



## ASX ANNOUNCEMENT

Issuer Code: HBS

Date: 20 February 2015

### Half Yearly Report - 31 December 2014

Please see the **attached** documents:

- 1 Half Yearly Report;
- 2 Condensed Half Year Financial Report; and
- 3 Media statement.

**ENDS**

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# Half-Yearly Report

For the period ended 31 December 2014



People first.



Heritage  
Bank

# Half-Yearly Report

For the period ended 31 December 2014

The Board and management of Heritage Bank Limited are pleased to announce our results for the six months ended 31 December 2014. The financial statements for the period have been reviewed by our external auditors. Key performance measures are set out in Table 1.

- Our profit performance remained firm in this period, which featured continued fierce competition and also an increased level of investment in the business, particularly digital transformation related initiatives. We not only invested more in IT infrastructure but also added an extra 8 positions to our staffing levels during the six months. We will continue to invest further in the technology and staffing resources required to meet customers' changing banking practices in the years ahead.
- The \$23.174 million pre-tax profit was down 5.5% on the \$24.520 million in the same period the previous year. Profit after tax was \$16.230 million, down 9.5% on the corresponding period in the previous year.
- Loan approvals totalled \$793 million in the period, an increase of 20.7% on the \$657 million achieved in the same period in 2013. Heritage is actively targeting

increased lending business in 2014/15 and this six month period has delivered on that goal. Heritage offered extremely competitive loan rates during this period on both fixed and variable home loans.

- Retail deposits grew by \$69 million in this period. This reflected a deliberate decision to manage the retail funding mix, reduce excess liquidity and improve our margin. While term deposit growth moderated over the period, our savings account deposits actually increased by \$172 million, which is consistent with the \$186 million growth recorded in the same period last year. This was a positive outcome for Heritage in terms of managing our core retail funding channels.

Details of key period end information are set out in Table 2.

- Heritage continues to balance the need to generate profits to boost retained earnings and capital and providing customers with attractively priced products and services. Heritage has a goal of increasing our lending volumes and our customer base in coming years, while also investing in technology and process improvements that better fit the needs of an increasingly digital world.

- The importance of carefully managing our capital requirements is shown in our total consolidated assets, which decreased 2.3% from \$8.519 billion to \$8.322 billion in the six months to 31 December 2014. This reflects the desire to grow our prudential capital ratio, to support lending related ambitions and meet new regulatory requirements being introduced next year.
- We lifted our Tier 1 capital ratio from 11.89% as at 30 June 2014 to 12.01% as at 31 December 2014. The total capital ratio decreased from 13.33% to 12.07% following the redemption of the Heritage Notes in October 2014. Similarly, our liquidity ratio decreased from 22.23% to 19.31% in the same period.
- Heritage maintained net interest margin income at the same level during this period, reflecting our aim of balancing the imperative to grow retained earnings against our goal of providing great value to customers.
- Similarly, non-interest income levels remained steady in this period. We achieved modest growth in revenue from business streams such as insurance, financial planning, payment technology and pre-paid cards, while we continue to receive reduced amounts in fees and

TABLE 1

	Six months to 31 December 2014	Six months to 31 December 2013	Increase (Decrease)
	\$ million	\$ million	%
Profit before tax	23.17	24.52	(5.5)
Profit after tax	16.23	17.93	(9.5)
Loan approvals	792.97	657.00	20.7
Retail deposit growth	69.28	256.20	(73.0)

charges from our customers as we deliver on our mutual model.

- Heritage's rate of mortgage loan arrears over 30 days was just 0.41% at 31 December 2014. Heritage is extremely proud of this achievement, which is around one third of the industry average. This outcome flows from the extremely responsible approach we take in assessing loan candidates to ensure that our customers can afford the debts that they will incur. If customers do encounter a change in their circumstances, we work closely with them to find a way forward that is best for both parties.

## CORPORATE RATINGS

Heritage continues to hold strong ratings from independent agencies. Both the Moody's rating of A3/P2 and the Fitch rating of BBB+/F2 were reaffirmed in 2014. These independent assessments of Heritage's quality and resilience speak volumes about our long-term sustained financial, risk management and operational outcomes.

## CUSTOMER SATISFACTION

Heritage also continues to enjoy strong endorsement from its customers. According to Roy Morgan Research, Heritage had a 92.8% customer satisfaction rating as at

December 2014\*. This was the highest in Queensland and Heritage was the only financial institution with a rating above 90%. The four major banks averaged just 82.5% in the same survey.

## FINANCIAL BENEFITS TO CUSTOMERS

Heritage lives its mutual status as a key advantage in delivering a comprehensive suite of products and services to customers at competitive rates, with service excellence a point of differentiation.

That approach has translated into significant financial benefits for our customers. Independent analysis by CANSTAR found that Heritage customers were \$37.44 million a year better off through banking with Heritage rather than the big four banks (on average) as at December 2014. Our customers gained a \$24.29 million benefit through better rates and fees on our deposit products, and a \$13.15 million benefit because of better interest rates and fees on our lending products.

## GREAT DEALS AND PRICING ON PRODUCTS

Heritage continues to enhance our product and pricing offering for customers. In this period we:

- Launched a new Visa Platinum credit card, providing enhanced benefits and features for customers.
- Introduced a 3.99% rate on a one-year fixed rate home loan, for a limited period.
- Reduced the interest rate on our Discount Variable home loan to 4.39%, and on our Standard Variable home loan to 4.69%, for a limited period.
- Waived application fees on our Discount Variable and Standard Variable home loans in the lead-up to Christmas.

## EXTERNAL RECOGNITION

Importantly, external recognition validates our success in delivering a great customer experience. In 2014, Heritage achieved the following accolades.

- Heritage won Canstar Blue's Challenger Bank Award for the Most Satisfied Customers for the second time in three years.
- Canstar Cannex awarded us best customer-owned bank at the Queensland First Home Buyer State Awards for the second year in a row.
- Heritage won numerous awards at Money Magazine's Best of the Best for its credit card products.

TABLE 2

	31 December 2014	30 June 2014
Total consolidated assets	\$8.322 billion	\$ 8.519 billion
Retained profits	\$388.98 million	\$372.89 million
Capital adequacy ratio	12.07%	13.33%
Liquidity ratio	19.31%	22.23%
Mortgage loan arrears over 30 days	0.41%	0.39%

\* Roy Morgan Research, Consumer Banking in Queensland, Main Financial Institution (MFI) Satisfaction, December 2014

- Heritage was "Highly Commended" for two products in the Low Rate Credit Card Category at the MOZO Experts Choice Awards.
- Heritage was selected in the Top 5 for Bank Accounts, Debit Cards and Mutual Bank at the 2014 MOZO People's Choice Awards.
- At the Australian Human Resources Awards, Heritage won the award for Recommended Employer <1000 and was a finalist for Best Health and Wellbeing Strategy.
- Heritage was announced as the winner for Human Resource Management and Employer of Choice at the Australian Business Awards ABA 100 for the fourth year in a row (formerly 'Recommended Employer').

## STRATEGIC INVESTMENT IN DIGITAL CAPABILITIES

Heritage has always focused on providing customers with the best banking experience possible, through the combination of our products, pricing and service. Heritage has further sharpened its focus on the customer experience in 2014 with a number of key initiatives, including launching a five-year Digital Blueprint to map out Heritage's

strategic priorities for investment in technology initiatives. The rapid advance of digital technology is revolutionising our industry by fundamentally changing the way people do their banking. Transactions are now overwhelmingly taking place on-line, and increasingly via mobile devices. Customers want to transact from whatever device they have, from wherever they are, at whatever time they want. The Digital Blueprint sets out Heritage's response to this trend, covering not only upgrades to our online and mobile banking services, but also to our core banking system, our financial management system, our data analytics and our cross-channel integration. We are also recruiting additional staff to enhance our skills and expertise in these areas.

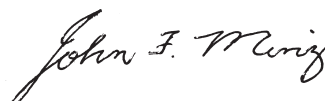
## CASH BY OPTUS PARTNERSHIP

Australian telco Optus launched its new Cash by Optus contactless payment app in November 2014 following a two-year development collaboration with Heritage and Visa. Cash by Optus allows people to use their smartphone to pay for goods and services instead of using cash or plastic debit and credit cards. The product uses Near Field Communication (NFC) and Visa payWave technology to replace cash purchases below \$100. This means customers can pay

for small purchases like lunch, petrol and groceries using their smartphones at any of the hundreds of thousands of retailers that accept Visa payWave. Heritage is responsible for the banking aspect of Cash by Optus, drawing on our extensive experience in this area. We are recognised for our ability to deliver creative and effective payment solutions for corporate partners, particularly in the area of prepaid transactions. That has led to partnerships with major Australian companies such as Qantas, Australia Post, and now Optus. The launch of Cash by Optus now also establishes Heritage as a leader in mobile payments. Our specialist expertise in this emerging area of payments reinforces our position as an enabler of innovative new services that the customers of leading Australian companies are seeking.



**KERRY J. BETROS**  
Chairman



**John F Minz**  
Chief Executive Officer

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Toowoomba, Qld 4350

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Heritage Bank Limited. ABN 32 087 652 024.

AFSL 240984. Australian Credit Licence 240984. 1502088





# Condensed Half-Year Financial Report

31 December 2014



People first.



Heritage  
Bank



**Heritage Bank Limited**

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

# Condensed Half-Year Financial Report

## 31 December 2014

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### Auditors

Ernst & Young

### Registered Office

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6th Floor  
400 Ruthven Street  
Toowoomba Qld 4350

### Postal Address

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Telephone (07) 4690 9000

### Internet Address

[www.heritage.com.au](http://www.heritage.com.au)

*Information contained in this report should be read in conjunction with the June 2014 Financial Report*

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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 half-year ended 31 December 2014.

## DIRECTORS

The name of the directors of the Group in office during the half-year and until the date of this report are set out below:

Mr Kerry J. Betros (Chairman)

Dr Dennis P. Campbell (Deputy Chairman)

Mrs Vivienne A. Quinn

Professor Peter Swannell AM  
(retired effective 22 October 2014)

Ms Susan M. Campbell

Mr Brendan P. Baulch

Mr Stephen Davis

Mr David W. Thorpe

## REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the half-year after income tax was \$16.230 million (2013 - \$17.929 million).

The Group reported total consolidated assets in the period to 31 December 2014 of \$8.322 billion (June 2014 - \$8.519 billion).

## EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the half-year to the date of this report which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

## 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.

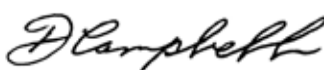
## AUDITOR'S INDEPENDENCE DECLARATION

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 15.

Signed in accordance with a resolution of the directors:



KERRY J. BETROS  
Chairman



DENNIS P. CAMPBELL  
Deputy Chairman

TOOWOOMBA  
19 February 2015



# Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Note	CONSOLIDATED	
		December 2014 \$'000	December 2013 \$'000
Interest revenue	4 (a)	196,040	207,550
Interest expense	4 (c)	(126,397)	(139,765)
Net interest income		69,643	67,785
Other income	4 (b)	17,597	19,311
Total income		87,240	87,096
Impairment losses on loans and receivables		(1,172)	(876)
Marketing expense		(3,552)	(3,236)
Occupancy expense		(5,941)	(5,588)
Employee benefits expense	4 (d)	(34,791)	(32,766)
Administrative expense		(11,701)	(11,493)
Other expense	4 (e)	(6,909)	(8,818)
Share of net profit of associates		-	201
<b>Profit before tax</b>		<b>23,174</b>	<b>24,520</b>
Income tax expense		(6,944)	(6,591)
<b>Profit after tax</b>		<b>16,230</b>	<b>17,929</b>

# Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Note	CONSOLIDATED	
		December 2014 \$'000	December 2013 \$'000
Profit after tax		16,230	17,929
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
(Loss)/gain on cash flow hedge taken to members' funds		(4,708)	2,794
Income tax gain/(expense) on above items of other comprehensive income	4 (f)	1,412	(838)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on defined benefit plan		(137)	960
Income tax gain/(expense) on above items of other comprehensive income		-	-
Other comprehensive (loss)/income for the period, net of tax		(3,433)	2,916
Total comprehensive income for the period		12,797	20,845

# Statement of Financial Position

AS AT 31 DECEMBER 2014

	Note	CONSOLIDATED	
		December 2014 \$'000	June 2014 \$'000
<b>Assets</b>			
Cash and cash equivalents	5	226,026	188,302
Receivables due from other financial institutions		237,565	370,881
Other receivables		33,189	34,614
Loans and receivables		6,516,691	6,573,647
Held to maturity financial assets		1,268,800	1,313,811
Available for sale financial investments		479	478
Derivatives		607	616
Property, plant and equipment		23,258	24,466
Other assets		2,821	1,929
Intangibles		3,823	2,234
Deferred tax assets		9,004	7,909
<b>Total Assets</b>		<b>8,322,263</b>	<b>8,518,887</b>
<b>Liabilities</b>			
Deposits and borrowings		7,663,899	7,760,498
Accounts payable and other liabilities		244,656	309,424
Derivatives		8,022	2,985
Current tax liabilities		3,617	4,265
Deferred tax liabilities		671	972
Provisions		14,751	15,256
Retirement benefit liability		278	199
Subordinated debt		-	51,716
<b>Total Liabilities</b>		<b>7,935,894</b>	<b>8,145,315</b>
<b>Net Assets</b>		<b>386,369</b>	<b>373,572</b>
<b>Members' Funds</b>			
Retained profits		388,980	372,887
Reserves		(2,611)	685
<b>Total Members' Funds</b>		<b>386,369</b>	<b>373,572</b>

Information contained in this report should be read in conjunction with the June 2014 Financial Report

Heritage Bank Limited • Condensed Half-Year Financial Report 31 December 2014

# Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Retained profits \$'000	Asset revaluation reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
Balance 1 July 2014	372,887	2,445	(1,760)	373,572
Profit for the period	16,230	-	-	16,230
Other comprehensive income	(137)	-	(3,296)	(3,433)
<b>Total as at 31 December 2014</b>	<b>388,980</b>	<b>2,445</b>	<b>(5,056)</b>	<b>386,369</b>
Balance 1 July 2013	330,451	5,714	(2,670)	333,495
Profit for the period	17,929	-	-	17,929
Other comprehensive income	960	-	1,956	2,916
<b>Total as at 31 December 2013</b>	<b>349,340</b>	<b>5,714</b>	<b>(714)</b>	<b>354,340</b>

# Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Note	CONSOLIDATED	
		December 2014 \$'000	December 2013 \$'000
<b>Cash flows from operating activities</b>			
Interest received		202,114	212,828
Dividend received		-	2,851
Borrowing costs and interest paid		(136,164)	(148,209)
Other non-interest income received		18,876	21,687
Payments to suppliers and employees		(70,928)	(63,879)
Income tax paid		(7,324)	(9,228)
<b>Net cash flows from operating activities</b>		<b>6,574</b>	<b>16,050</b>
<b>Cash flows from investing activities</b>			
Decrease / (increase) in held to maturity financial assets and receivables due from other financial institutions		149,757	(48,507)
Decrease in loans and receivables and other receivables		98,842	161,907
Proceeds from sale of property, plant and equipment		262	152
Acquisition of property, plant and equipment		(1,681)	(2,256)
<b>Net cash flows used in investing activities</b>		<b>247,180</b>	<b>111,296</b>
<b>Cash flows from financing activities</b>			
Decrease in deposits and other borrowings		(166,030)	(142,780)
Payment for redemption of subordinated debt		(50,000)	-
<b>Net cash flows from financing activities</b>		<b>(216,030)</b>	<b>(142,780)</b>
Net increase / (decrease) in cash and cash equivalents		37,724	(15,434)
Cash and cash equivalents at beginning of the period		188,302	231,776
<b>Cash and cash equivalents at end of the period</b>	5	<b>226,026</b>	<b>216,342</b>

# Notes to the half-year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

## 1. CORPORATE INFORMATION

The condensed consolidated financial statements of Heritage Bank Limited and the Consolidated Structured Entities (CSEs) for the six months ended 31 December 2014 was authorised for issue in accordance with a resolution of the Directors on 19 February 2015.

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 3.

The Group refers to Heritage and the Consolidated Structured Entities (CSEs). The CSEs are made up of seven trust vehicles that have been established for the purpose of securitising Heritage's loans.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements does not include notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

### (a) Basis of preparation

The condensed consolidated financial statements for the six months ended 31 December 2014 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2014.

### (b) Significant accounting policies

The accounting policies adopted are consistent with those used in the annual financial statements for the year ended 30 June 2014.

## 3. SEGMENT INFORMATION

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



# Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

		CONSOLIDATED	
		December 2014 \$'000	December 2013 \$'000
<b>4.</b>	<b>INCOME AND EXPENSES</b>		
(a)	<b>Interest revenue</b>		
	Deposits and investment securities	26,995	24,687
	Loans and receivables	173,734	186,470
	Interest rate swaps	518	1,381
	Gain on derivatives held at fair value	172	-
	Add: Loan application direct revenue	689	781
	Less: Commission and agent direct costs	(5,647)	(5,543)
	Less: Securitisation establishment costs	(421)	(226)
	<b>Total interest revenue</b>	<b>196,040</b>	<b>207,550</b>
(b)	<b>Other income</b>		
	Fees and commissions	16,663	16,918
	Income from property	140	140
	Impairment losses on loans recovered	220	302
	Foreign exchange gain	-	1,562
	Other revenue	574	389
	<b>Total other income</b>	<b>17,597</b>	<b>19,311</b>
(c)	<b>Interest expense</b>		
	Deposits	97,579	104,207
	Subordinated debt including fair value adjustment	791	1,765
	Interest bearing notes	24,937	27,923
	Interest rate swaps	2,578	3,540
	Loss on fair value hedges	512	738
	Loss on derivatives held at fair value	-	1,592
	<b>Total interest expense</b>	<b>126,397</b>	<b>139,765</b>

# Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

## 4. INCOME AND EXPENSES (continued)

### (d) Employee benefits expense

Salaries, wages and allowances
Net defined benefit fund expense
Contribution to accumulation fund
Other employee costs
<b>Total employee benefits expense</b>

### (e) Other expense

Depreciation
Plant and equipment
Buildings

Amortisation
Communication
Fees and commissions
Foreign exchange loss
Term debt buyback premium

### Total other expense

### (f) Income tax amounts charged directly to equity

Deferred income tax related to items charged directly to equity
Cash flow hedges
<b>Income tax gain/(expense) on items of other comprehensive income</b>

## CONSOLIDATED

December 2014 \$'000	December 2013 \$'000
26,790	25,009
251	315
2,556	2,364
5,194	5,078
<b>34,791</b>	<b>32,766</b>
2,416	2,487
352	320
<b>2,768</b>	<b>2,807</b>
776	425
2,569	1,995
617	645
179	-
-	2,946
<b>4,141</b>	<b>6,011</b>
<b>6,909</b>	<b>8,818</b>
1,412	(838)
<b>1,412</b>	<b>(838)</b>

## 5. CASH AND CASH EQUIVALENTS

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

Cash at bank and on hand
Deposits at call

44,030	33,645
181,996	182,697
<b>226,026</b>	<b>216,342</b>

# Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

Consolidated December 2014	Carrying amount	Fair value			
	\$'000	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Foreign currency swaps - held at fair value	607	-	607	-	607
	607	-	607	-	607
<b>Financial assets not measured at fair value</b>					
Held to maturity financial assets	1,268,800	-	1,280,260	-	1,280,260
Loans and receivables	6,516,691	-	-	6,529,991	6,529,991
	7,785,491	-	1,280,260	6,529,991	7,810,251
<b>Financial liabilities measured at fair value</b>					
Interest rate swaps - cash flow hedge	7,221	-	7,221	-	7,221
Foreign currency swaps - held at fair value	801	-	801	-	801
	8,022	-	8,022	-	8,022
<b>Financial liabilities not measured at fair value</b>					
Term debt	491,039	-	519,426	-	519,426
Interest bearing notes	1,233,419	-	1,236,670	-	1,236,670
	1,724,458	-	1,756,096	-	1,756,096

# Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Fair Values (continued)

Consolidated December 2013	Carrying amount	Fair value			
	\$'000	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Interest rate swaps - held at fair value	896	-	896	-	896
Interest rate swaps - fair value hedge	1,316	-	1,316	-	1,316
Foreign currency swaps - held at fair value	486	-	486	-	486
	2,698	-	2,698	-	2,698
<b>Financial assets not measured at fair value</b>					
Held to maturity financial assets	1,128,380	-	1,137,465	-	1,137,465
Loans and receivables	6,511,139	-	-	6,533,676	6,533,676
	7,639,519	-	1,137,465	6,533,676	7,671,141
<b>Financial liabilities measured at fair value</b>					
Interest rate swaps - cash flow hedge	1,211	-	1,211	-	1,211
Cross currency swaps - cash flow hedge	2,039	-	2,039	-	2,039
Foreign currency swaps - held at fair value	168	-	168	-	168
Subordinated debt	51,407	51,407	-	-	51,407
	54,825	51,407	3,418	-	54,825
<b>Financial liabilities not measured at fair value</b>					
Term debt	518,045	-	551,989	-	551,989
Interest bearing notes	1,502,732	-	1,510,064	-	1,510,064
	2,020,777	-	2,062,053	-	2,062,053

### Transfers between Level 1 and 2

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

# Notes to the half-year Financial Statements (continued)

## 7. 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.

	CONSOLIDATED	
	December 2014 \$'000	June 2014 \$'000
<b>Credit related commitments</b>		
Binding commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract.		
Approved but undrawn loans and credit limits	525,650	459,862

## 8. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the half-year to the date of this report which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

# Directors' Declaration

In accordance with a resolution of the directors of Heritage Bank Limited, we state that:

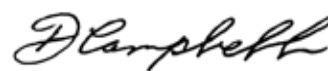
In the opinion of the directors:

- (a) the condensed consolidated financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2014 and the performance for the half-year ended on that date of the Group; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Heritage will be able to pay its debts as and when they become due and payable.

On behalf of the Board



KERRY J. BETROS  
Chairman



DENNIS P. CAMPBELL  
Deputy Chairman

TOOWOOMBA  
19 February 2015





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## Auditor's Independence Declaration to the Directors of Heritage Bank Limited

In relation to our review of the financial report of Heritage Bank Limited for the half-year ended 31 December 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

Mark Hayward  
Partner  
19 February 2015

To the members of Heritage Bank Limited

## Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Heritage Bank Limited, which comprises the statement of financial position as at 31 December 2014, the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Heritage Bank Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.



## Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Mark Hayward  
Partner  
Brisbane  
19 February 2015

20 February 2015

## Heritage Bank maintains solid profit results

Heritage Bank has maintained a solid profit result in a six-month period in which it enjoyed a strong increase in lending volumes.

Loan approvals totalled \$792.97 million for the six-month period, up 20.7% on the corresponding period in 2013. Lending growth was particularly strong towards the end of the calendar year and has continued into 2015.

Profit was down slightly, reflecting an increased investment in information technology infrastructure for Heritage as well as continued jobs growth.

The pre-tax profit was \$23.174 million, down 5.5% on the \$24.520 million in the same period the previous year. Profit after tax was \$16.230 million, down 9.5% on the corresponding period in the previous year.

Heritage enjoyed strong endorsement from its customers in this period, with a 92.8% customer satisfaction rating as at December 2014\*. This was the highest in Queensland and the only financial institution with a rating above 90%. The four major banks averaged just 82.5% in this survey.

Chairman Mr Kerry Betros said the lending growth reflected Heritage's focus on delivering value for customers while growing the business.

"We are targeting increased loan volumes this financial year to help grow this business. After a relatively slow start, we are well and truly delivering on that goal with a 20% increase in loan volumes," Mr Betros said.

"In this period we offered a one-year fixed home loan interest rate of just 3.99%, the lowest in Heritage's 140-year history. We also offered a Discount Variable home loan interest rate of just 4.39%, one of the lowest available in the Australian market at the time.

"Our extremely sharp pricing provides great value for customers as well as helping secure an increased share of the home loan market."

Mr Betros said the slight reduction in profit reflected an increased investment in technology and process improvements, and continued jobs growth.

"This period saw the start of a significant increase in IT infrastructure that will take place in coming years as we respond to the digital revolution in banking. We are also continuing to invest in jobs at Heritage by

*\* Roy Morgan Research, Consumer Banking in Queensland, Main Financial Institution (MFI) Satisfaction, December 2014*

creating an additional 8 positions in this half-year, after adding a total of 60 new positions in the previous two financial years” Mr Betros said.

Total consolidated assets were down slightly, decreasing 2.3% from \$8.519 billion to \$8.322 billion in the six months to 31 December 2014.

Heritage lifted its Tier 1 capital ratio from 11.89% as at 30 June 2014 to 12.01% as at 31 December 2014. The total capital ratio decreased slightly from 13.33% to 12.07% following the redemption of the Heritage Notes in October 2014. Similarly, the liquidity ratio decreased from 22.23% to 19.31% in the same period.

CEO Mr John Minz said managing Heritage’s prudential requirements continued to be a focus.

“We are facing tougher prudential requirements post-GFC and we also need to boost our capital holdings as our lending volumes grow. Managing our capital requirement also means managing total assets.

“We must also take steps to manage our retail funding mix, reduce excess liquidity and improve our margin.

“While Term Deposit growth moderated over the period, our savings account deposits actually increased by \$172 million, which is consistent with the \$186 million growth recorded in the same period last year. This was a positive outcome for Heritage in terms of managing our core retail funding channels.”

Mortgage Loan arrears greater than 30 days sat at just 0.41% of the total mortgage portfolio balance at 31 December 2014.

## **ENDS**

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For more information please contact:

Andrew Fox, Corporate Communications Manager, 0419 714 204

For further Heritage information go to [www.heritage.com.au](http://www.heritage.com.au)