ASX ANNOUNCEMENT

Issuer Code: HBS **Date: 21 September 2015**

Customer Report and Financial Report 2014/15

Heritage Bank has today issued its Customer Report and Financial Report in relation to the 2014/15 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 2015/16 financial year.

Heritage expects revenue to remain solid in 2015/16, in line with the 2014/15 results.

However it should also be noted that Heritage is continuing a program of additional capital expenditure in its digital capability to meet changing customer needs.

Customers are rapidly shifting to online and mobile transactions channels. Heritage must invest in upgrading its digital offerings to meet those demands, and in better using digital technologies to improve processing and back-office functions.

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

It is anticipated that this increase in additional expenditure will be reflected in the 2015/16 profit figure.

ENDS

For more information please contact:

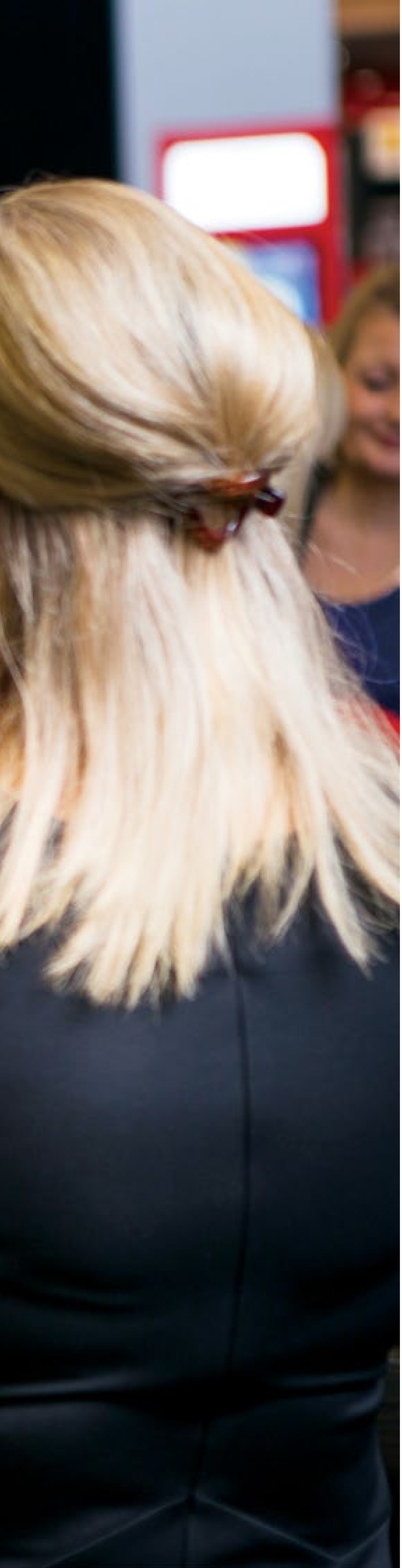
Bill Armagnacq
Company Secretary
(07) 4694 9609

David Janetzki
Assistant Company Secretary
(07) 4694 9625

Customer Report 2014/15

People first.

Heritage Bank



Heritage Bank Limited

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

Customer Report 2014/2015

Contents

Auditors
Ernst & Young

Registered Office
Heritage Bank Limited
6th Floor 400 Ruthven Street
Toowoomba Qld 4350 Australia

Postal Address
P.O. Box 190
Toowoomba Qld 4350 Australia

Contact Details
Telephone (07) 4690 9000
International 61 7 4690 9000
Internet www.heritage.com.au
Contact Centre 13 14 22
Heritage Access Line 13 14 72

Chairman's Report

Kerry Betros,
Chairman

As Chairman of Heritage Bank, I am justifiably proud of our total commitment to delivering great value for our customers and the communities they live in. As a customer-owned bank, our sole motivation is to serve the best interests of the people who trust us to look after their financial needs. In 2014/15, 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 financial results for 2014/15 reflect the strategic directions that Heritage has taken to strike that balance. Our pre-tax profit was $48.01 million, down 4.1% on the previous year but still strong. Our loan approvals jumped by 27.6% to $1.838 billion in the year, an excellent outcome. Our profit figure is influenced by the fact that we are investing significantly in a five-year program of works under our Digital Blueprint, to ensure both our customer channels and our back office processing keep pace with the rapid changes ushered in by new technologies. At the same time, we are also seeking to grow our loan book after a number of years of consolidation.

Whilst delivering a solid profit, we also delivered great value to our customers. Independent research by analysts Canstar found that in 2014/15 our customers were more than $41.48 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 big banks' fees and rates. We also ended the year with a Roy Morgan main financial institution customer satisfaction score of 93.5% - the highest in Queensland and almost 10% higher than the average score of the four big banks in Queensland. This is a compelling demonstration of our *People first* proposition in action.

This year, the Federal Government's Financial Systems Inquiry (FSI) handed down its recommendations. We were heartened that a number of the recommendations addressed the need to level the playing field and reduce the unfair advantage the big banks receive via their "too big to fail" status. Proposals to increase the amount of capital that the big banks need to hold go some way to improving the current situation. Still, the customer-owned sector continues to face many challenges in remaining strong and vibrant when competing against the size of the four major banks. Mutuals provide much needed competition and diversity for customers. The Federal Government needs to ensure that it encourages the operating environment that enables mutuals to continue delivering for their customers.

The rise of digital technologies is a key factor shaping that operating environment going forward. As mentioned earlier, we are implementing a Digital Blueprint that will transform our 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. The magnitude of this investment will continue impacting on our profit results in coming years.

Meeting tougher post-GFC prudential requirements remains a challenge. This year we issued a new style of Basel III compliant, tier two subordinated debt to institutional investors, selling $50 million of subordinated notes. This continues our prudent but innovative approach to meeting our regulatory and capital requirements.

In closing, I must acknowledge the fantastic contribution that CEO John Minz has made to this organisation in his 22 years here. John will be stepping down from the CEO role later in 2015 after helping shape Heritage into an extremely strong organisation with a committed and energised workforce. The Board thanks him for his efforts, and those of the senior management team, in delivering excellent financial results and meaningful value for our customers.

Heritage Board

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

CEO's Report

At Heritage Bank, we're known for our strength and stability, and our financial performance in 2014/15 justifies that reputation. Our pre-tax profit of $48.01 million was 4.1% down on the previous year, reflecting the extra investment we are making in digital technologies and in extra staffing resources. Our average full-time equivalent in the year was up 25 positions on the previous year, with many of those additional employees in technology-related roles. We grew our assets slightly to $8.557 billion, and our retail deposits grew by $154 million to $4.861 billion. Our liquidity ratio at 30 June 2015 was 19.39% and our capital adequacy ratio was 13.37%, both excellent outcomes.

Our strong growth in lending was an excellent result, up 27.6% on the previous year to $1.838 billion. During the year we took a deliberate strategic move to increase our loan book, and we certainly delivered on that decision in 2014/15. We will continue to seek loan growth in coming years, enabled by our competitive pricing decisions, improvements to product portfolios and our excellent reputation. While we have sought growth, this has not been reckless. Our mortgage loan arrears greater than 30 days at 30 June 2015 was just 0.39% of loan balances, around a third of the industry average. Our corporate ratings remain stable at Moody's A3/P2 and Fitch BBB+/F2.

Transformation continues to be a key concept for Heritage moving forward. Rapidly evolving digital technologies are a prime driver of this change, but we are also looking at every part of our operations to ensure we remain relevant and modern. In 2014/15, we continued to develop our mobile banking app, providing new features such as the ability to view authorised Visa card payments, view scheduled payments and switch between membership numbers. This is the benefit of employing specialist resources in-house to oversee our website and digital banking development.

We used our expertise in cards and technology to support the roll out of the Cash by Optus product in late 2014, allowing Optus customers to pay for goods with a tap of their phone. We followed that in June 2015 by launching our very own MobilePay app, allowing Heritage customers to pay for purchases with a tap of their eligible smart phone at a Visa payWave terminal. We were the first bank in Australia, outside the big 4, to develop and launch our own mobile payments app in-house. That's a great achievement for Heritage Bank.

We are currently in the middle of an ambitious program of works that is completely overhauling our home loan delivery and processing platforms, to offer customers both greater flexibility and better service. This year we implemented a new discounting capability for our home loans, as well as replacing our previous professional package with our new Home Advantage packaged home loan. We have also centralised parts of our processing for personal loans, and will soon implement new software to make processing of loans quicker, simpler and easier. We have revised our suite of credit card products, implementing a new Platinum card and Balance Transfer facility.

In June, we opened a new-style branch at Robina that will be the pilot for the design and layout of all our branches in future. The Robina branch features a radically different approach, replacing the traditional row of tellers with an open plan layout, greater use of technology, and a skew toward advice and service, rather than simple transactions. This redesign follows the changing needs of our customers and reflects the modern world of banking more closely.

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,

John Minz, CEO

particularly in our heartland around Toowoomba. We continue to partner with community banking organisations in operating our seven community branches. 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.

This year I announced my decision to retire later in 2015 and step down from my role as CEO of Heritage Bank. It has been an honour and a privilege to work in such a magnificent organisation, surrounded by highly professional colleagues and serving the interests of a wonderful customer base. I would like to thank everyone who has touched my 22 years at Heritage and made this the most fulfilling and stimulating time of my working life. In particular, I thank the members of the Senior Executive Group and the Board for their wise counsel and support, and all staff members for their total commitment to our customers.

With more than

$8.5b

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

Additional Customer Benefit

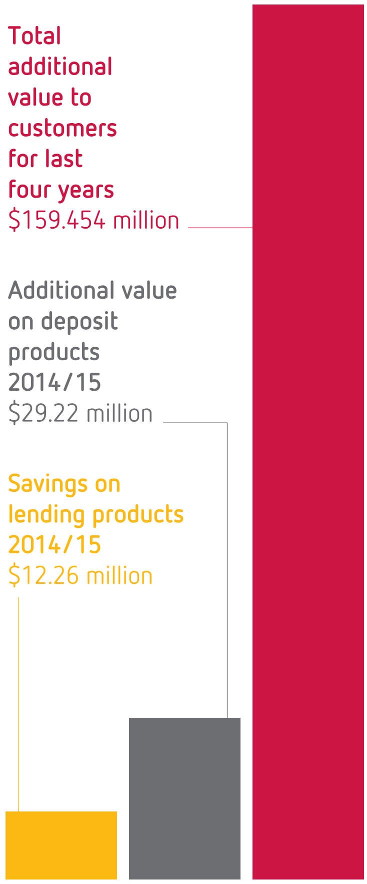
About Heritage

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 37 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.

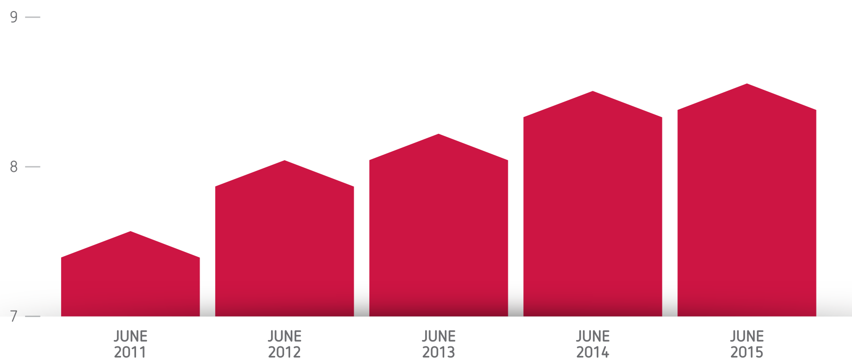


Value to Heritage Customers

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

*12 months to June 2015

Consolidated Assets ($ billion)



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 2014/15 financial year, Australia's big banks will post combined profits of close to $30 billion. That's around $1,330 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 $41.48 million a year better off in 2014/15 through banking with Heritage rather than one of the big four banks*. Our customers gained a $12.26 million benefit in rates and fees on our lending products, and around $29.22 million because of better interest rates and fees on deposit products.

In fact, over the last four financial years, Heritage customers have received a total additional benefit of $159.45 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, not to make a profit for shareholders. This means 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. We support community-driven events and organisations that make a positive contribution to society. We think about the overall needs of our customers and their communities, and throw our support behind activities that make a difference.

The Customer Owned Advantage

*Canstar Member Valuation, June 2015

Putting Customers First

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

That's why we continue to support an extensive branch network, many open on Thursday nights and Saturday mornings. 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 2014/15 financial year.

Our standard variable rate at 30 June was 5.19% - 0.245 percentage points lower than the average of the big four banks.

Our Roy Morgan main financial institution customer satisfaction score at 30 June 2015 was 93.5% - almost 10% higher than the average score of the four big banks in Queensland. 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. As at 30 June 2015, Heritage recorded a net promoter score of 37.7, indicating a strong likelihood of customers recommending Heritage to others. The highest of the big banks scored just 9.3.

AWARDS

Heritage Bank received a top rating of five stars for eight home loan products in CANSTAR's star ratings report this year.

Financial analysts CANSTAR assessed more than 1000 home loan products from more than 100 lenders across Australia and rated them using a sophisticated ratings methodology which is under constant review by their analysts to ensure its accuracy and validity.

Heritage Bank was also recognised for providing some of the best value home loan products in the country in the 2015 Mozo Experts Choice Awards.

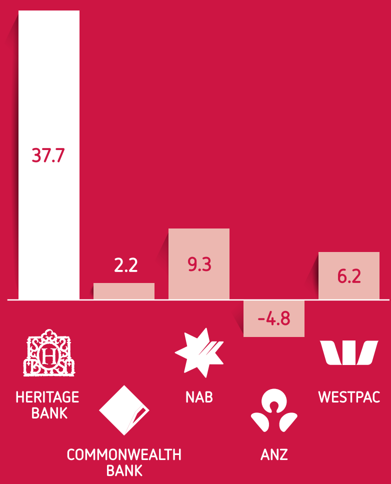
Mozo announced Heritage's Discount Variable Home Loan as a winner for Best Value First Home Loan and Best Value Variable Loan.

STANDARD VARIABLE INTEREST RATE

01	5.19%*	Heritage Bank
02	5.38%*	ANZ
03	5.43%*	NAB
04	5.45%*	Commonwealth Bank
05	5.48%*	Westpac

*Standard variable home loan annual percentage rate sourced from relevant websites as at 30 June 2015.

Customer Advocacy



Average of monthly Roy Morgan Research Consumer Banking Advocacy Reports, July 2014 - June 2015.

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, and we have employed in-house developers to ensure we continue to keep pace with customer demand. Early in 2015 we released a brand new design for the mobile banking app, and included several new features. They included the ability to view authorised Visa card payments, view scheduled payments and switch between membership numbers, just like customers can on our normal online banking service.

PRODUCT PRICING AND DEVELOPMENT

Heritage continues to deliver outstanding value for customers in our core business of home lending. This year we completed a review of our variable lending product portfolio and introduced greater flexibility in tailoring packages for individual customer circumstances. We also withdrew our professional package from sale and replaced it with the new Home Advantage Package, which bundles together products to give customers a better deal with interest rate discounts, fee waivers, a free transaction account, and discounts on insurance premiums.

Our home loan pricing remains among the most competitive in the marketplace. In August last year, Heritage introduced a 3.99% one-year fixed home loan rate, the lowest in our 138-year history. Heritage followed that in November by cutting its Discount Variable home loan rate to 4.39%, the lowest then available from an ADI in the Australian market. Heritage also waived application fees on our Discount Variable and Standard Variable home loans in the lead-up to Christmas.

BRANCH UPGRADES

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. In 2014/15, we carried out the following upgrades:

Hervey Bay Branch
Complete rebuild.

Robina Branch
Complete rebuild.

Browns Plains
Refurbishment of existing premises.

Kawana
Refurbishment of existing premises.

Toowoomba Plaza
Refurbishment of existing premises.

Maroochydore
Refurbishment of existing premises.

Victoria Point
Refurbishment of existing premises.

Android is a trademark of Google Inc. iPhone® is a trademark of Apple Inc., registered in the U.S. and other countries.

In August last year, Heritage introduced a 3.99% one-year fixed home loan rate, the lowest in our 138-year history.

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 2014 Charity Golf Day raised a record $47,000, with donations distributed to eleven local organisations. This year's event brought the total raised in the event's 16-year history to over $571,000.
- Heritage's Robina Branch sponsored the Gold Coast Runners Club to take part in the 500km Team Endurance Relay last November to raise funds and awareness for the Endeavour Foundation. The event raised around $70,000 for the charity, smashing the previous year's fundraising total of just over $46,000.
- Heritage sponsored the Sunshine Coast Summer Skyshow for the first time on Australia Day this year. The huge family-friendly event at Cotton Tree featured rides, market stalls and live music, not to mention an epic fireworks display. It has become a firm favourite for families from across the Sunshine Coast.
- Heritage became the major sponsor for this year's Heritage Gold Coast Bulletin Fun Run in April. The annual family-friendly event encourages people of all ages and abilities to join in, offering distances of 2km, 5km, 10km and 21.1km. The fun run encourages a 'healthy body, healthy mind' and raises money for the Gold Coast Hospital Foundation.
- Queensland's first hospice for children was one of the recipients of funds raised through the annual Heritage Calendar. Construction of Hummingbird House is about to start in the Brisbane suburb of Chermside, to become the only hospice in Queensland for young people aged up to 18. Heritage donated $5,000 to Hummingbird House as one of five beneficiaries from the $23,000 raised via the Heritage calendar.
- Heritage sponsored many other community events, including the Street Concert at the Ipswich Festival, the Bundy Flavours Festival in Bundaberg, the Apple and Grape Festival in Stanthorpe, the Business Excellence Awards in Gatton, Warwick and Dalby, the Queensland Walk for Parkinsons in Brisbane, the Toowoomba Carnival of Flowers and the Toowoomba Royal Show.
- Heritage supports the Toowoomba Hockey Association and sponsors the player of the final in the men's and women's A Grade grand finals each year.

SUPPORTING THE COMMUNITY

Heritage Bank's commitment to the community is supported by policies that give employees a day of paid leave to help out in their community through our Volunteers Leave provision and paid leave to donate blood or plasma to their local Red Cross Blood Bank.

Heritage Ipswich Branch Manager Michelle Kuskie (right) congratulates Katherine Plint from drowning prevention and awareness charity Hannah's Foundation for winning the 2015 Volunteer of the Year *People first* Award.

The 2015 Heritage Calendar raised over

$23,000

with all proceeds going to charitable groups in southern Queensland.

RELAY FOR LIFE

Heritage Bank continued its long-term involvement with the Queensland Cancer Council's annual Relay for Life fund-raising events at a number of locations around southern Queensland. Heritage pays the $20 registration fee for staff members who take part in Relay for Life walks.

Around 60 staff volunteered to be part of the Toowoomba Relay for Life event in May, collectively raising $6,500 for the fight against cancer. Heritage CEO Mr John Minz was the Patron of the Toowoomba event.

HERITAGE COMMUNITY BRANCHES

Heritage operates seven Community Branch outlets, which are joint-ventures between us and local community companies. Under the operating model, the community companies must give back their share of the profits to their communities via funding grants to deserving local causes and organisations.

Heritage established our first Community Branch in Crows Nest in 1999. Since then, our Community Branches have collectively put more than $30 million back into their local communities, via funding grants, wages, rent and payments for other goods and services.

In 2014/15, the Nanango Community Branch handed out more than $370,000 in funding grants; the Forest Lake Community Branch more than $113,000; the Palmwoods Community Branch $106,000, and the Karalee Community Branch $67,000.

VOLUNTEER OF THE YEAR

Hard-working volunteers all over Queensland were recognised for the contributions they make to their local community in the third annual Heritage Volunteer of the Year Awards, held in early 2015.

The Volunteer of the Year Award is about helping everyday Queenslanders to say "thanks" for the hard work and dedication of volunteers. Nominees are put forward by people in the community and winners are then determined by public vote.

This public interaction helps bring to light the efforts of many diverse organisations and causes, some of which people may not know about.

The Awards attracted 115 nominees and thousands of votes, and awarded a total of $14,000 in prizes.

Atherton resident Jenny Maclean was named the 2015 Heritage Bank Volunteer of the Year for her passionate work supporting bat conservation. Ms Maclean was awarded $1000, while her organisation Tolga Bat Hospital received $10,000.

The runner-up was Justine Christerson from Breaking Down the Barriers for Rural Patients in City Hospitals, who received $100 for herself and $1,000 for her organisation. Katherine Plint from drowning prevention and awareness charity Hannah's Foundation won the *People first* Award, awarded to the volunteer who best embodies the Heritage values and culture of integrity, excellence and community. She received $200 for herself and $2000 for her organisation.

Putting Staff First

People first **is the philosophy that underpins our organisation and applies to our employees as well as our customers. Heritage Bank aspires to be a modern, flexible employer and is committed to making this a great place to work with recognition of our achievements as the Australian Business Awards Employer of Choice from 2011 to 2015.**

BETTER ME PROGRAM

Better Me (formerly known as Health and Wellbeing) was re-launched in 2015 with a continued focus on the provision of resources and information to all employees and their families to assist them in leading a full and healthy life. Better Me provides initiatives such as:

- The Employee Assistance Program which gives employees and their families 24/7 access to confidential professional counselling and support for any personal or work related issue.
- Introduction of Healthy Catering Guidelines for work functions.
- Discounts at a range of gyms and other health and fitness providers.
- Free Flu Vaccinations.
- Free participation in a range of community sporting events such as the Ipswich 100 and the Pink Triathlon Series.
- 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.

- Annual Workplace Assessments as requested/required.
- Fruit at Work, which is delivered to each individual work location each quarter.
- Various Flexible Working Arrangements accessed by 29% of employees.

DIVERSITY AND INCLUSION

In 2015 Heritage Bank adopted a Diversity Policy as part of its commitment to providing a working environment where all employees feel safe and included.

Diversity is the differences that exist between people including gender, culture, race, ethnicity, sexual orientation, age, language, religion, nationality and family/marital status and inclusion refers to ensuring that employees have equality of opportunity in the organisation without barriers or obstacles as a result of these differences.

RECONCILIATION ACTION PLAN COMMITTEE

Heritage this year established a Reconciliation Action Plan (RAP) committee which is working under Reconciliation Australia's RAP framework to develop a plan that documents what we can do within our sphere of influence to contribute to reconciliation in Australia.

OUR PEOPLE REWARDS

Our People Rewards is an online portal where employees 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 employees to earn credits based on the purchase of products and services.

In the last year employees have spent $250,000 on Our People Rewards and saved over $25,000 on their purchases.

SUPPORTING THE COMMUNITY

Heritage Bank's commitment to the community is supported by policies that give employees a day of paid leave to help out in their community through our Volunteers Leave provision and paid leave to donate blood or plasma to their local Red Cross Blood Bank.

CAREER DEVELOPMENT

Developing the careers of individual employees is facilitated through the provision of formal face-to-face training and eLearning via our Learning Portal, the Career Development Guide, and our Mentoring Program, as well as networking opportunities such as the Leadership Networking Breakfast Series, Leadership Summit and the Our People Conference.

Heritage also provides a comprehensive study assistance program and has formed a unique partnership with the University of Southern Queensland through the USQ Pathways program that gives employees access to credits for courses with recognised prior learning through the completion of one of Heritage Bank's nationally recognised qualifications.

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 that provides 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

6713	eLearning Courses
1589	Learning Blasts (additional knowledge)
309	Face-to-face courses
58	Certificate IV in Banking Services
5	Certificate IV in Frontline Management
4	Diploma of Management
1	Certificate IV in Credit Management

Heritage collaborated with Australian telco Optus and Visa to launch Cash by Optus in December.

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 Australia Post, Qantas, Travelex and MasterCard's Multi-currency CashPassport.

CASH BY OPTUS

Heritage collaborated with Australian telco Optus and Visa to launch Cash by Optus in December last year, a contactless payment app that allows people to use their smartphone to pay for goods and services instead of using cash or plastic debit and credit cards.

Cash by Optus uses Near Field Communication (NFC) and Visa payWave technology to replace cash for transactions below $100, so customers can pay for small purchases like lunch, petrol and groceries using their smartphones.

Heritage is responsible for the banking aspect of Cash by Optus, drawing on our extensive experience in this area.

HERITAGE MOBILEPAY

Heritage capitalised on its expertise in this sector to launch a mobile phone payments app for our own customers in June.

The Heritage MobilePay app enables our customers to authorise transactions from their linked Visa credit or debit card account simply by tapping their smart phone at a Visa payWave terminal.

What is most significant about the launch is that Heritage continues to upstage much larger rivals with our achievements in this technology sphere.

Heritage developed and launched this mobile payments app in-house, using our own resources and expertise. We were the first bank in Australia, outside the big 4, to develop our own mobile payments app in-house.

MobilePay requires users to have an Android™ phone with Kit Kat® 4.4 software and above, NFC functionality, and a Visa credit or debit account with Heritage.

ADVANCES IN ONLINE BANKING

Heritage continues to build and improve on our range of online banking options. We have introduced native apps for the most popular mobile operating systems, with a program of regular updates to introduce new features.

We have also made it simpler than ever for customers to access our online banking system by making the "virtual" keyboard optional when logging in. The virtual keyboard was initially introduced as a security precaution but changes in the security environment mean Heritage has been able to make this feature optional. As a result, our customers now choose to enter their password straight into the boxes at the log-in screen, using their computer's keyboard, rather than using the virtual keyboard. Or they can opt to retain the virtual keyboard if they wish. This change has made it quicker and simpler for customers to log in to internet banking, without compromising security.

FLAGSHIP BRANCH LAUNCHED IN ROBINA

Heritage Bank unveiled a new flagship branch on the Gold Coast in June that features a radically different approach to technology, design and layout. The upgraded Robina branch eliminates the traditional row of tellers behind a counter and has moved to an open plan layout, with staff using tablet devices to serve customers throughout the branch.

The layout features multiple meeting spaces, with digital signage and displays, plus a "self-serve" area with a smart ATM and other technology. The ATM accepts cash deposits and credits the amount straight into a customer's account. It also accepts cheques which are scanned by the ATM and go into the clearing process to be credited into a customer's accounts.

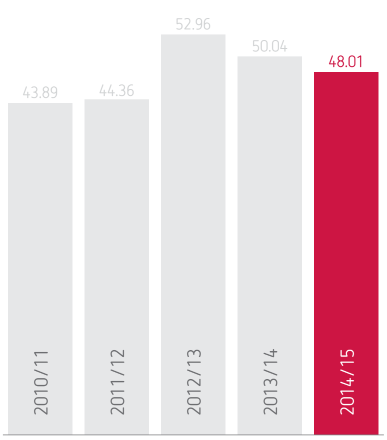
Digital technologies are transforming the role of bank branches today. People increasingly carry out transactions online, so branches are becoming places where people go for advice and to talk face-to-face about more complex needs.

The Robina branch creates a very different environment, combining our traditional people-focussed service approach with the latest technology and a customer-centred design to provide a better overall service. It will become the prototype for new branch upgrades in future.

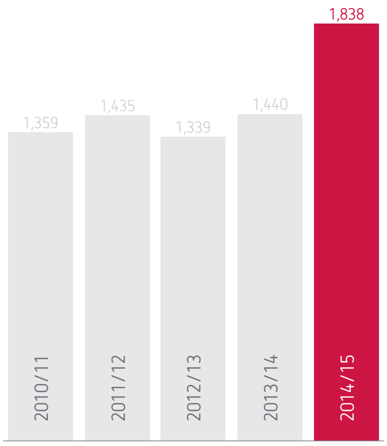
Android is a trademark of Google Inc.

Financial Highlights

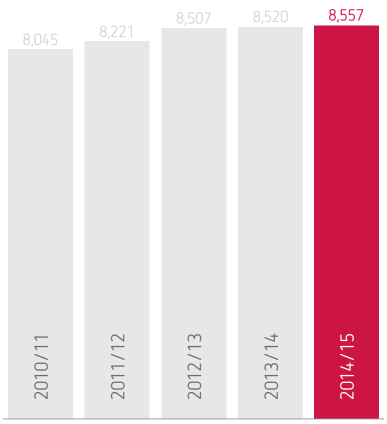
	2015	2014
Profit before tax	**$48.01 million**	$50.04 million
Profit after tax	**$33.61 million**	$35.76 million
Loan approvals	**$1.84 billion**	$1.44 billion
Total consolidated assets	**$8.56 billion**	$8.52 billion
Capital adequacy	**13.37%**	13.33%
Liquidity	**19.39%**	22.23%
Mortgage loan arrears greater than 30 days	**0.39%**	0.39%



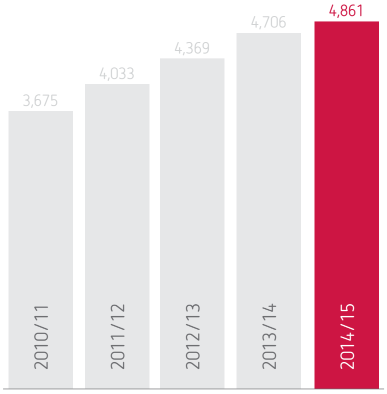
PRE TAX PROFIT ($M)



LOAN APPROVALS ($M)



CONSOLIDATED ASSETS ($M)



RETAIL DEPOSITS ($M)

$8.56b TOTAL CONSOLIDATED ASSETS

$1.84b LOAN APPROVALS

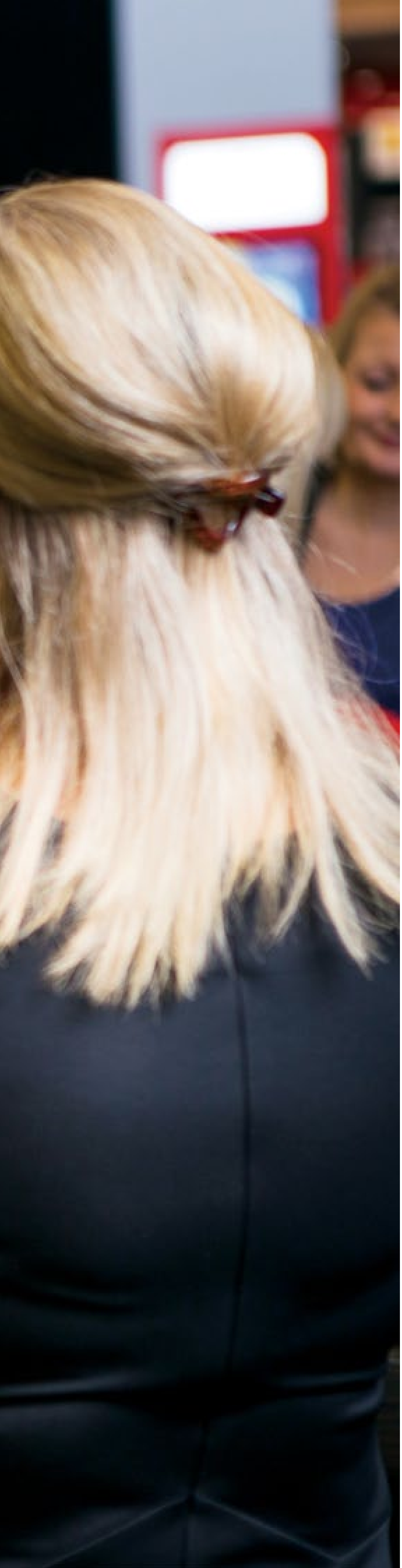

us today
Bank
first

People first.

Financial Report 2014/15

People first.

Heritage Bank



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

Financial Report for the year ended 30 June 2015

Contents

Auditors
Ernst & Young

Registered Office
Heritage Bank Limited
6th Floor 400 Ruthven Street
Toowoomba Qld 4350 Australia

Postal Address
P.O. Box 190
Toowoomba Qld 4350 Australia

Contact Details
Telephone (07) 4690 9000
International 61 7 4690 9000
Internet www.heritage.com.au
Contact Centre 13 14 22
Heritage Access Line 13 14 72

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 2015.

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 and Finance (appointed July 2014) Committees and is Chairman of the Superannuation Policy Committee.

Professor Peter Swannell AM,
BSc, PhD, HonDUniv, FIEAust, CPEng(Ret)
(retired effective 22 October 2014)

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 was 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 and risk 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 Risk Management Institute of Australia and the Australian Financial Markets Association and works with many organisations in Australia and Asia developing their treasury and risk management skills. Susan is also a director of Benetas Aged Care Services and is on their Finance and Quality committees. Her previous employment has included working with global banks in Melbourne and London, corporate treasuries, and as a senior lecturer at RMIT University and LaTrobe 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 a 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
CPV, 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.

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 Chairman of the Southern Downs Regional Council Audit and Risk Management Committee, Deputy Chairman of the Empire Theatres Foundation and director of Opera Queensland Limited.

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		Supervisory	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Betros	11	11	12	12	7	6	4	1	1	1	1	1
Dr Campbell	11	11	12	12	-	-	-	-	1	1	1	1
Mrs Quinn	11	11	11	11	7	7	-	-	1	1	-	-
Prof Swannell AM	3	3	-	-	3	3	-	-	-	-	-	-
Ms Campbell	11	10	1	1	-	-	4	4	-	-	-	-
Mr Baulch	11	11	-	-	7	7	4	4	-	-	1	1
Mr Davis	11	11	11	11	7	7	-	-	-	-	-	-
Mr Thorpe	11	11	1	1	-	-	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. Professor Swannell resigned as a director on 22 October 2014. Mr Thorpe and Ms Campbell served on the Finance Committee until 24 July 2014. Mrs Quinn and Mr Davis have served on the Finance Committee from 24 July 2014.

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 780 full time equivalent employees as at 30 June 2015 (2014 – 765 employees).

REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the financial year after income tax was $33.605 million (2014 - $35.757 million). This represents a 6.0% decrease compared to the previous year. The profit performance held up well in view of the continuing challenging economic and regulatory environment.

The Group reported a minor increase in total consolidated assets to a total of $8.557 billion (2014 - $8.519 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 2015 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 2015. 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 2015 have been Mr Kerry Betros, Dr Dennis Campbell and Mrs Vivienne Quinn (from 24 July 2014). Mr Brendan Baulch was a member of the Remuneration and Governance Committee until 24 July 2014.

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) to 22 October 2014
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 Strategy and Investment 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 was only one change to those persons defined as "key management personnel" between 1 July 2014 and the date of this Remuneration Report. Professor Peter Swannell retired as a Director on 22 October 2014.

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 22 October 2014 was $1,075,000 plus a pro-rata amount in the event an additional director was appointed. 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 9.50% of fees paid, 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.

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.

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.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Senior Executive Remuneration (continued)

Short Term Incentive Benefits

No senior executive is provided with a yearly incentive payment based solely on 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 and departmental 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 2014 $'000	Written off $'000	Interest charged $'000	Interest not charged $'000	Balance 30 June 2015 $'000	Number in group
Key management personnel and their related parties	1,952	-	97	-	1,951	7

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

Director / Executive	Balance 1 July 2014 $'000	Written off $'000	Interest charged $'000	Interest not charged $'000	Balance 30 June 2015 $'000	Highest indebted-ness in period $'000
Jane Calder	288	-	5	-	269	288
Steve Davis	217	-	10	-	108	217
Paul Francis	295	-	16	-	299	307
Bob Hogarth	-	-	15	-	316	326
Dunstin Lynch	771	-	36	-	640	771
John Williams	230	-	8	-	190	230
Paul Williams	151	-	7	-	129	151

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	**2015**	**261**	-	**2**	**25**	**65**	**353**
	2014	262	-	2	24	65	353
Dr D.P. Campbell Deputy Chairman	**2015**	**193**	-	**2**	**18**	**48**	**261**
	2014	199	-	2	19	49	269
Mrs V.A. Quinn Director	**2015**	**100**	-	**2**	**9**	**25**	**136**
	2014	90	-	2	8	23	123
Professor P. Swannell AM Director retired effective 22 October 2014	**2015**	**31**	-	**2**	**3**	**8**	**44**
	2014	90	-	2	8	23	123
Ms S.M. Campbell Director	**2015**	**100**	-	**2**	**9**	**25**	**136**
	2014	99	-	2	9	25	135
Mr B.P. Baulch Director	**2015**	**112**	-	**2**	**11**	**28**	**153**
	2014	118	-	2	12	28	160
Mr S. Davis Director	**2015**	**100**	-	**2**	**9**	**25**	**136**
	2014	90	-	2	8	23	123
Mr D.W. Thorpe Director	**2015**	**110**	-	**2**	**10**	**28**	**150**
	2014	90	-	2	8	23	123
Total for 2015		**1,007**	-	**16**	**94**	**252**	**1,369**
Total for 2014		1,038	-	16	96	259	1,409

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	**2015**	**596**	**70**	**15**	**112**	**13**	**806**
	2014	596	65	15	111	12	799
Bill Armagnacq Company Secretary / Assistant CEO	**2015**	**293**	**36**	**20**	**35**	**8**	**392**
	2014	284	36	22	25	5	372
Jane Calder General Manager, Marketing	**2015**	**252**	**36**	**9**	**35**	**6**	**338**
	2014	248	36	15	23	5	327
Peter Cavanagh General Manager, Emerging Business Streams	**2015**	**261**	**40**	**19**	**35**	**6**	**361**
	2014	263	40	19	22	5	349
Peter Cleary Chief Financial Officer	**2015**	**302**	**40**	-	**56**	**8**	**406**
	2014	277	38	15	53	5	388
Paul Francis General Manager, Retail Services	**2015**	**316**	**44**	**13**	**35**	**7**	**415**
	2014	318	43	15	18	4	398
Bob Hogarth General Manager, People & Culture	**2015**	**227**	**38**	**20**	**45**	**5**	**335**
	2014	231	38	6	44	4	323
Dunstin Lynch General Manager, Technology	**2015**	**207**	**36**	**32**	**34**	**7**	**316**
	2014	201	35	29	30	6	301
John Williams Chief Operating Officer	**2015**	**281**	**44**	**20**	**44**	**10**	**399**
	2014	277	43	13	43	5	381
Paul Williams Chief Strategy & Investment Officer	**2015**	**351**	**46**	-	**30**	**11**	**438**
	2014	347	45	-	25	6	423
Total for 2015		**3,086**	**430**	**148**	**461**	**81**	**4,206**
Total for 2014		3,042	419	149	394	57	4,061

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
27 August 2015

KERRY J. BETROS
Chairman

DENNIS P. CAMPBELL
Deputy Chairman

Income Statement

FOR THE YEAR ENDED 30 JUNE 2015

	Note	CONSOLIDATED		PARENT	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Interest revenue	3 (a)	378,017	404,804	378,017	404,804
Interest expense	4 (a)	(238,832)	(266,746)	(238,832)	(266,746)
Net interest income		139,185	138,058	139,185	138,058
Other income	3 (b)	37,424	36,424	37,424	36,424
Total income		176,609	174,482	176,609	174,482
Impairment losses on loans and receivables	4 (b)	(2,546)	(1,571)	(2,546)	(1,571)
Marketing expense		(7,421)	(6,847)	(7,421)	(6,847)
Occupancy expense		(11,900)	(11,292)	(11,900)	(11,292)
Employee benefits expense	4 (c)	(69,357)	(66,530)	(69,357)	(66,530)
Administrative expense		(23,664)	(23,148)	(23,664)	(23,148)
Other expense	4 (d)	(13,712)	(15,053)	(13,712)	(15,053)
Profit before tax		48,009	50,041	48,009	50,041
Income tax expense	5 (a)	(14,404)	(14,284)	(14,404)	(14,284)
Profit after tax		33,605	35,757	33,605	35,757

The accompanying notes form part of these financial statements

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2015

	Note	CONSOLIDATED		PARENT	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Profit after tax		**33,605**	35,757	**33,605**	35,757
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
(Loss)/gain on cash flow hedge taken to members' funds		**(5,590)**	1,300	**(5,590)**	1,300
Revaluation of land and buildings		**-**	3,493	**-**	3,493
Income tax gain/(loss) on above items of other comprehensive income	5(b)	**1,677**	(1,438)	**1,677**	(1,438)
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain on defined benefit plan		**587**	965	**587**	965
Income tax gain/(loss) on above items of other comprehensive income		**-**	-	**-**	-
Other comprehensive (loss) / income for the year, net of tax		**(3,326)**	4,320	**(3,326)**	4,320
Total comprehensive income for the year		**30,279**	40,077	**30,279**	40,077

The accompanying notes form part of these financial statements

Statement of Financial Position

AS AT 30 JUNE 2015

	Note	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
Assets					
Cash and cash equivalents	7	196,911	188,302	196,911	188,302
Receivables due from other financial institutions	8	243,993	370,881	243,993	370,881
Other receivables	9	32,116	34,614	32,116	34,614
Loans and receivables	10	6,801,035	6,573,647	6,801,035	6,573,647
Held to maturity financial assets	12	1,240,627	1,313,811	1,240,627	1,313,811
Available for sale financial investments		528	478	528	478
Derivatives		1,120	616	1,120	616
Deferred tax assets	5 (d)	9,698	7,909	9,698	7,909
Property, plant and equipment	14	23,671	24,466	23,671	24,466
Other assets	15	1,883	1,929	1,883	1,929
Intangibles	16	5,207	2,234	5,207	2,234
Retirement benefit asset		484	-	484	-
Total Assets		8,557,273	8,518,887	8,557,273	8,518,887
Liabilities					
Deposits and borrowings	17	7,729,580	7,760,498	7,729,580	7,760,498
Accounts payable and other liabilities	18	347,144	309,424	347,144	309,424
Derivatives		8,339	2,985	8,339	2,985
Current tax liabilities		2,375	4,265	2,375	4,265
Provisions	19	15,885	15,256	15,885	15,256
Deferred tax liabilities	5 (e)	463	972	463	972
Retirement benefit liability		-	199	-	199
Subordinated debt	20	49,636	51,716	49,636	51,716
Total Liabilities		8,153,422	8,145,315	8,153,422	8,145,315
Net Assets		403,851	373,572	403,851	373,572
Members' Funds					
Retained profits		407,079	372,887	407,079	372,887
Reserves		(3,228)	685	(3,228)	685
Total Members' Funds		403,851	373,572	403,851	373,572

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2015

	CONSOLIDATED			
	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 year	**33,605**	**-**	**-**	**33,605**
Other comprehensive income	**587**	**-**	**(3,913)**	**(3,326)**
Total as at 30 June 2015	**407,079**	**2,445**	**(5,673)**	**403,851**
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

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

FOR THE YEAR ENDED 30 JUNE 2015

	Note	CONSOLIDATED		PARENT	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000
Cash flows from operating activities					
Interest received		389,711	414,387	389,711	414,387
Dividend received		-	2,851	-	2,851
Borrowing costs and interest paid		(244,979)	(270,359)	(244,979)	(270,359)
Other non-interest income received		38,154	39,340	38,154	39,340
Payments to suppliers and employees		(137,918)	(129,762)	(137,918)	(129,762)
Income tax paid		(16,917)	(16,424)	(16,917)	(16,424)
Net cash flows from operating activities	21 (a)	28,051	40,033	28,051	40,033
Cash flows from investing activities					
Decrease / (increase) in investment securities and receivables due from other financial institutions		192,317	(168,414)	192,317	(168,414)
Return of capital - investment in associate		-	1,747	-	1,747
(Increase) / decrease in loans, receivables and other receivables		(219,282)	93,445	(219,282)	93,445
Proceeds from sale of property, plant and equipment		246	262	246	262
Acquisition of property, plant and equipment		(3,542)	(5,147)	(3,542)	(5,147)
Net cash flows used in investing activities		(30,261)	(78,107)	(30,261)	(78,107)
Cash flows from financing activities					
Increase / (decrease) in deposits and other borrowings		10,819	(2,454)	10,819	(2,454)
Premium paid on buyback of term debt		-	(2,946)	-	(2,946)
Issue of subordinated debt		50,000	-	50,000	-
Payments for redemption of subordinated debt		(50,000)	-	(50,000)	-
Net cash flows from / (used in) financing activities		10,819	(5,400)	10,819	(5,400)
Net increase / (decrease) in cash held		8,609	(43,474)	8,609	(43,474)
Cash - beginning of the year		188,302	231,776	188,302	231,776
Cash and cash equivalents - end of the year	21 (b)	196,911	188,302	196,911	188,302

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) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 27 August 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 26.

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 listed on the ASX 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 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***

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 2015-2	*Amendments to AASB 101 ** *	Apply professional judgement in determining what information to disclose in the financial statements.	1 January 2016	1 July 2016
AASB 2015-3	*Amendments to AASB 1031 ** *	Remove guidance on materiality from Australian Accounting Standards.	1 July 2015	1 July 2015

* The impact of this standard is yet to be assessed.
** The impact of adopting these standards is not expected to be significant.
*** It is expected that this will be deferred until 1 January 2018.

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

- *Regulatory deferral accounts*
- *Accounting for Acquisitions of Interests in Joint Operations*
- *Clarification of Acceptable Methods of Depreciation*
- *Agriculture: Bearer Plants*
- *Superannuation Entities*
- *Equity Method in Separate Financial Statements*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *Financial Reporting Requirements for Australian Groups with a Foreign Parent*
- *Investment Entities*
- *Related Party Disclosures to Not-for-Profit Public Sector Entities*

There has been no material impact as a result of applying new accounting standards during the year.

(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 seven trust vehicles that have been established for the purpose of securitising Heritage's loans (refer Note 24(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 24 (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

The Parent entity financial statements include those of Heritage and the Consolidated Structured Entities (CSEs). As Heritage controls the CSEs the assets, 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) 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 (h).

Fair values
Fair value measurement of derivatives - refer note 13 (d) for further details.

Land and building - refer note 14 (a) for further details.

(e) 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.

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

Securitisation establishment costs are 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.

(f) Cash and cash equivalents

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

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 counterparty exposures. 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.

(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 (l) for further detail.

(h) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loan provisioning (continued)

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.

(i) 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.

(j) 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.

(k) 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

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, plant and equipment (continued)

Impairment
The carrying values of 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.

(l) 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 listed term subordinated debt due to movement in interest rates.

(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(h) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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. Provision for the liability to pay annual leave and 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.

(n) 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.

(o) 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.

(p) 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.

(i) Impairment

The carrying value of intangible assets 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.

(q) Subordinated debt

Subordinated debt includes unlisted debt and debt listed with Australian Securities Exchange. The unlisted debt is measured at amortised cost using the effective interest rate method. 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.

(r) 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.

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000

3. INCOME

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
(a) Interest revenue				
Deposits and investment securities	47,985	48,511	47,985	48,511
Loans and receivables	340,297	362,645	340,297	362,645
Interest rate swaps	520	3,633	520	3,633
Net gain on derivatives held at fair value	-	17	-	17
Add: Loan application direct revenue	1,608	1,524	1,608	1,524
Less: Commission and agent direct costs	(11,550)	(10,972)	(11,550)	(10,972)
Less: Securitisation establishment costs	(843)	(554)	(843)	(554)
Total interest revenue	378,017	404,804	378,017	404,804
(b) Other income				
Fees and commissions	35,777	34,785	35,777	34,785
Income from property	299	283	299	283
Impairment losses on loans recovered	379	482	379	482
Other revenue	969	874	969	874
Total other income	37,424	36,424	37,424	36,424

4. EXPENSES

		Note	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
(a)	**Interest expense**					
	Deposits		186,762	201,923	186,762	201,923
	Subordinated debt including fair value adjustment		845	3,664	845	3,664
	Interest bearing notes		44,822	52,671	44,822	52,671
	Interest rate swaps		5,861	5,962	5,861	5,962
	Loss on fair value hedges		512	1,542	512	1,542
	Net loss on derivatives held at fair value		30	984	30	984
	Total interest expense		238,832	266,746	238,832	266,746
(b)	**Impairment losses on loans and receivables**	10 (b)	2,546	1,571	2,546	1,571
(c)	**Employee benefits expense**					
	Salaries, wages and allowances		53,592	50,745	53,592	50,745
	Net defined benefit fund expense		501	630	501	630
	Contribution to accumulation fund		5,166	4,773	5,166	4,773
	Other employee costs		10,098	10,382	10,098	10,382
	Total employee benefits expense		69,357	66,530	69,357	66,530
(d)	**Other expense**					
	Depreciation					
	Plant and equipment		4,754	4,920	4,754	4,920
	Buildings		710	597	710	597
			5,464	5,517	5,464	5,517
	Amortisation		1,914	970	1,914	970
	Communication		5,007	4,269	5,007	4,269
	Fees and commissions		1,327	1,351	1,327	1,351
	Premium paid on buyback of term debt		-	2,946	-	2,946
			8,248	9,536	8,248	9,536
	Total other expense		13,712	15,053	13,712	15,053

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
5. INCOME TAX				
(a) Income tax expense				
The major components of income tax expense are:				
Income statement				
Current income tax				
Current income tax charge	15,063	14,584	15,063	14,584
Under / (over) provision of previous year	6	11	6	11
Deferred income tax				
Deferred income tax relating to temporary differences	(665)	(311)	(665)	(311)
Income tax expense	14,404	14,284	14,404	14,284
(b) Other comprehensive income				
Cash flow hedges	1,677	(390)	1,677	(390)
Asset revaluation reserve	-	(1,048)	-	(1,048)
Income tax gain / (expense) on items of other comprehensive income	1,677	(1,438)	1,677	(1,438)
(c) Reconciliation of income tax expense to prima facie tax payable				
Profit from ordinary activities before tax	48,009	50,041	48,009	50,041
Tax at the tax rate of 30%	14,403	15,012	14,403	15,012
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Dividend credits from share of associate	-	(806)	-	(806)
Other items (net)	(5)	75	(5)	75
Under / (over) provision of the previous year - non deductible expense	6	3	6	3
Income tax expense	14,404	14,284	14,404	14,284

5. INCOME TAX (continued)

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
(d) Analysis of deferred tax assets				
Employee benefits	4,232	3,276	4,232	3,276
Provision for impairment	1,835	1,609	1,835	1,609
Other	1,200	2,270	1,200	2,270
Total	7,267	7,155	7,267	7,155
Amounts recognised directly in equity:				
Cash flow hedges	2,431	754	2,431	754
Total deferred tax assets	9,698	7,909	9,698	7,909
(e) Analysis of deferred tax liabilities				
Fixed assets	299	(345)	299	(345)
Other	164	269	164	269
Total	463	(76)	463	(76)
Amounts recognised directly in equity:				
Asset revaluation reserve	-	1,048	-	1,048
Total deferred tax liabilities	463	972	463	972

Notes to the Financial Statements (continued)

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.

As at 30 June 2015	CONSOLIDATED Less than 12 months $'000	Over 12 months $'000	Total $'000
Assets			
Cash and cash equivalents	196,911	-	196,911
Receivables due from other financial institutions	243,993	-	243,993
Other receivables	32,116	-	32,116
Loans and receivables	482,381	6,318,654	6,801,035
Held to maturity financial assets	897,923	342,704	1,240,627
Available for sale financial investments	-	528	528
Derivatives	1,120	-	1,120
Deferred tax assets	-	9,698	9,698
Property, plant and equipment	-	23,671	23,671
Other assets	1,468	415	1,883
Intangibles	-	5,207	5,207
Retirement benefit asset	-	484	484
Total Assets	1,855,912	6,701,361	8,557,273
Liabilities			
Deposits and borrowings	6,485,312	1,244,268	7,729,580
Accounts payable and other liabilities	347,144	-	347,144
Derivatives	500	7,839	8,339
Current tax liabilities	2,375	-	2,375
Provisions	7,576	8,309	15,885
Deferred tax liabilities	-	463	463
Subordinated debt	-	49,636	49,636
Total Liabilities	6,842,907	1,310,515	8,153,422
Net Assets	(4,986,995)	5,390,846	403,851

6. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 30 June 2014	CONSOLIDATED 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
Deferred tax assets	-	7,909	7,909
Property, plant and equipment	-	24,466	24,466
Other assets	1,737	192	1,929
Intangibles	-	2,234	2,234
Total Assets	1,935,766	6,583,121	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	915	2,070	2,985
Current tax liabilities	4,265	-	4,265
Provisions	7,402	7,854	15,256
Deferred tax liabilities	-	972	972
Retirement benefit liability	-	199	199
Subordinated debt	51,716	-	51,716
Total Liabilities	6,418,012	1,727,303	8,145,315
Net Assets	(4,482,246)	4,855,818	373,572

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

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000

7. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	196,911	188,302	196,911	188,302

These are interest and non-interest bearing.

8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

Interest earning deposits	217,038	343,727	217,038	343,727
Deposits with other authorised deposit-taking institutions	26,955	27,154	26,955	27,154
	243,993	370,881	243,993	370,881

9. OTHER RECEIVABLES

Interest receivable	8,181	9,090	8,181	9,090
Securitisation deposits	21,263	22,810	21,263	22,810
Other	2,672	2,714	2,672	2,714
	32,116	34,614	32,116	34,614

10. LOANS AND RECEIVABLES

Credit cards	79,690	74,429	79,690	74,429
Term loans	5,231,557	4,794,024	5,231,557	4,794,024
Securitised loans	1,487,211	1,701,935	1,487,211	1,701,935
Other	422	473	422	473
Related parties - key management personnel	1,995	1,989	1,995	1,989
	6,800,875	6,572,850	6,800,875	6,572,850
Provision for impairment (b)	(6,118)	(5,364)	(6,118)	(5,364)
Add: Securitisation establishment costs	1,153	1,992	1,153	1,992
Add: Commission and agent direct costs	5,125	4,169	5,125	4,169
Net loans and advances	6,801,035	6,573,647	6,801,035	6,573,647

(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.

10. LOANS AND RECEIVABLES (continued)

(b) Provision for impairment

	Credit Cards $'000	Term Loans $'000	Other $'000	Total $'000
Consolidated				
2015				
Specific provision				
Opening balance	670	1,350	162	2,182
Impairment losses provided for / (reversed) during the year	383	526	(15)	894
Closing balance	1,053	1,876	147	3,076
Collective provision				
Opening balance	1,172	1,645	365	3,182
Impairment losses provided for / (reversed) during the year	(392)	254	(2)	(140)
Closing balance	780	1,899	363	3,042
Total provision for impairment	1,833	3,775	510	6,118
Charges to operating profit before tax for impairment losses on loans and receivables comprises:				
Specific provision	383	526	(15)	894
Collective provision	(392)	254	(2)	(140)
Impairment losses recognised directly	614	748	430	1,792
	605	1,528	413	2,546

Notes to the Financial Statements (continued)

10. LOANS AND RECEIVABLES (continued)

(b) Provision for impairment (continued)

	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

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

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000

11. IMPAIRMENT OF LOANS AND RECEIVABLES

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

	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Total impaired assets				
Gross loans no longer accruing interest	4,483	5,726	4,483	5,726
Less individually assessed provisions for impairment	(1,544)	(1,546)	(1,544)	(1,546)
Total net impaired assets	2,939	4,180	2,939	4,180
Restructured loans				
Balance	1,490	697	1,490	697
Interest revenue foregone on past due / impaired and restructured loans	370	381	370	381

12. HELD TO MATURITY FINANCIAL ASSETS

	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Bank debt securities	1,020,192	998,887	1,020,192	998,887
Government securities	203,689	289,627	203,689	289,627
Asset backed debt securities	16,746	25,297	16,746	25,297
	1,240,627	1,313,811	1,240,627	1,313,811

13. 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.

Notes to the Financial Statements (continued)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Risk Management Committee has oversight for formulating Heritage's risk management policies and reviewing the adequacy of the risk management framework. The Risk Management Committee receives regular reports from management 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 has oversight of 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.

13. 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 during the year, 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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
100 basis points	6,958	7,069	15,046	14,273
(100) basis points	(6,713)	(6,425)	(14,801)	(13,629)

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 Financial Controller and the Chief Strategy and Investment 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.

Notes to the Financial Statements (continued)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Management of Liquidity Risk (continued)

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.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise 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 2015. The amount will differ accordingly from the Statement of Financial Position.

Consolidated	Up to 1 year	1 to 5 years	Over 5 years	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**
Deposits and borrowings	6,433,256	667,739	566,542	7,667,537
Accounts payable and other liabilities	347,144	-	-	347,144
Subordinated debt	2,890	61,321	-	64,211
Derivatives	20,092	14,794	-	34,886
Credit related commitments	473,602	-	-	473,602
Financial guarantees	5,168	-	-	5,168
	7,282,152	743,854	566,542	8,592,548
2014				
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

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

13. 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 Strategy and Investment 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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Cash and cash equivalents	196,911	188,302	196,911	188,302
Receivables due from other financial institutions	243,993	370,881	243,993	370,881
Other receivables	32,116	34,614	32,116	34,614
Loans and receivables	6,801,035	6,573,647	6,801,035	6,573,647
Held to maturity financial assets	1,240,627	1,313,811	1,240,627	1,313,811
Available for sale financial investments	528	478	528	478
Derivatives	1,120	616	1,120	616
	8,516,330	8,482,349	8,516,330	8,482,349
Financial guarantees	5,168	4,837	5,168	4,837
Credit related commitments	473,602	459,862	473,602	459,862
	478,770	464,699	478,770	464,699
	8,995,100	8,947,048	8,995,100	8,947,048

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.

Notes to the Financial Statements (continued)

13. 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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
AAA to AA-	797,341	1,003,298	797,341	1,003,298
A+ to A-	532,061	485,650	532,061	485,650
BBB+ to BBB-	253,500	285,729	253,500	285,729
Unrated	72,004	74,938	72,004	74,938
	1,654,906	1,849,615	1,654,906	1,849,615

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 (including an interest rate buffer), 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's approved valuation amount or the purchase price. The average of the Group's LVRs (by value) are as follows:

	CONSOLIDATED		PARENT	
LVR	2015 %	2014 %	2015 %	2014 %
0-60%	34	35	34	35
61-80%	47	46	47	46
81-90%	14	15	14	15
91-100%	5	4	5	4
> 100%	-	-	-	-
	100	100	100	100

Security

For mortgage lending the registered mortgage is held as security. Where the loan to valuation ratio at time of application 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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Past due but not impaired loans (continued)

	Less than 30 days ($'000)	31 to 90 days ($'000)	More than 90 days ($'000)	Total ($'000)
Past due items by individual facility as at 30 June are:				
2015				
Residential owner occupied	1,011	328	1,730	3,069
Residential investor	460	148	786	1,394
Credit card	89	35	-	124
Other personal	232	37	-	269
Private unincorporated businesses	1	5	-	6
	1,793	553	2,516	4,862
2014				
Residential owner occupied	1,819	73	793	2,685
Residential investor	827	31	340	1,198
Credit card	77	32	-	109
Other personal	258	46	-	304
Private unincorporated businesses	5	-	-	5
	2,986	182	1,133	4,301

The total security relating to the above past due items greater than 90 days is $12,753,000 (2014 - $12,506,000).

Notes to the Financial Statements (continued)

13. 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	2015	2014	2015	2014
Queensland residents	64%	64%	4,367,920	4,210,680
Other	36%	36%	2,426,837	2,356,806
	100%	100%	** 6,794,757	** 6,567,486

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 $1.153 million (2014 - $1.992 million) and the broker commission of $5.125 million (2014 - $4.169 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.

13. 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			
2015	$'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Foreign currency swaps - held at fair value	1,120	-	1,120	-	1,120
Other assets measured at fair value					
Land and buildings	12,490	-	12,490	-	12,490
	13,610	-	13,610	-	13,610
Financial assets not measured at fair value					
Held to maturity financial assets	1,240,627	-	1,248,980	-	1,248,980
Loans and receivables	6,800,875	-	-	6,822,244	6,822,244
	8,041,502	-	1,248,980	6,822,244	8,071,224
Financial liabilities measured at fair value					
Interest rate swaps - cash flow hedge	8,102	-	8,102	-	8,102
Foreign currency swaps - held at fair value	237	-	237	-	237
	8,339	-	8,339	-	8,339
Financial liabilities not measured at fair value					
Term debt	651,258	-	681,108	-	681,108
Interest bearing notes	1,075,620	-	1,103,538	-	1,103,538
Unlisted subordinated debt	49,581	-	52,112	-	52,112
	1,776,459	-	1,836,758	-	1,836,758

Notes to the Financial Statements (continued)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

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
Listed 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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Fair Values (continued)

Transfers between level 1, level 2 and level 3

There were no transfers between any levels 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 2015. 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. A counterparty default risk has also been assessed in determining the fair value.

Term debt, unlisted subordinated 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 work by the Risk Department and 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 Risk Management Committee and Audit & Compliance Committee.

Notes to the Financial Statements (continued)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(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 Financial Controller and the Chief Strategy and Investment 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.

Regulatory Capital

	2015 $'000	2014 $'000
Tier 1 capital	385,871	353,270
Tier 2 capital	52,842	42,832
Total capital	438,713	396,102
Risk Weighted Assets	3,280,470	2,970,557
Capital Ratio	13.37%	13.33%

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.

14. PROPERTY, PLANT AND EQUIPMENT

		CONSOLIDATED			
		Freehold land	Heritage Plaza building units	Plant and equipment	Total
		$'000	$'000	$'000	$'000
Year ended 30 June 2015					
At 1 July 2014, net of accumulated depreciation and impairment		2,000	10,800	11,666	24,466
Additions		-	400	4,294	4,694
Disposals		-	-	(25)	(25)
Depreciation charge for the year		-	(710)	(4,754)	(5,464)
As at 30 June 2015, net of accumulated depreciation and impairment		2,000	10,490	11,181	23,671
At 30 June 2015					
Cost		2,000	11,200	53,356	66,556
Accumulated depreciation and impairment	(b)	-	(710)	(42,175)	(42,885)
Net carrying amount		2,000	10,490	11,181	23,671
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

Notes to the Financial Statements (continued)

14. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Revaluation of land and buildings

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

	2015 $'000	2014 $'000
Cost	12,402	12,002
Accumulated depreciation	(3,239)	(2,693)
Net carrying amount	9,163	9,309

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.

(b) Impairment of plant and equipment

An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. Plant and equipment 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 2015 or 2014 financial statements.

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

15. OTHER ASSETS

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Prepayments	1,468	1,737	1,468	1,737
Make good asset	1,998	1,575	1,998	1,575
Less: Amortisation	(1,583)	(1,383)	(1,583)	(1,383)
	415	192	415	192
	1,883	1,929	1,883	1,929

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000

16. INTANGIBLES

Computer Software				
Opening balance, net of accumulated amortisation and impairment	2,234	1,573	2,234	1,573
Additions	4,687	1,598	4,687	1,598
Disposals	-	-	-	-
Amortisation charge for the year	(1,714)	(937)	(1,714)	(937)
Closing balance, net of accumulated amortisation and impairment	5,207	2,234	5,207	2,234

17. DEPOSITS AND BORROWINGS

Customer deposits	5,877,316	5,787,391	5,877,316	5,787,391
Term debt	651,258	518,375	651,258	518,375
Accrued interest on deposits / notes	32,713	38,059	32,713	38,059
Interest bearing notes	1,075,620	1,414,064	1,075,620	1,414,064
Related parties - key management personnel	2,972	2,609	2,972	2,609
Bank borrowings	89,701	-	89,701	-
	7,729,580	7,760,498	7,729,580	7,760,498

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

18. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Trade creditors	41,934	44,081	41,934	44,081
Prepaid card settlement liability	305,210	265,343	305,210	265,343
	347,144	309,424	347,144	309,424

19. PROVISIONS

Employee benefits	12,963	12,729	12,963	12,729
Directors' retiring allowance	996	952	996	952
Make good provision	1,926	1,575	1,926	1,575
	15,885	15,256	15,885	15,256

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
20. SUBORDINATED DEBT				
Unlisted subordinated debt	49,581	-	49,581	-
Subordinated debt listed with Australian Securities Exchange at fair value through the Income Statement	-	50,649	-	50,649
Related parties - key management personnel	-	177	-	177
Accrued interest	55	890	55	890
	49,636	51,716	49,636	51,716

21. CASH FLOW STATEMENT RECONCILIATION

(a) Reconciliation of the operating profit after tax to the net cash flows from operations				
Operating profit after tax	33,605	35,757	33,605	35,757
Non cash items				
Share of associates' net profits	-	(201)	-	(201)
Impairment losses on loans	2,546	1,571	2,546	1,571
Defined benefit fund	388	29	388	29
Depreciation	5,464	5,517	5,464	5,517
Amortisation - loans and receivables	839	554	839	554
Amortisation - computer software and make good asset	1,914	970	1,914	970
Amortisation - establishment cost of borrowings	1,192	1,647	1,192	1,647
Provision for employee benefits	234	(147)	234	(147)
Changes in assets				
Loss from sale of property, plant and equipment	49	42	49	42
Premium paid on buyback of term debt	-	2,946	-	2,946
Accrued interest on investments	909	(401)	909	(401)
Intangibles	(4,687)	(1,598)	(4,687)	(1,598)
Sundry debtors	(858)	1,485	(858)	1,485
Prepayments	(688)	(138)	(688)	(138)
Expenditure carried forward	(72)	(1,603)	(72)	(1,603)
Swap asset	(504)	2,046	(504)	2,046
Deferred tax asset	(1,789)	919	(1,789)	919
Investment in Associate	-	2,851	-	2,851

21. CASH FLOW STATEMENT RECONCILIATION (continued)

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

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
Changes in liabilities				
Accrued investors interest	**(6,182)**	(5,548)	**(6,182)**	(5,548)
Current tax liability	**(1,892)**	(1,827)	**(1,892)**	(1,827)
Revaluation of term subordinated debt	**(985)**	(1,800)	**(985)**	(1,800)
Establishment costs - term subordinated debt and term debt	**(245)**	-	**(245)**	
Sundry creditors	**(2,164)**	(4,679)	**(2,164)**	(4,679)
Swap liability	**(235)**	2,670	**(235)**	2,670
Directors' retiring allowance	**44**	202	**44**	202
Deferred tax liability	**1,168**	(1,231)	**1,168**	(1,231)
Net cash flow from operating activities	**28,051**	40,033	**28,051**	40,033

(b) Reconciliation of cash

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
Cash balance comprises:				
- Cash and cash equivalents (refer Note 7)	**196,911**	188,302	**196,911**	188,302

(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.

Notes to the Financial Statements (continued)

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000

22. EXPENDITURE COMMITMENTS

(a) Lease expenditure commitments

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
Estimated lease expenditure contracted for at balance date but not provided for:				
Operating leases (non-cancellable)				
Not later than 1 year	9,552	9,811	9,552	9,811
Later than 1 and not later than 5 years	29,722	26,049	29,722	26,049
Later than 5 years	3,425	3,194	3,425	3,194
Aggregate lease expenditure contracted for at balance date	42,699	39,054	42,699	39,054

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

23. 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.

	CONSOLIDATED 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
Approved but undrawn loans and credit limits	473,602	459,862	473,602	459,862

24. RELATED PARTY DISCLOSURES

(a) Remuneration of key management personnel

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

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
BENEFITS				
Short-term	4,685	4,664	4,685	4,664
Long-term	80	57	80	57
Post employment	809	749	809	749
Total remuneration	5,574	5,470	5,574	5,470
Total performance related (%)	8%	8%	8%	8%

(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 2015 $'000	CONSOLIDATED 2014 $'000	PARENT 2015 $'000	PARENT 2014 $'000
Financial Assets				
Loan accounts	1,951	1,952	1,951	1,952
Financial Liabilities				
Savings accounts	2,617	1,988	2,617	1,988

(c) Consolidated Structured Entities (CSEs)

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

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 2006-1 was exercised on 23 February 2015. On this date pursuant to Clause 10.1 of the Series Notice the Trust extinguished all of its right, title and interest in the remaining loans in favour of Heritage.

Notes to the Financial Statements (continued)

24. 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 $5,332,000 (2014 - $5,905,000) 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 $539,000 (2014 - $717,000) in interest relating to the securitisation deposits during the year. The average balance of the securitisation deposits held was $22,232,000 (2014 - $27,629,000).

Custodian and management fee

Heritage provided custodian and management services to all CSEs for the full financial year. During the year fee income of $328,000 (2014 - $377,000) 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	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000
HBS Trust No. 2	**500,000**	500,000	**229,911**	222,523
HBS Trust No. 4	**300,000**	300,000	**23,281**	29,530

25. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Amounts received or due and receivable by the auditors for:				
An audit and review of the financial report of the Group	455	452	455	452
Taxation services	55	66	55	66
Other	41	55	41	55
Securitisation services	38	41	38	41
	589	614	589	614

26. SEGMENT INFORMATION

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

27. 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 2015 and of its 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	**KERRY J. BETROS**	**DENNIS P. CAMPBELL**
27 August 2015	Chairman	Deputy Chairman

Auditor’s Independence Declaration

EY
Building a better working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Mark Hayward
Partner
27 August 2015

Independent Auditor's Report

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com

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 2015, 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.

Independent Auditor's Report (continued)

EY
Building a better working world

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 2015 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 5 to 10 of the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
Brisbane
27 August 2015

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 with the Heritage Bank Retail Bonds (HBSHB) being quoted on the Australian Securities Exchange. Heritage 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 seven 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 Australian Prudential Regulation Authority (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; and
- 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, the Risk Management Strategy, 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.

Ms Susan Campbell was the Chairman of the Risk Management Committee until 24 July 2014. She became Chairman of the Risk Management Committee on 13 September 2012. Mr David Thorpe became Chairman of the Risk Management Committee from 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 has an appointed Chief Risk Officer and is compliant with APRA Prudential Standards CPS 220 (Risk Management) and APS 310 Audit & Related Matters.

Internal Audit

An effective Internal Audit function provides an independent assurance function. Heritage's internal audit plan is 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.