

The image shows the exterior of a Heritage Bank branch. The building features a prominent sign with the Heritage Bank logo (a stylized 'H' in a gold frame) and the word 'Heritage' in large, white, sans-serif letters. The facade is composed of horizontal wooden slats with red accents. Two ATMs are visible, one on the left and one on the right, both with red panels. The entrance is open, revealing an interior with a desk, a chair, and a glass wall with the slogan 'People first.' written on it. The overall atmosphere is modern and professional.

Heritage

Half-Yearly Report

for the period ended 31 December 2015

People first.



Heritage
Bank

Half-Yearly Report

For the period ended 31 December 2015

The Board and Management of Heritage Bank Limited are pleased to announce our results for the six months ended 31 December 2015. The financial statements for this period have been reviewed by our external auditors.

Key performance measures are set out in Table 1:

- Our profit performance was solid. The \$25.326 million pre-tax profit was up 9.3% on the \$23.174 million in the same period the previous year. Profit after tax was \$17.814 million, up 9.8% on the corresponding period in the previous year.
- Loan approvals totalled \$811 million in this period. This was an increase of 2.2% on the \$793 million achieved in the same period in 2014, which was in itself a significant increase on the corresponding period in the previous year. Heritage is targeting growth in loan volumes and this result has maintained our momentum.
- Retail deposits grew by \$111 million in this period, up 60% on the \$69 million achieved in the corresponding period.

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

- The results reflect our focus on providing value for customers, while also expanding the business.

- The importance of carefully managing our Prudential Capital requirements is demonstrated through an improvement in our Tier 1 capital ratio increasing from 11.76% as at 30 June 2015 to 12.40% as at 31 December 2015. The total capital adequacy ratio also increased from 13.37% to 14.04%.
- Our liquidity ratio decreased from 19.39% to 16.77% in the same period as we moderated our previous high levels of liquidity to more normal levels in line with business volumes.
- Total consolidated assets decreased 2.6% from \$8.557 billion to \$8.332 billion in the six months to 31 December 2015; however we have continued momentum in our core loan book growing by \$21 million to \$6.822 billion.
- Heritage's level of mortgage loan arrears over 30 days was just 0.37% at 31 December 2015, well below the industry average.

GROWTH FOCUS AHEAD

Our solid financial results provide a good springboard for our growth agenda. As Australia's largest customer-owned bank, we have a great story to tell and our focus

going forward will be to make sure more and more people know the advantages of banking with Heritage.

While we will continue to build through our existing branch footprint in southern Queensland, we will also be increasing our presence through the broker channel nationally.

Our growth will also be built on ensuring that we continue to modernise our processes and make us as easy to do business with as we can.

BENEFITS TO CUSTOMERS

We pride ourselves on making customer satisfaction our top priority. As a customer-owned bank, our aim is to provide our customers with the best value we can, through our products, prices and service. We continue to offer some of the most competitive prices in the marketplace on home loans, as well as introducing more innovative ways for customers to go about their day to day banking using their mobile devices.

We continue to focus on adding value to our customers and ensuring our pricing and product decisions reflect the principles of a customer-owned bank. An independent analysis by CANSTAR found that our

TABLE 1

	Six months to 31 December 2015	Six months to 31 December 2014	Increase (Decrease)
	\$ million	\$ million	%
Profit before tax	25.33	23.17	9.3
Profit after tax	17.81	16.23	9.8
Loan approvals	810.50	792.97	2.2
Retail deposit growth	110.89	69.28	60.0

customers were \$47.41 million a year better off through banking with Heritage rather than the big four banks at December 2015. This comprised a \$30.99 million benefit through better rates and fees on our deposit products, and a \$16.42 million benefit because of better interest rates and fees on our lending products.

CUSTOMER SATISFACTION

Heritage continues to enjoy strong endorsement from its customers. According to Roy Morgan Research, we had a customer satisfaction rating of 86.2% as at December 2015, with an average monthly score of 89.1% across this period. Our customer advocacy score – the likelihood of a customer recommending their financial institution – of 39.8 at December 2015 continues to indicate high levels of engagement with our customers. In comparison, the average of the big four banks was just 2.7 for the same period.

MOBILE BANKING APP UPGRADES

Heritage is committed to providing a world-class mobile banking experience and now has in place a program of regular updates to our mobile banking app. With 61 branches throughout Queensland we have introduced

our new 'call nearest branch' feature on the mobile banking app. Customers using the branch locator on the app can now get a pop-up screen with details about their nearest branch, the distance to get there and a 'touch to call' phone number.

Heritage recognises that our customers are changing the way they do their banking and we will continue to invest in our digital solutions in order to deliver a better customer experience.

NEW-LOOK FLAGSHIP BRANCHES

We want to make banking easy and as part of our evolution, we are revamping the look and feel of our branches with a radical new approach to technology, design and layout.

After completing our first two pilot branch transformations, we are now commencing our branch rollout programs throughout the network.

We know digital technologies are transforming the role of bank branches and our customers are increasingly carrying out transactions on line. Branches are becoming places where customers go for advice and to talk face-to-face about more complex needs. Our new branch templates reflect that shift.

Our new branches are an open plan layout

featuring multiple meeting spaces, digital signage and displays, and new "self-serve" area with the latest in smart ATM and coin counter technology, designed to make our customer's day to day banking faster and more convenient.

NEW CEO

This period marked the appointment of Mr Peter Lock as Heritage's new CEO in November 2015. Mr Lock has more than 30 years' experience in the financial services sector. He was previously the Chief Operating Officer and Head of Corporate Banking for the Bank of Melbourne, and Managing Director of St George Bank in Victoria. He has also held general management positions in both St George Bank and the Commonwealth Bank, after starting his career with the National Australia Bank.

Mr Lock brings a wealth of external experience and knowledge to Heritage, together with essential market insights to guide the Bank through an increasingly challenging banking environment.

COMMUNITY BRANCHES

Heritage is proud of its Community Branch model and the significant contribution these joint-venture facilities make to their communities.

TABLE 2

	31 December 2015	30 June 2015
Total consolidated assets	\$8.332 billion	\$8.557 billion
Retained profits	\$424.478 million	\$407.079 million
Capital adequacy ratio	14.04%	13.37%
Liquidity ratio	16.77%	19.39%
Mortgage loan arrears	0.37%	0.39%

We operate seven Community Branches – at Forest Lake, Karalee, Nanango, Millmerran, Palmwoods, Highfields and Crows Nest on a partnership model with community representation. Under the model, half the profits are given to the community company to provide grants for worthwhile local organisations and causes.

During this period, the Nanango Community Branch held its annual grants presentation, giving out more than \$400,000 in grants to local organisations, while two of our branches Forest Lake and Karalee celebrated their 10th birthdays.

EXTERNAL RECOGNITION

Heritage continues to receive external awards and recognition across its broad product range for both value and functionality. In addition, our Bank has been recognised as a leader with people, winning the Human Resource Management and Employer of Choice at the Australian Business Awards in

its category for the fifth year in a row.

In 2015, Heritage achieved the following accolades.

- Best Value Variable Home Loan and Best Value First Home Loan at the 2015 MOZO Experts Choice Awards
- Money Magazine's Best of the Best for:
 - » Cheapest Home Loan Package – Bank
 - » Cheapest Line Of Credit Loan – Bank
 - » Best Term Deposit Short Term – Bank
 - » Cheapest Balance Transfer Credit Card – Bank

CORPORATE RATINGS

We continue to hold strong ratings from independent agencies. Both the Moody's rating of A3/P2 and the Fitch rating of BBB+/F2 were reaffirmed in 2015 reflecting the quality of business and our focus on long-term sustainability through prudent financial, risk management and operational outcomes.

EMERGING BUSINESS STREAMS

Heritage is a leader in payments technology and continues our partnerships with some of the country's leading brands such as MasterCard Cash Passport, Qantas, Optus and Australia Post. We provide the payment platforms that enable these companies to offer some leading edge solutions in travel prepaid cards and the emerging digital wallet market.

Innovation and partnerships are a key foundation of our business models.



KERRY J. BETROS
Chairman



Peter Lock
Chief Executive Officer

Registered Office:

6th Floor, 400 Ruthven Street,
Toowoomba, Qld 4350

Postal Address:

PO Box 190, Toowoomba, Qld 4350

Telephone 07 4690 9000 Fax 07 4690 9090

www.heritage.com.au

Heritage Bank Limited. ABN 32 087 652 024.

AFSL 240984. Australian Credit Licence 240984. 1602103

