

**Capital Disclosure Template as at 30 June 2017  
Updated Annually**

The Bank is using the post 1 January 2018 Capital Disclosure Template because Heritage is fully applying the Basel III regulatory adjustments as implemented by APRA.

		A\$m
<b>Common Equity Tier 1 Capital: Instruments and Reserves</b>		
2	Retained earnings	483.0
3	Accumulated other comprehensive income (and other reserves)	7.5
6	Common Equity Tier 1 capital before regulatory adjustments	490.5
<b>Common Equity Tier 1 Capital: Regulatory Adjustments</b>		
11	Cash-flow hedge reserve	2.0
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	0.5
26	National specific regulatory adjustments (sum of rows 26e, 26f and 26j)	29.7
26e	of which: deferred tax assets	7.6
26f	of which: capitalised expenses	20.0
26j	of which: other national specific regulatory adjustments not reported in rows 26e and 26f	2.1
28	Total regulatory adjustments to Common Equity Tier 1	32.2
29	Common Equity Tier 1 Capital (CET1)	458.3
<b>Additional Tier 1 Capital: Instruments</b>		
36	Additional Tier 1 Capital before regulatory adjustments	0.0
<b>Additional Tier 1 Capital: Regulatory Adjustments</b>		
43	Total regulatory adjustments to Additional Tier 1 capital	0.0
44	Additional Tier 1 capital (AT1)	0.0
45	Tier 1 Capital (T1=CET1+AT1)	458.3
<b>Tier 2 Capital: Instruments and Provisions</b>		
46	Directly issued qualifying Tier 2 instruments	50.0
50	Provisions	4.7
51	Tier 2 Capital before regulatory adjustments	54.7
<b>Tier 2 Capital: Regulatory Adjustments</b>		
57	Total regulatory adjustments to Tier 2 capital	0.0
58	Tier 2 capital (T2)	54.7
59	Total capital (TC=T1+T2)	513.0
60	Total risk-weighted assets based on APRA standards	3,818.9
<b>Capital Ratios and Buffers</b>		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	12.0%
62	Tier 1 (as a percentage of risk-weighted assets)	12.0%
63	Total capital (as a percentage of risk-weighted assets)	13.4%
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	4.7
77	Cap on inclusion of provisions in Tier 2 under standardised approach	41.0

**Capital Disclosure Template Reconciliation as at 30 June 2017**  
**Updated Annually**

	<b>Consolidated Published Statement of Financial Position (A\$m)</b>	<b>Adjustment (1) (A\$m)</b>	<b>Level 1 Regulatory Statement of Financial Position (A\$m)</b>	<b>Reference to Regulatory Statement of Financial Position</b>
<b>Assets</b>				
Cash and cash equivalents	41.9	(6.3)	35.6	Cash and liquid assets
Receivables due from other financial institutions	379.5	(131.7)	247.8	Investment securities & cash and liquid assets
Other receivables	27.4	(0.6)	26.8	Other assets
Loans and receivables	7,885.9	(867.2)	7,018.7	Loans and advances
Held to maturity financial assets	986.4	(8.4)	978.0	Investment securities
Available for sale financial investments	0.5	-	0.5	Other investments
Derivatives	0.4	4.1	4.5	Other assets
Deferred tax assets	8.7	(0.5)	8.2	Other assets
Property, plant and equipment	35.7	-	35.7	Fixed assets
Other assets	3.4	140.8	144.2	Other assets
Intangibles	8.9	0.5	9.4	Intangible assets
<b>Total Assets</b>	<b>9,378.7</b>	<b>(869.3)</b>	<b>8,509.4</b>	

**Capital Disclosure Template Reconciliation as at 30 June 2017  
Updated Annually**

<b>Liabilities</b>				
Deposits and borrowings	8,426.9	(902.7)	7,524.2	Deposits, bonds, notes and long-term borrowings
Accounts payable and other liabilities	389.2	29.8	419.0	Creditors and other liabilities
Derivatives	5.1	-	5.1	Creditors and other liabilities
Current tax liabilities	1.8	(0.6)	1.2	Income tax liability
Provisions	16.6	-	16.6	Provisions
Deferred tax liabilities	1.9	0.9	2.8	Income tax liability
Subordinated debt	49.7	0.3	50.0	Bonds, notes and long-term borrowings
<b>Total Liabilities</b>	<b>8,891.2</b>	<b>(872.3)</b>	<b>8,018.9</b>	
<b>Net Assets</b>				
	<b>487.5</b>	<b>3.0</b>	<b>490.5</b>	
<b>Members' Funds</b>				
Retained profits	482.8	0.2	483.0	General reserve & retained profits
Reserves	4.7	2.8	7.5	Asset revaluation reserve & cash flow hedge reserve
<b>Total Members' Funds</b>	<b>487.5</b>	<b>3.0</b>	<b>490.5</b>	

**Expanded Regulatory Statement of Financial Position as at 30 June 2017**

The following is an expanded Statement of Financial Position under the APRA Level 1 Regulatory Capital that provides details on the components of capital reported in the Capital Disclosure Template.

<b>ASSETS</b>	<b>(A\$m)</b>	<b>(A\$m)</b>	<b>Capital Disclosure Template Reference</b>
Cash and liquid assets		246.0	
Investment Securities		1,015.4	
Loans and receivables (net) which includes:		7,018.7	
	Gross loans and receivables	7,025.8	
	Provision for impairment - specific	(2.4)	
	Provision for impairment - collective	(4.7)	Row 50
		<u>7,018.7</u>	
Other Investments		0.5	Row 18
Fixed Assets		35.7	
Intangible Assets		9.3	Row 26f
Other Assets which includes:	Other Assets	173.1	
	Securitisation establishment costs	0.4	Row 26f
	Commission and agent direct costs	9.6	Row 26f
	Debt raising establishment cost	0.7	Row 26f
		<u>183.8</u>	
<b>TOTAL ASSETS</b>		<b><u>8,509.4</u></b>	
<b>LIABILITIES</b>			
Deposits and short term borrowings		7,124.2	
Current Tax Liability		1.2	
Deferred Tax Liability		2.8	
Provisions		16.6	
Bonds, notes and long-term borrowings which includes:	Other bonds and notes	400.0	
	Subordinated debt	50.0	Row 46
		<u>450.0</u>	
Creditors and other liabilities		424.1	
<b>TOTAL LIABILITIES</b>		<b><u>8,018.9</u></b>	
<b>NET ASSETS</b>		<b><u>490.5</u></b>	

**Expanded Regulatory Statement of Financial Position as at 30 June 2017**
**MEMBERS' FUNDS**

Retained profits		483.0	
which includes:			
	Current year retained earnings	39.6	
	Trust securitisation income (not yet distributed)	2.1	<i>Row 26j</i>
	General reserve excluding trust income	441.3	
		483.0	<i>Row 2</i>
Reserves			
which includes:		7.5	
	Cash flow hedge reserve	2.0	<i>Row 11</i>
	Asset revaluation reserve	5.5	
		7.5	<i>Row 3</i>
<b>TOTAL MEMBERS' FUNDS</b>		<b>490.5</b>	<i>Row 6</i>

**Capital Adequacy as at 30 June 2017**

	Risk-Weighted Assets (A\$m)
<b>Capital Requirements</b>	
<i>Credit Risk</i>	
Corporate	0.0
Government	0.0
ADIs	402.7
Residential Mortgage	2,466.9
Other Retail	262.7
Other	65.8
Off Balance Sheet	84.0
	3,282.1
Securitisation	76.2
Equity Exposures	0.0
Market Risk	0.0
Operational Risk	460.6
	3,818.9
Common Equity Tier 1	12.00%
Tier 1	12.00%
Total Capital Ratio	13.44%

**Credit Risk as at 30 June 2017**

	Gross Credit Exposure	Average Gross Credit Exposure for Quarter
	(A\$m)	(A\$m)
<b>Exposure Type</b>		
Cash and Investment Securities	1,262.5	1,292.7
Loans and Advances	7,025.6	6,988.0
Other Assets	162.9	155.0
<b>Total On Balance Sheet Exposures</b>	<b>8,451.0</b>	<b>8,435.7</b>
Loans Approved not yet Advanced	182.8	195.9
Other Off Balance Sheet	10.8	9.6
<b>Total Off Balance Sheet Exposures</b>	<b>193.6</b>	<b>205.5</b>
<b>Total Exposures</b>	<b>8,644.6</b>	<b>8,641.2</b>
<b>Exposure by Portfolio</b>		
Corporate	0.0	0.0
Government	220.7	148.1
ADIs	1,041.8	1,144.5
Residential Mortgage	6,927.9	6,902.5
Other Retail	280.5	281.4
Other	173.7	164.7
	<b>8,644.6</b>	<b>8,641.2</b>

**Credit Risk as at 30 June 2017 (continued)**

	Impaired Loans	Past Due Loans	Specific Provision Balance	Charges for Specific Provision	Write-Offs
	(A\$m)	(A\$m)	(A\$m)	(A\$m)	(A\$m)
<b>Exposure by Portfolio</b>					
Corporate	0.0	0.0	0.0	0.0	0.0
Government	0.0	0.0	0.0	0.0	0.0
ADIs	0.0	0.0	0.0	0.0	0.0
Residential Mortgage	5.1	31.9	0.9	0.2	0.0
Other Retail	3.4	1.6	1.5	(0.5)	0.6
Other	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>8.5</b>	<b>33.5</b>	<b>2.4</b>	<b>(0.3)</b>	<b>0.6</b>
<b>General Reserve for Credit Losses</b>					
General Reserve for Credit Losses					4.7



**Securitisation Exposures as at 30 June 2017**

	Total Exposures Securitized (A\$m)	Recognised Gain or Loss on Sale (A\$m)
<b>Securitisation Activity for Quarter</b>		
Residential Mortgage	125.0	0.0
<b>Total Exposures</b>	<b>125.0</b>	<b>0.0</b>

	On Balance Sheet (A\$m)	Off Balance Sheet (A\$m)	Total Exposures (A\$m)
<b>Securitisation Exposure Types</b>			
Liquidity Facilities	0.0	3.6	3.6
Funding Facilities	0.0	0.0	0.0
Swaps	0.0	9.7	9.7
Holdings of Securities	7.5	0.0	7.5
	<b>7.5</b>	<b>13.3</b>	<b>20.8</b>

**Remuneration Disclosure as at 30 June 2017**

Qualitative disclosures	Heritage Disclosure
<p>(a) Information relating to the bodies that oversee remuneration. Disclosures must include:</p> <p>the name, composition and mandate of the main body overseeing remuneration;</p> <p>the name of external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;</p> <p>a description of the scope of the ADI's Remuneration Policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches; and</p> <p>a description of the types of persons considered as material risk takers and as senior managers as defined in paragraph 17 of this Prudential Standard, including the number of persons in each group.</p>	<p>The Remuneration and Governance Committee is made up of three non-executive directors. 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. Members of the Remuneration and Governance Committee during the period to 30 June 2017 have been Mr Kerry Betros, Dr Dennis Campbell and Mrs Vivienne Quinn.</p> <p>No external consultants have been recently engaged in connection with Heritage senior executive remuneration. However, industry benchmarks and externally available data is generally used to obtain industry comparisons.</p> <p>Heritage's Remuneration Policy provides a framework for rewarding senior executives, other staff and business partners and encourages behaviour that supports Heritage's long-term financial soundness and risk management framework. The policy applies to, among others; any person employed directly by Heritage and covers all entities within the Heritage group.</p> <p>Heritage's "senior managers" and "material risk takers" as defined in paragraph 17 of this Prudential Standard include those persons defined as Heritage's "senior executives". They include the Chief Executive Officer, the Company Secretary / Assistant Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Strategy and Investment Officer and Interim Chief Financial Officer, the General Manager, Marketing, the Chief People Officer, the Chief Information Officer, the General Manager, Retail Services and the General Manager, Emerging Business Streams.</p>
<p>(b) Information relating to the design and structure of remuneration processes. Disclosures must include:</p>	

**Remuneration Disclosure as at 30 June 2017**

	<p>an overview of the key features and objectives of remuneration policy;</p>	<p>A key objective of Heritage’s remuneration philosophy is to enable Heritage to attract, motivate and retain high performing senior executives. Inherent within the Heritage Remuneration Policy objectives is the design of remuneration structures (including performance based components) that: reward people fairly and at competitive levels taking into account appropriate internal relativities, external market rates and the nature of the work; are financially responsible and consistent with Heritage’s long term viability; and encourages 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.</p>
	<p>whether the Remuneration Committee reviewed the ADI’s Remuneration Policy during the past year, and if so, an overview of any changes that were made; and</p>	<p>The Remuneration and Governance Committee reviewed Heritage’s Remuneration Policy in May 2017.</p>
	<p>a discussion of how the ADI ensures that risk and financial control personnel (as defined in paragraph 48(b) of CPS 510) are remunerated independently of the businesses they oversee.</p>	<p>Risk and financial control personnel are paid a fixed component of remuneration that reflects their core performance requirements and the expectations associated with their particular position. These personnel are eligible to be paid an annual incentive based upon a performance assessment against a range of criteria. Such personnel are not provided with a yearly incentive payment on the sole basis of Heritage’s financial performance.</p>
(c)	<p>Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures must include:</p> <p>an overview of the key risks that the ADI takes into account when implementing remuneration measures;</p> <p>an overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed);</p>	<p>Sound Risk management is built into the performance management framework for senior executives to ensure effective risk management and compliance outcomes. Specific key risk areas include statutory compliance and adherence to APRA prudential ratios.</p> <p>Heritage utilises a Balanced Scorecard approach to measuring Senior Executives performance with performance metrics set across a range of financial and non- financial measures. In addition a number of performance measures act as “gate openers” to at risk remuneration outcomes and these measures include adherence to APRA prudential ratios and compliance with statutory obligations.</p>

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	<p>a discussion of the ways in which these measures affect remuneration; and</p>	<p>All performance based payments for Senior Executives are made at the discretion of Heritage and subject to approval by the Remuneration and Governance Committee. 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. Decisions about performance based remuneration for Senior Executives takes into account the performance of Heritage as measured by the Balanced Scorecard. Incorporating appropriate risk and compliance measures as “gate opener” measures within the Balanced Scorecard approach also regulates eligibility for participation in incentive arrangements.</p>
	<p>a discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.</p>	<p>The implementation of the Balanced Scorecard approach to setting key performance measures across a range of financial and non-financial criteria is new to Heritage. Linking performance pay outcomes to a range of financial and non-financial measures is appropriate for the environment and in supporting the delivery of key business objectives. The introduction of a Balanced Scorecard approach has strengthened alignment between overall business performance and the performance pay outcomes of Senior Executives.</p>
(d)	<p>Description of the ways in which the ADI seeks to link performance during a performance measurement period with levels of remuneration. Disclosures must include:</p> <p>an overview of the main performance metrics for the ADI, top-level business lines and individuals;</p>	<p>Senior executives are paid a competitive fixed component of remuneration that reflects their core performance requirements and the expectations associated with their particular position. No senior executive is provided with an incentive payment based solely on Heritage’s financial performance</p> <p>Senior Executive performance is primarily measured against a Balanced Scorecard against key metrics across the categories of; Financial Strength; Customer; People; and Business Process/Strategy.</p>

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	<p>a discussion of how amounts of individual remuneration are linked to institution-wide and individual performance; and</p>	<p>The opportunity for senior executives to be granted an annual incentive payment is designed to support Heritage's overall performance across a range of key measures. The Balanced Scorecard approach adopted utilises a common organisational wide set of metrics together with specific objectives relevant to each individual Senior Executive. A Senior Executive's individual performance and overall contribution to the Senior Executive Group is also assessed and taken into account in determining individual incentive outcomes.</p> <p>The overall approach supports linking short term incentive payments to the organisational overall outcomes as measured by the Balanced Scorecard whilst also factoring in an individual Executives contribution to those outcomes.</p> <p>Heritage does not offer any long term incentive benefits nor utilises any remuneration deferral mechanism for Senior Executives.</p>
	<p>a discussion of the measures the ADI will in general implement to adjust remuneration in the event that performance metrics are weak.</p>	<p>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.</p>
(e)	<p>Description of the ways in which the ADI seeks to adjust remuneration to take account of longer-term performance. Disclosures must include:</p> <p>a discussion of the ADI's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across persons or groups of persons, a description of the factors that determine the fraction and their relative importance; and</p> <p>a discussion of the ADI's policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.</p>	<p>Not applicable</p>
(f)	<p>Description of the different forms of variable remuneration that the ADI utilises and the rationale for using these different forms. Disclosures must include:</p>	<p>Not applicable</p>

**Remuneration Disclosure as at 30 June 2017**

	<p>an overview of the forms of variable remuneration offered (i.e., cash, shares and share-linked instruments and other forms); and</p> <p>a discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across persons or groups of persons), a description the factors that determine the mix and their relative importance.</p>	
<b>Quantitative disclosures</b>		
(g)	<p>Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members.</p>	<p>The Remuneration and Governance Committee met once during the year in May 2017. Details in connection with the remuneration paid to its members are available in Heritage's Remuneration Report published in its Financial Report.</p>
(h)	<p>The number of persons having received a variable remuneration award during the financial year.</p> <p>Number and total amount of guaranteed bonuses awarded during the financial year.</p> <p>Number and total amount of sign-on awards made during the financial year.</p> <p>Number and total amount of termination payments made during the financial year.</p>	<p>Not applicable</p>
(i)	<p>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.</p> <p>Total amount of deferred remuneration paid out in the financial year.</p>	<p>Not applicable</p>
(j)	<p>Breakdown of the amount of remuneration awards for the financial year in accordance with Table 18A below to show:</p> <p>fixed and variable;</p> <p>deferred and non-deferred; and</p> <p>the different forms used (cash, shares and share-linked instruments and other forms).</p>	<p>Fixed 89% / Variable 11%</p> <p>Not applicable</p> <p>Cash, Superannuation, Motor Vehicles, Long Service Leave</p>
(k)	<p>Quantitative information about persons' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:</p>	<p>Not applicable</p>

**Remuneration Disclosure as at 30 June 2017**

<p>Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.</p> <p>Total amount of reductions during the financial year due to ex post explicit adjustments.</p> <p>Total amount of reductions during the financial year due to ex post implicit adjustments.</p>	
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**Table 18A: Total value of remuneration awards for senior managers/material risk-takers**

Total value of remuneration awards for the financial year ended 30 June 2017	Unrestricted	Deferred
Fixed remuneration		
Cash-based	\$3,578,000	Not applicable
Shares and share-linked instruments	Not applicable	Not applicable
Other	\$546,000	Not applicable
Variable remuneration		
Cash-based	\$499,000	Not applicable
Shares and share-linked instruments	Not applicable	Not applicable
Other	Not applicable	Not applicable

**Notes:**

- 1 The qualitative disclosures in must be completed by reference to an ADI's Remuneration Policy and any Board Remuneration Committee established under CPS 510.
- 2 The quantitative disclosures in must be completed separately for senior managers and material risk-takers as defined in paragraph 17 of this Prudential Standard.