



ASX ANNOUNCEMENT

Issuer Code: HBS

Date: 17 February 2016

Half Yearly Report - 31 December 2015

Please see the **attached** documents:

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

ENDS

For more information please contact:

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Company Secretary
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Assistant Company Secretary
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The image shows the exterior of a Heritage Bank branch. The building features a modern design with a facade of horizontal wooden slats and red accents. A large, illuminated 'Heritage' sign is mounted on the upper part of the building. Below the sign, there are two red ATMs. The entrance area is visible, showing a glass door and a sign that says 'People first.' inside. The overall atmosphere is professional and modern.

Heritage

Condensed Half-Year Financial Report

31 December 2015

People first.



Heritage
Bank



Heritage Bank Limited

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

Condensed Half-Year Financial Report

31 December 2015

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Auditors
Ernst & Young

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Directors' Report

Your directors submit their report of the consolidated entity (the "Group"), being Heritage Bank Limited ("Heritage") and its controlled entities, for the half-year ended 31 December 2015.

DIRECTORS

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

Mr Kerry J. Betros (Chairman)

Dr Dennis P. Campbell (Deputy Chairman)

Mrs Vivienne A. Quinn

Ms Susan M. Campbell

Mr Brendan P. Baulch

Mr Stephen Davis

Mr David W. Thorpe

REVIEW AND RESULT OF OPERATIONS

The operating profit of the Group for the half-year after income tax was \$17.814 million (2014 - \$16.230 million).

The Group reported total consolidated assets in the period to 31 December 2015 of \$8.332 billion (June 2015 - \$8.557 billion).

EVENTS SUBSEQUENT TO REPORTING DATE

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

ROUNDING

The amounts contained in this report and the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

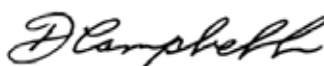
AUDITOR'S INDEPENDENCE DECLARATION

In relation to the Auditor's Independence, the Directors have sought and received a report that there has been no breaches of the Auditor Independence requirement of the *Corporations Act 2001*. The report is shown on page 16.

Signed in accordance with a resolution of the directors:



KERRY J. BETROS
Chairman



DENNIS P. CAMPBELL
Deputy Chairman

TOOWOOMBA
16 February 2016

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	CONSOLIDATED	
		December 2015 \$'000	December 2014 \$'000
Interest revenue	4 (a)	179,545	195,868
Interest expense	4 (c)	(106,620)	(126,404)
Net interest income		72,925	69,464
Other income	4 (b)	17,430	17,597
Total income		90,355	87,061
Impairment losses on loans and receivables		(774)	(1,172)
Marketing expense		(3,308)	(3,552)
Occupancy expense		(6,070)	(5,941)
Employee benefits expense	4 (d)	(35,720)	(34,791)
Administrative expense		(12,420)	(11,701)
Other expense	4 (e)	(6,737)	(6,730)
Profit before tax		25,326	23,174
Income tax expense		(7,512)	(6,944)
Profit after tax		17,814	16,230

Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	CONSOLIDATED	
		December 2015 \$'000	December 2014 \$'000
Profit after tax		17,814	16,230
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Gain/(loss) on cash flow hedge taken to members' funds		2,581	(4,708)
Income tax (expense)/gain on above items of other comprehensive income	4 (f)	(774)	1,412
Items that will not be reclassified subsequently to profit or loss			
Actuarial loss on defined benefit plan		(415)	(137)
Income tax (expense)/gain on above items of other comprehensive income		-	-
Other comprehensive income/(loss) for the period, net of tax		1,392	(3,433)
Total comprehensive income for the period		19,206	12,797

Statement of Financial Position

AS AT 31 DECEMBER 2015

	Note	CONSOLIDATED	
		December 2015 \$'000	June 2015 \$'000
Assets			
Cash and cash equivalents	5	190,771	196,911
Receivables due from other financial institutions		198,480	243,993
Other receivables		34,471	32,116
Loans and receivables		6,821,848	6,801,035
Held to maturity financial assets		1,045,264	1,240,627
Available for sale financial investments		479	528
Derivatives		140	1,120
Deferred tax assets		8,509	9,698
Property, plant and equipment		23,571	23,671
Other assets		2,829	1,883
Intangibles		5,346	5,207
Retirement benefit asset		67	484
		8,331,775	8,557,273
Liabilities			
Deposits and borrowings		7,555,590	7,729,580
Accounts payable and other liabilities		279,395	347,144
Derivatives		7,902	8,339
Current tax liabilities		1,368	2,375
Provisions		14,537	15,885
Deferred tax liabilities		287	463
Subordinated debt		49,639	49,636
Total Liabilities		7,908,718	8,153,422
Net Assets		423,057	403,851
Members' Funds			
Retained profits		424,478	407,079
Reserves		(1,421)	(3,228)
Total Members' Funds		423,057	403,851

Information contained in this report should be read in conjunction with the June 2015 Financial Report

Heritage Bank Limited • Condensed Half-Year Financial Report 31 December 2015

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Retained profits \$'000	Asset revaluation reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
Balance 1 July 2015	407,079	2,445	(5,673)	403,851
Profit for the period	17,814	-	-	17,814
Other comprehensive income	(415)	-	1,807	1,392
Total as at 31 December 2015	424,478	2,445	(3,866)	423,057
Balance 1 July 2014	372,887	2,445	(1,760)	373,572
Profit for the period	16,230	-	-	16,230
Other comprehensive income	(137)	-	(3,296)	(3,433)
Total as at 31 December 2014	388,980	2,445	(5,056)	386,369

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	CONSOLIDATED	
		December 2015 \$'000	December 2014 \$'000
Cash flows from operating activities			
Interest received		186,359	202,114
Borrowing costs and interest paid		(113,270)	(136,164)
Other non-interest income received		19,153	18,876
Payments to suppliers and employees		(68,968)	(70,928)
Income tax paid		(8,048)	(7,324)
Net cash flows from operating activities		15,226	6,574
Cash flows from investing activities			
Decrease in held to maturity financial assets and receivables due from other financial institutions		202,852	149,757
Decrease in loans and receivables and other receivables		10,576	98,842
Proceeds from sale of property, plant and equipment		158	262
Acquisition of property, plant and equipment		(2,629)	(1,681)
Net cash flows used in investing activities		210,957	247,180
Cash flows from financing activities			
Decrease in deposits and other borrowings		(232,323)	(166,030)
Payment for redemption of subordinated debt		-	(50,000)
Net cash flows from financing activities		(232,323)	(216,030)
Net (decrease) / increase in cash and cash equivalents		(6,140)	37,724
Cash and cash equivalents at beginning of the period		196,911	188,302
Cash and cash equivalents at end of the period	5	190,771	226,026

Notes to the half-year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

1. CORPORATE INFORMATION

The condensed consolidated financial statements of Heritage Bank Limited and the Consolidated Structured Entities (CSEs) for the six months ended 31 December 2015 was authorised for issue in accordance with a resolution of the Directors on 16 February 2016.

The parent entity, Heritage Bank Limited ("Heritage") is a mutual bank that is incorporated and domiciled in Australia. The nature of operations and principal activities of the Group are described in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements does not include notes of the

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

(a) Basis of preparation

The condensed consolidated financial statements for the six months ended 31 December 2015 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2015.

(b) Significant accounting policies

The accounting policies adopted are consistent with those used in the annual financial statements for the year ended 30 June 2015.

(c) Basis of consolidation

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

3. SEGMENT INFORMATION

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

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

4. INCOME AND EXPENSES

(a) Interest revenue

Deposits and investment securities
Loans and receivables
Interest rate swaps
Add: Loan application direct revenue
Less: Commission and agent direct costs
Less: Securitisation establishment costs
Total interest revenue

(b) Other income

Fees and commissions
Impairment losses on loans recovered
Other revenue
Total other income

(c) Interest expense

Deposits
Subordinated debt including fair value adjustment
Interest bearing notes
Interest rate swaps
Loss on fair value hedges
Loss on derivatives held at fair value
Total interest expense

(d) Employee benefits expense

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

CONSOLIDATED

December 2015 \$'000	December 2014 \$'000
19,548	26,995
165,404	173,734
-	518
694	689
(5,844)	(5,647)
(257)	(421)
179,545	195,868
16,577	16,663
182	220
671	714
17,430	17,597
83,700	97,579
1,469	791
16,726	24,937
4,553	2,578
-	512
172	7
106,620	126,404
27,330	26,790
254	251
2,652	2,556
5,484	5,194
35,720	34,791

Information contained in this report should be read in conjunction with the June 2015 Financial Report

Heritage Bank Limited • Condensed Half-Year Financial Report 31 December 2015

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED

4. INCOME AND EXPENSES (CONTINUED)

(e) Other expense

	December 2015 \$'000	December 2014 \$'000
Depreciation	2,692	2,768
Amortisation	972	776
Communication	2,457	2,569
Fees and commissions	616	617
Total other expense	6,737	6,730

(f) Income tax amounts charged directly to equity

Deferred income tax related to items charged directly to equity

Cash flow hedges	(774)	1,412
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Income tax gain/(expense) on items of other comprehensive income	(774)	1,412
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5. CASH AND CASH EQUIVALENTS

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

Cash at bank and on hand	65,739	44,030
Deposits at call	125,032	181,996
	190,771	226,026

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

The following assets and liabilities have not been included in the table on the following page 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

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Values (continued)

Consolidated December 2015	Carrying amount	Fair value			
	\$'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Foreign currency swaps - held at fair value	140	-	140	-	140
Other assets measured at fair value					
Land and buildings	12,212	-	12,212	-	12,212
	12,352	-	12,352	-	12,352
Financial assets not measured at fair value					
Held to maturity financial assets	1,045,264	-	1,051,736	-	1,051,736
Loans and receivables	6,821,848	-	-	6,844,192	6,844,192
	7,867,112	-	1,051,736	6,844,192	7,895,928
Financial liabilities measured at fair value					
Interest rate swaps - cash flow hedge	5,522	-	5,522	-	5,522
Foreign currency swaps - held at fair value	2,380	-	2,380	-	2,380
	7,902	-	7,902	-	7,902
Financial liabilities not measured at fair value					
Term debt	451,780	-	462,974	-	462,974
Interest bearing notes	1,093,538	-	1,097,316	-	1,097,316
Unlisted subordinated debt	49,639	-	51,157	-	51,157
	1,594,957	-	1,611,447	-	1,611,447

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Values (continued)

Consolidated December 2014	Carrying amount	Fair value			
	\$'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Foreign currency swaps - held at fair value	607	-	607	-	607
Other assets measured at fair value					
Land and buildings	12,632	-	12,632	-	12,632
	13,239	-	13,239	-	13,239
Financial assets not measured at fair value					
Held to maturity financial assets	1,268,800	-	1,280,260	-	1,280,260
Loans and receivables	6,516,691	-	-	6,529,991	6,529,991
	7,785,491	-	1,280,260	6,529,991	7,810,251
Financial liabilities measured at fair value					
Interest rate swaps - cash flow hedge	7,221	-	7,221	-	7,221
Foreign currency swaps - held at fair value	801	-	801	-	801
	8,022	-	8,022	-	8,022
Financial liabilities not measured at fair value					
Term debt	491,039	-	519,426	-	519,426
Interest bearing notes	1,233,419	-	1,236,670	-	1,236,670
	1,724,458	-	1,756,096	-	1,756,096

Transfers between level 1, level 2 and level 3

There were no transfers between any levels during the financial period.

Valuation techniques used to determine fair values

Interest rate and foreign 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.

Notes to the half-year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Values (continued)

Valuation techniques used to determine fair values (continued)

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 31 December 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.

7. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

In the normal course of business the Group enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financial needs of customers. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Group holds collateral supporting these commitments where it is deemed necessary.

Credit related commitments

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

Approved but undrawn loans and credit limits

CONSOLIDATED	
December 2015 \$'000	June 2015 \$'000
488,599	473,602

8. EVENTS SUBSEQUENT TO REPORTING DATE

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

Directors' Declaration

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

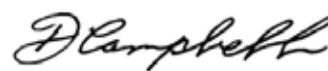
In the opinion of the directors:

- (a) the condensed consolidated financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2015 and the performance for the half-year ended on that date of the Group; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Heritage will be able to pay its debts as and when they become due and payable.

On behalf of the Board



KERRY J. BETROS
Chairman



DENNIS P. CAMPBELL
Deputy Chairman

TOOWOOMBA
16 February 2016



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

As lead auditor for the review of Heritage Bank Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Heritage Bank Limited and the entities it controlled during the financial period.


Ernst & Young



Mark Hayward
Partner
16 February 2016



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To the members of Heritage Bank Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Heritage Bank Limited, which comprises the statement of financial position as at 31 December 2015, the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Heritage Bank Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Mark Hayward
Partner
Brisbane
16 February 2016

17 February 2016

Heritage Bank boosts profits and loan volumes

Heritage Bank has boosted both profits and loan volumes to post solid results for the first half of the 2015/16 financial year, CEO Peter Lock announced today.

Pre-tax profit for the six months to December 2015 was \$25.326 million, up 9.3% on the corresponding period the previous year. Profit after tax was \$17.184 million, an increase of 9.8%.

Loan approvals totalled \$810.50 million for the six-month period, up 2.2% on the corresponding period in 2014. Retail deposits grew by \$111 million in this period, up 60% on the \$69 million in the same period the previous year.

Mr Lock said that as well as strong financial results, Heritage continues to deliver great value for customers with a continuous focus on improvement for customer service.

“Our results reflect Heritage’s focus on providing value for customers, while also expanding the business,” he said.

“Growth in both profits and loan volumes in a hugely competitive sector is very pleasing, and we will be continuing to pursue further growth.

“Heritage has a great story to tell, and we are determined to make that story better known right around Australia.

“Customers have more money in their pockets when they bank with us, instead of the big four, as shown in independent research by CANSTAR.

“They also get to enjoy the personal service and community-minded approach that’s part of our culture.

“We’re also a leader in payments technology. We were one of the first banks in Australia to develop our own mobile payments app, and we partner with companies including Optus, Qantas and Australia Post on products that need our payments expertise.

“You get the best of all banking worlds here at Heritage and that’s a compelling springboard for growth.”

While total consolidated assets were down slightly, decreasing 2.6% from \$8.557 billion to \$8.332 billion in the six months period, the capital position improved. Heritage lifted its Tier 1 capital ratio from 11.76% to 12.40% in this six months. The total capital adequacy ratio also increased from 13.37% to 14.04% reflecting a strong focus on capital and balance sheet management. The liquidity ratio decreased from 19.39% to 16.77% in the same period as a result of a more active approach to liquidity management in line with business volumes.

Heritage Chairman Mr Kerry Betros said the results reflected the need to balance tougher prudential requirements against the need for increased funding to support lending growth.

“We have moderated our previous high levels of liquidity to more normal levels as our lending volumes have grown. While our total assets reduced slightly in this period, our total loan book grew by \$21 million to \$6.822 billion.”

“We have strategies in place to manage the balance successfully, so we can build and grow a strong and prudently managed business,” Mr Betros said.

Mr Betros said the quality of Heritage’s loan book continued to be a strength.

Mortgage Loan arrears greater than 30 days sat at just 0.37% of the total mortgage portfolio balance at 31 December 2015, around a third of the industry average.

“We are in great shape and I’m very optimistic about the future and the strategies we are currently working on,” Mr Betros said.

ENDS

For more information please contact:

Andrew Fox, Corporate Communications Manager, 0419 714 204

For further Heritage information go to www.heritage.com.au