodian and management fee

Heritage provided custodian and management services to all CSEs for the full financial year. During the year fee income of $377,000 (2013 - $390,000) was received for performing this function.

Securitisation facilities available

Securitisation warehouse facilities are in place with Waratah for HBS Trust No. 2 and ANZ for HBS Trust No. 4. Terms and conditions of these facilities are set and agreed to from time to time.

At balance date, the following facilities had been negotiated and were available:

	Negotiated Facility		Facility Utilised	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
HBS Trust No. 2	**500,000**	500,000	**222,523**	404,639
HBS Trust No. 4	**300,000**	300,000	**29,530**	29,626

26. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Amounts received or due and receivable by the auditors for:				
An audit and review of the financial report of the Group	**452**	450	**452**	450
Taxation services	**66**	87	**66**	87
Other	**55**	3	**55**	3
Securitisation services	**41**	51	**41**	51
	614	591	**614**	591

27. CONTROLLED ENTITIES

Consolidated Structured Entities (CSE)

The CSEs relate to the securitisation of Heritage's loans and include the following trusts: (Refer to Note 2 (c) for further details).

HBS Trust No. 1

HBS Trust No. 2

HBS Trust No. 4

HBS Trust 2006-1

HBS Trust 2008-1R

HBS Trust 2011-1

HBS Trust 2014-1

The clean up option for HBS Trust 2005-1E was exercised on 15 January 2014. On this date pursuant to Clause 11.1 of the Series Notice the Trust extinguished all of its right, title and interest in the remaining loans in favour of Heritage.

28. SEGMENT INFORMATION

The Group operated predominantly in the finance industry within Australia. The operations comprise the provision of financial products and services to members.

29. EVENTS SUBSEQUENT TO REPORTING DATE

There are no significant events since the end of the financial year which will affect the operating results or state of affairs of the Group in subsequent years.

Directors' Declaration

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 financial statements and notes of Heritage Bank Limited are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of Heritage Bank Limited's financial position as at 30 June 2014 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) the financial statements also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

(c) there are reasonable grounds to believe that Heritage Bank Limited will be able to pay its debts as and when they become due and payable.

On behalf of the Board

TOOWOOMBA 21 August 2014	**KERRY J. BETROS** Chairman	**DENNIS P. CAMPBELL** Deputy Chairman

Auditor's Independence Declaration

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Auditor's independence declaration to the directors of Heritage Bank Limited

In relation to our audit of the financial report of Heritage Bank Limited for the financial year ended 30 June 2014, 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

M J Hayward

Mark Hayward
Partner
21 August 2014

Independent Auditor's Report

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Independent auditor's report to the members of Heritage Bank Limited

Report on the financial report

We have audited the accompanying financial report of Heritage Bank Limited (the "company"), which comprises the statement of financial position as at 30 June 2014, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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, a copy of which is included in the directors' report.

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Opinion

In our opinion:

a. the financial report of Heritage Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2014 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 12 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Heritage Bank Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Mark Hayward
Partner
Brisbane
21 August 2014

Corporate Governance Statement

Heritage's Board and senior executives are committed to managing Heritage's business ethically and maintaining the highest standards of corporate governance, applied in a manner that is appropriate to Heritage's particular circumstances.

This Corporate Governance Statement generally describes the practices and processes adopted by Heritage to ensure sound management of Heritage in the regulatory environment in which it operates.

Heritage is an authorised deposit-taking institution supervised by the Australian Prudential Regulation Authority (APRA) under the *Banking Act 1959*. Heritage is also supervised by the Australian Securities and Investments Commission under the *Corporations Act 2001* and has been granted Australian financial services and credit licences.

Heritage has debt securities (Heritage Notes (HBSHA) and Heritage Bank Retail Bonds (HBSHB)) quoted on the Australian Securities Exchange and is therefore subject to some obligations under the ASX Listing Rules.

THE BOARD OF DIRECTORS

Role of the Board

The Board has adopted a formal Board Charter setting out the roles and responsibilities of the Board. The Board's primary role is to ensure that Heritage provides customers with appropriate financial services on the most beneficial terms available and to protect and enhance long-term customer value. In fulfilling this role, the Board is responsible for the overall governance of Heritage including its strategic direction, risk management,establishing and monitoring the performance of Heritage against its plans, ensuring the integrity of internal control and management information systems, ensuring regulatory compliance, approving and monitoring financial and other reporting, appointing, appraising and removing the Chief Executive Officer (CEO), monitoring the risk management systems, internal controls, codes of conduct and legal performance and approving and monitoring major capital expenditure and acquisitions and divestitures.

Relationship with Management

The Board has delegated responsibility for the operation and management of Heritage to the CEO subject to the overall supervision of the Board. The CEO is responsible for managing the day-to-day operations of Heritage. The CEO provides input and recommendations on strategic direction and has authority for implementing the approved strategic plan of Heritage in accordance with the decisions of the Board.

The CEO leads the senior executives, who meet regularly to review and report on Heritage's business activities including operations, financial performance and general strategic direction.

Board Composition

The Constitution of Heritage specifies that the number of directors shall be between three and twelve and, in addition, may include not more than one employee director. Currently the Board is comprised of eight independent non-executive directors. There is no employee director. One-third of the elected directors must retire from office at each annual general meeting. A director must retire from office no later than the third annual general meeting after the director was last elected.

In assessing the independence of each director, the Board considers whether he or she has any relationships that would materially affect the director's ability to exercise unfettered and independent judgment in the interests of Heritage and its customers. In this regard, and more broadly, Heritage complies with the APRA Prudential Standard CPS 510 Governance.

Details of the directors and secretaries as at the date of this Corporate Governance Statement are set out in the Directors' Report.

The Board periodically considers succession planning of directors and the CEO and in conjunction with the CEO considers succession planning for the senior executives.

Conflicts of Interest

In accordance with the *Corporations Act 2001* and Heritage's Constitution, directors must keep the Board advised of any interest that could potentially conflict with the interests of Heritage. The Board has a policy to assist directors in disclosing material conflicts of interests. Transactions between non-executive directors and Heritage are subject to the same terms and conditions that apply to customers. Senior executives, company secretaries and other key employees are also required to declare any material interests that could potentially conflict with the interest of Heritage.

Board Performance Assessment

The Board is committed to continuous improvement and is subject to ongoing assessment and an annual internal formal evaluation process of the Board, Board Committees and the individual directors.

Heritage complies with APRA Prudential Standard CPS 520 Fit and Proper which requires that those responsible (**Responsible Persons**) for the management and oversight of an authorised deposit-taking institution have the appropriate skills, experience and knowledge and that they act with honesty and integrity. The fitness and propriety of Responsible Persons must generally be assessed prior to their initial appointment and then re-assessed annually. Responsible Persons include all directors, senior executives, company secretaries and other key employees.

REMUNERATION OF DIRECTORS, THE CEO AND SENIOR EXECUTIVES (INCLUDING "KEY MANAGEMENT PERSONNEL")

The Board has approved a Remuneration Policy and the remuneration of the Board, the CEO and senior executives is overseen by the Remuneration and Governance Committee.

All three members of the Remuneration and Governance Committee are non-executive directors.

Further information in relation to the remuneration of the Board, the CEO and senior executives (including those persons determined to be "Key Management Personnel") is contained in the Remuneration Report within the Directors' Report.

BOARD PROCESSES

The Board currently holds eleven scheduled meetings each year plus any other meetings that may be required from time to time.

To assist in the execution of its responsibilities the Board has established a number of key committees, including the Audit and Compliance Committee, the Finance Committee and the Risk Management Committee, all of which operate under their own charter that is reviewed regularly.

Audit and Compliance Committee

The key responsibilities of the Audit and Compliance Committee include, among other things, oversight of:

- all APRA statutory reporting and other financial reporting requirements;
- professional accounting requirements;
- internal and external audit, including the appointment of Heritage's external auditor; and
- compliance with laws and regulation.

The Chairman of the Audit and Compliance Committee during the year was Mr Brendan Baulch, who became Chairman of the Audit and Compliance Committee on 1 July 2011.

Finance Committee

The key responsibilities of the Finance Committee include, among other things:

- monitoring the interest rate and foreign currency risk exposures of Heritage including all financial risks inherent in Heritage's funding, lending and hedging operations;
- establishing appropriate limits and controls with respect to interest rate risk management;
- establishing appropriate benchmarks to monitor performance in relation to liquidity, capital funding and balance sheet management;
- reviewing management strategies for the raising of debt and capital from the wholesale market and make recommendations to the Board;
- continually monitoring developments in the economy and financial market for opportunity for, or threats to, Heritage's business.

The Chairman of the Finance Committee during the year was Dr Dennis Campbell, who became Chairman of the Finance Committee on 19 July 2012.

Risk Management Committee

The key responsibilities of the Risk Management Committee include, among other things:

- Annually reviewing and recommending for Board approval, the Risk Management Framework, the Risk Management Policy, Heritage's Risk Appetite Statement and the appropriateness of Heritage's insurance coverage to ensure that risks are adequately addressed; and
- Reviewing and monitoring the risk implications of new and emerging risks, organisational or regulatory change and major projects to be undertaken by the business.

The Chairman of the Risk Management Committee during the year was Ms Susan Campbell, who became Chairman of the Risk Management Committee on 13 September 2012. Mr David Thorpe became the Chairman of the Risk Management Committee on 24 July 2014.

Other Heritage Board Committees include the Remuneration and Governance Committee. The Board may establish other committees or change the committee structure from time to time as the circumstances require.

The charters of the Finance Committee, the Audit and Compliance Committee, the Risk Management Committee and the Remuneration and Governance Committee allow them to have access to advice from external advisers, with or without management present, as required.

ACCESS TO INFORMATION AND INDEPENDENT PROFESSIONAL ADVICE

Each director has the right of access under a Deed of Indemnity, Access and Insurance to relevant Heritage information and, subject to prior consultation with and approval of the Chairman of the Board, may seek independent professional advice from a suitably qualified adviser in the area, to assist in the discharge of their duties as directors.

CONTINUING EDUCATION

All directors are encouraged and assisted to attend educational courses that serve to enhance their performance as directors. Membership of the Australian Institute of Company Directors (AICD) is paid for by Heritage and directors are actively encouraged to participate in courses offered by the AICD and other providers.

Corporate Governance Statement (continued)

ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

All directors, senior executives and other employees are expected to conduct themselves with the highest ethical standards of corporate behaviour whenever they are engaged in Heritage business. In this regard, the directors have adopted a Director Code of Conduct and Heritage has also adopted an Employee Code of Conduct, which outlines the principles and standards with which all employees are required to comply in the performance of their respective duties.

COMMUNICATION

Regular Communication

Part of Heritage carrying out its responsibility to act in the best interests of its customers is the need for them to receive relevant information in a timely way.

Customers have access to information in relation to Heritage through the quarterly publication of the *Working For You* newsletter, the Customer Report, the Financial Report, the Chairman's and CEO's addresses to the Annual General Meeting, and through the release of other important announcements to the Australian Securities Exchange, to the media generally and on Heritage's website.

Copies of public announcements and Heritage's Customer Report and Financial Report are posted on Heritage's website and are made available to the media and, if required, are disclosed to the market through lodgement with the Australian Securities Exchange.

Annual General Meeting

Heritage members have the opportunity to raise matters with the Board at the Annual General Meeting, generally held in October each year. Heritage's current external auditor, Ernst & Young, attends the Annual General Meeting and is available to answer questions regarding the conduct of the audit and the contents of the auditor's report, the auditor's independence and any accounting practices employed by Heritage in respect of the preparation of the financial statements.

Website

Information about the Board, senior executives and the Constitution can be found on Heritage's website under the heading "About Heritage".

RISK MANAGEMENT

Risk Management Approach

Heritage is committed to implementing appropriate strategies and processes that identify, analyse and manage the risks associated with its activities as a means of realising opportunities and minimising the impact of undesired and unexpected events on its business activities. Heritage has adopted an integrated approach to risk management which meets the international standard ISO 31000 Risk Management. Heritage is preparing for the implementation of APRA Prudential Standard CPS 220 (Risk Management) by January 2015 and also manages risk to a prudential level under APRA Prudential Standard APS 310 Audit & Related Matters.

Internal Audit

An effective Internal Audit function provides an independent assurance function. Heritage's internal audit plan is prepared and approved by the Audit and Compliance Committee. The Head of Internal Audit reports to the Chairman of the Audit and Compliance Committee and to the Company Secretary/Assistant CEO for day-to-day operational issues as appropriate. The Head of Internal Audit has unfettered access to the Chairman of the Board and the whole Board if required. The Internal Audit function is governed by an Internal Audit Charter.

External Auditor

The current external auditor is Ernst & Young. The key partner representatives are refreshed periodically in accordance with APRA's prudential standards. The external auditor has access to the Audit and Compliance Committee and the Board through the Chairman of the Board.

Statement by CEO and CFO

Prior to the Board approving the annual financial report, the CEO and the Chief Financial Officer are required to state in writing Heritage's financial report presents a true and fair view, in all material respects, of Heritage's financial position and operating results and is compliant with the relevant accounting standards.

Privacy

Heritage is committed to the protection of personal information and Heritage's Privacy Policy is available on Heritage's website.

GENDER EQUITY

Heritage strives to provide a workplace that promotes gender equality. You can read the report Heritage submitted to the Workplace Gender Equality Agency as required under the *Workplace Gender Equality Act 2012* by following the link on our website as follows: www.heritage.com.au/Careers/FAQ.

People first.