

Offer Document

Heritage Bank Retail Bonds

Fixed Interest Rate of 7.25% per annum



Issuer

Heritage Bank Limited
(ABN 32 087 652 024)

Arranger

Commonwealth Bank

Joint Lead Managers

Commonwealth Bank
Evans and Partners
UBS

Co-Managers

Dornbusch Partners
RBS Morgans
Westpac

Heritage Bank Retail Bonds are unsecured notes for the purposes of the Corporations Act and, under section 708(19) of the Corporations Act, do not require disclosure through a prospectus or other form of disclosure document for their issue. Investments in Heritage Bank Retail Bonds do not constitute Protected Accounts or deposit liabilities under the Banking Act.

The Interest Rate on the Heritage Bank Retail Bonds will be fixed until the Maturity Date unless they are Redeemed earlier. Payment of Interest on the Heritage Bank Retail Bonds is not guaranteed. The ability of Heritage Bank to pay the Interest on the Heritage Bank Retail Bonds is subject to various risks. You should read this Offer Document in its entirety before deciding whether to invest.

Important Notices

Offer Document

This Offer Document relates to the offer by Heritage Bank Limited (ABN 32 087 652 024, AFSL 240984) ("Heritage Bank") of senior unsecured bonds ("Heritage Bank Retail Bonds") to raise \$125 million, with the ability to raise more or less ("Offer").

This Offer Document is dated 17 May 2012 and a copy was lodged with ASX Limited (ABN 98 008 624 691) ("ASX") on that date. The Australian Securities and Investments Commission ("ASIC") and ASX take no responsibility for the contents of this Offer Document or the Offer. This Offer Document expires on the day after the Issue Date and no Heritage Bank Retail Bonds will be issued on the basis of this Offer Document after that date.

This Offer Document is not a prospectus or other form of disclosure document under the *Corporations Act 2001* (Cth) ("Corporations Act"). Heritage Bank Retail Bonds are not issued in the ordinary course of Heritage Bank's banking business and are unsecured notes for the purposes of the Corporations Act. Under section 708(19) of the Corporations Act, Heritage Bank Retail Bonds do not need to be offered using a prospectus or other form of disclosure document. In addition, there is no trustee for Heritage Bank Retail Bonds under Chapter 2L of the Corporations Act.

Documents relevant to the Offer

The following documents are relevant to the Offer and can be obtained from www.heritagebankretailbonds.com.au during the Offer Period and from www.heritage.com.au after the Issue Date:

- the full terms of Heritage Bank Retail Bonds ("Terms") (see also the Appendix to this Offer Document); and
- the Deed Poll (see also Section 4.2.1).

In addition to reading this Offer Document in full, it is important that you read the abovementioned documents in full before deciding whether to invest in Heritage Bank Retail Bonds.

Status of Heritage Bank Retail Bonds

Heritage Bank Retail Bonds are interest bearing, senior, unsecured bonds, issued by Heritage Bank.

Heritage Bank Retail Bonds are not deposit liabilities of Heritage Bank. They:

- are not Protected Accounts for the purposes of the depositor protection provisions of the Banking Act or of the Financial Claims Scheme established under the Banking Act and are not any other account of Heritage Bank; and
- are not guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction or by any other person.

Heritage Bank Retail Bonds do not confer any rights on Holders to become Heritage Bank Members or vote at any meeting of Heritage Bank.

Heritage Bank Retail Bonds are issued by Heritage Bank under the Terms and Holders have no claim on Heritage Bank except as provided in those Terms. Investment products such as Heritage Bank Retail Bonds are subject to risks which could affect their performance, including loss of investment and income. Heritage Bank does not guarantee the market price of Heritage Bank Retail Bonds and/or any particular rate of return.

Information about the key risks of investing in Heritage Bank Retail Bonds is detailed in Section 3 "Key Risks of Heritage Bank Retail Bonds".

No representations other than in this Offer Document

No person is authorised to provide any information or to make any representation in connection with the Offer that is not contained in this Offer Document. Any information or representation not contained in this Offer Document may not be relied upon as having been authorised by Heritage Bank.

Offer Document does not provide investment advice

The Offer and the information contained in this Offer Document do not take into account your investment objectives, financial situation and particular needs (including financial and tax issues) as an investor.

It is important that you read the Offer Document, the Terms and the Deed Poll before deciding whether to apply for Heritage Bank Retail Bonds. If you have any questions, you should seek advice from your financial adviser or other professional adviser before deciding to invest in Heritage Bank Retail Bonds.

Credit ratings

A copy of the Financial Services Guide accompanying the credit rating issued by Australia Ratings in relation to the Heritage Bank Retail Bonds can be obtained free of charge from www.australiaratings.com/fsg.

You can request a hard copy or electronic copy of the Financial Services Guide to be sent to you free of charge by contacting Australia Ratings using the contact details set out on its website.

This Offer Document does not provide information in relation to other credit ratings of Heritage Bank as the companies which provide these ratings in relation to Heritage Bank only hold Australian Financial Services Licences which allow disclosure of this information to certain investors.

Obtaining an Offer Document and Application Form

During the Offer Period, paper copies of this Offer Document and an Application Form can be obtained free of charge by calling the Heritage Bank Retail Bonds Information Line on 1300 558 416 (within Australia) or +61 3 9415 4067 (outside Australia) (Monday to Friday 8.30am – 5.00pm, Queensland time) during the Offer Period.

An electronic copy of the Offer Document can also be obtained from www.heritagebankretailbonds.com.au. If you are accessing an electronic copy of this Offer Document, the following conditions apply:

- the Offer Document is available to residents of Australia accessing and downloading, or printing, the electronic Offer Document in Australia;
- you must access and download the electronic Offer Document in full; and
- your Application will only be valid where you have completed an Application Form that was attached to, or accompanied, the electronic Offer Document. By lodging an Application, you declare that you were given access to the electronic Offer Document together with the Application Form.

Restrictions on foreign jurisdictions

The Offer is available to persons within Australia or in any jurisdiction where the laws of that jurisdiction would not require the Offer Document to be registered or for Heritage Bank to take any other action, including additional formal disclosure.

The distribution of this Offer Document and the offer or sale of Heritage Bank Retail Bonds may be restricted by law in certain jurisdictions. Persons who receive this Offer Document outside Australia must inform themselves about and observe all such restrictions. Nothing in this Offer Document is to be construed as authorising its distribution, or the offer or sale of Heritage Bank Retail Bonds, in any jurisdiction other than Australia and Heritage Bank does not accept any liability in that regard.

Furthermore, Heritage Bank Retail Bonds may not be offered or sold, directly or indirectly, and neither this Offer Document nor any other offering material may be distributed or published, in any jurisdiction except under circumstances that will result in compliance with any applicable law or regulations.

Restrictions applying to US Persons are outlined in Section 4.6 "US Persons".

Hong Kong

Heritage Bank Retail Bonds may not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under the Ordinance;

or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to Heritage Bank Retail Bonds may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Heritage Bank Retail Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. No person may make any offer in respect of Heritage Bank Retail Bonds to the public in Hong Kong within six months of the date of issue of the Heritage Bank Retail Bonds.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Singapore

This document and any other materials relating to Heritage Bank Retail Bonds have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Heritage Bank Retail Bonds, may not be issued, circulated or distributed, nor may Heritage Bank Retail Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an "institutional investor" (as defined in the SFA) or (ii) a "relevant person" (as defined under section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to Heritage Bank Retail Bonds being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Heritage Bank Retail Bonds. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Defined words and expressions

Some words and expressions used in this Offer Document have defined meanings. These words and expressions are capitalised and are defined in Section 6 "Glossary". If there is inconsistency between the definitions in Section 6 and the Terms, the definitions in the Terms prevail.

A reference to \$ or cents in this Offer Document is a reference to Australian currency. Unless otherwise stated, all figures have been rounded to two decimal places. A reference to time in this Offer Document is a reference to Queensland time unless otherwise stated.

If you have any questions about the Offer or Heritage Bank Retail Bonds, you should seek advice from your financial adviser or other professional adviser. You can also call the Heritage Bank Retail Bonds Information Line on 1300 558 416 (within Australia) or +61 3 9415 4067 (outside Australia) (Monday to Friday 8.30am – 5.00pm, Queensland time) during the Offer Period.

Applicants in the Broker Firm Offer may also call their Syndicate Broker.

ASIC has published a guide for retail investors who are considering investing in bonds called “Investing in corporate bonds?” (“ASIC Guide”), which raises issues that may be relevant to your consideration of Heritage Bank Retail Bonds. A free copy of the ASIC Guide can be obtained from ASIC’s website at www.moneysmart.gov.au/publications or by calling ASIC on 1300 300 630 (from Australia) or on +61 3 5177 3988 (from outside Australia).

What is different about Heritage Bank?

Heritage Bank is an Authorised Deposit-taking Institution (“ADI”) and is subject to different external and internal regulatory and reporting regimes compared with the majority of other potential corporate bond issuers. Accordingly, some of the information that the ASIC Guide directs you to look for when you are considering buying bonds may not be relevant and you will not find this information in this Offer Document. For example:

- the ASIC Guide suggests you read the prospectus. As an ADI, Heritage Bank is not required to offer Heritage Bank Retail Bonds through a prospectus. Notwithstanding this, the Offer Document has been prepared to provide potential investors with information about Heritage Bank and Heritage Bank Retail Bonds that you should consider when making a decision to invest;
- the ASIC Guide identifies several financial ratios that may assist you to determine a company’s financial capacity to pay interest and repay the face value at maturity. Heritage Bank does not calculate these ratios as the nature of the business that Heritage Bank operates is different to those outside the financial services industry. However, we have included several ratios in Sections 2.7 and 2.11.3 that may assist you decide whether to invest in Heritage Bank Retail Bonds; and
- the ASIC Guide suggests many companies will publish information on bonds they have issued on their website. Following the completion of the Offer, Heritage Bank will continue to lodge half-yearly and annual financial reports with ASIC and ASX, which can be obtained at an ASIC office or from www.asx.com.au. These documents will also be available at www.heritage.com.au. However, Heritage Bank will not report quarterly information about Heritage Bank Retail Bonds to a trustee (as there is no trustee for Heritage Bank Retail Bonds) or to ASIC.

Credit rating

The Heritage Bank Retail Bonds have been assigned a BBB+ long-term credit rating by Australia Ratings. Australia Ratings has also assigned a “Green” Product Complexity Indicator to the Heritage Bank Retail Bonds. Refer to Section 4.7 “Information about credit ratings and Product Complexity Indicator” for further information about the credit rating and Product Complexity Indicator associated with the Heritage Bank Retail Bonds and Section 3.2.11 for risks associated with credit ratings.

Further information about Heritage Bank

Heritage Bank is a disclosing entity for the purposes of the Corporations Act. As a result, Heritage Bank is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. In addition, Heritage Bank must notify ASX immediately (subject to certain exceptions) if it becomes aware of information that a reasonable person would expect to have a material effect on the price or value of its securities (including Heritage Bank Retail Bonds).

Copies of documents lodged with ASIC and ASX can be obtained from, or inspected at, an ASIC office and can also be obtained from www.asx.com.au.

In addition, the following information can be obtained from www.heritagebankretailbonds.com.au during the Offer Period and from www.heritage.com.au after the Issue Date:

- half-yearly and annual financial reports;
- continuous disclosure notices lodged with ASX;
- information required by APRA as per the prudential regulation regime; and
- other general information provided to investors.

Can I receive email notification of announcements or new information?

New and existing investors who wish to receive an email when Heritage Bank announces or publishes certain new information about itself, can register their details with the Registry after the Issue Date.

Key Dates

Key Dates

Key Dates for the Offer	Date
Offer Document lodged with ASX	Thursday, 17 May 2012
Opening Date of the Offer	Thursday, 17 May 2012
Bookbuild	Thursday, 24 May 2012
Closing Date for the Member Offer and General Offer	5.00pm on Wednesday, 13 June 2012
Closing Date for the Broker Firm Offer	10.00am on Tuesday, 19 June 2012
Issue Date	Wednesday, 20 June 2012
Commencement of trading on a deferred settlement basis	Wednesday, 20 June 2012
Holding Statements despatched by	Friday, 22 June 2012
Commencement of trading on a normal settlement basis	Monday, 25 June 2012

Key Dates for Heritage Bank Retail Bonds	Date
First Interest Payment Date ¹	Thursday, 20 September 2012
Maturity Date ²	Tuesday, 20 June 2017

Notes:

1. Interest is scheduled to be paid on the quarterly Interest Payment Dates (20 March, 20 June, 20 September and 20 December each year), until the Maturity Date or any earlier Redemption Date. If any of these scheduled dates is not a Business Day, then the Interest Payment Date will be the next Business Day
2. The Maturity Date will be the fifth anniversary of the Issue Date unless Heritage Bank exercises any right it may have to Redeem the Heritage Bank Retail Bonds earlier. The above Maturity Date assumes that the Issue Date will be 20 June 2012

Dates may change

These dates are indicative only and may change.

Heritage Bank, in consultation with the Joint Lead Managers, has the right to vary these dates without prior notice including to extend the latest date for receipt of Applications, to accept late Applications either generally or in particular cases or to withdraw the Offer without prior notice. If any of these dates are changed, subsequent dates may also be changed.

You are encouraged to submit your Application as soon as possible after the Opening Date.

17 May 2012

Dear investor

On behalf of the Board, I am pleased to present you with the opportunity to invest in Heritage Bank Retail Bonds.

Heritage Bank Retail Bonds are new five-year, senior, unsecured bonds to be issued by Heritage Bank and are intended to be quoted on ASX.

Holders of Heritage Bank Retail Bonds are scheduled to receive quarterly interest payments at a fixed interest rate of 7.25% per annum and repayment of the Face Value of \$100 when Heritage Bank Retail Bonds are Redeemed. Heritage Bank Retail Bonds will mature on 20 June 2017 unless they are Redeemed earlier.

Heritage Bank intends to raise approximately \$125 million by issuing Heritage Bank Retail Bonds, although the final amount may be more or less.

Heritage Bank will use the proceeds raised from issuing Heritage Bank Retail Bonds for general funding purposes and may use the proceeds to refinance existing debt of Heritage Bank.

Members of Heritage Bank can apply for Heritage Bank Retail Bonds under the Member Offer. Details of the Member Offer are set out in Section 5 of this Offer Document.

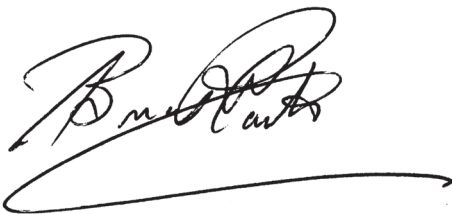
The minimum investment is \$5,000. The Member Offer and General Offer are scheduled to close at 5.00pm on 13 June 2012, with other key dates summarised on page 2. It is possible that the Offer may close early, so if you wish to apply for Heritage Bank Retail Bonds, you are encouraged to consider submitting your Application as soon as possible after the Opening Date of 17 May 2012.

This Offer Document contains information about Heritage Bank and the Offer. You should read this Offer Document carefully before deciding whether to invest in Heritage Bank Retail Bonds and, in particular, you should consider the risk factors set out in Section 3. It is important to note that Heritage Bank Retail Bonds are obligations of Heritage Bank and are not deposits and do not benefit from the Australian government guarantee of regulated financial institution deposits.

If, after reading this Offer Document, you have any questions about the Offer or how to apply for Heritage Bank Retail Bonds, please call the Heritage Bank Retail Bonds Information Line on 1300 558 416 (within Australia) or +61 3 9415 4067 (outside Australia) (Monday to Friday 8.30am – 5.00pm, Queensland time) or contact your Syndicate Broker or other professional adviser.

On behalf of the Board of Heritage Bank, I invite you to consider this new investment opportunity.

Yours sincerely,



Brian Carter AM, LLB, HonDUniv, FAICD
Chairman of Directors
Heritage Bank Limited



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Corporate Directory	Inside back cover

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Section 1

Investment Overview

Investment Overview

This Section provides an overview of Heritage Bank, the key features of Heritage Bank Retail Bonds and the key benefits and risks of investing in Heritage Bank Retail Bonds. More information about each of these matters is provided in the following Sections of this Offer Document and it is important that you read this Offer Document, the Terms and Deed Poll in full before deciding whether to invest in Heritage Bank Retail Bonds. If you have any questions, you should seek advice from your financial adviser or other professional adviser before deciding to invest.

The full Terms are contained in the Appendix. Rights and liabilities attaching to Heritage Bank Retail Bonds may also arise under the Corporations Act, ASX Listing Rules and other applicable laws.

1.1	Overview of Heritage Bank and Heritage Bank Retail Bonds	Where to find more information	Page
Issuer	<p>Heritage Bank Limited ("Heritage Bank") is a public company limited by shares and guarantee that operates as a mutual organisation. Heritage Bank is Australia's largest customer-owned bank, based on consolidated assets¹</p> <p>Heritage Bank is an ADI that is regulated by APRA. Heritage Bank is a retail banking institution that provides a range of banking services, with its core business being low risk residential mortgage lending</p> <p>Heritage Bank has:</p> <ul style="list-style-type: none"> • over 135 years of history • a "People first" mutual philosophy • approximately 300,000 Members • over 120 branches and distribution points throughout South East Queensland • over 3,000 Bank@Post network outlets and access, with preferential pricing, to approximately 3,000 ATMs across Australia • 12 consecutive years of growth in before tax profits • a head office situated in Toowoomba, Queensland <p>Note:</p> <p>1. Based on the Half-Yearly Report for the period ended 31 December 2011</p>	Section 2	17
Heritage Bank Retail Bonds	Five-year, interest bearing, senior, unsecured bonds, issued by Heritage Bank	Clause 2 of the Terms	54
Offer size	\$125 million, with the ability to raise more or less		
Credit rating of Heritage Bank Retail Bonds	<p>Heritage Bank Retail Bonds have been assigned a BBB+ long-term credit rating by Australia Ratings</p> <p>Australia Ratings has also assigned a "Green" Product Complexity Indicator associated with the Heritage Bank Retail Bonds</p>	Sections 4.7 and 3.2.11	41 and 33
Face Value	\$100 per Heritage Bank Retail Bond	Clause 1.3 of the Terms	54
Currency	Australian dollars	Clause 1.2 of the Terms	54

Interest Rate	7.25% per annum, paid quarterly and fixed until the Maturity Date. Interest payments are to be paid in cash and will not have any franking credits attached to them	Clause 10.1 of the Terms	61
Maturity Date	Tuesday, 20 June 2017. However, Heritage Bank may Redeem Heritage Bank Retail Bonds earlier in certain circumstances	Clause 10.1 of the Terms	61
Early Redemption	Heritage Bank may Redeem Heritage Bank Retail Bonds at any time before the Maturity Date upon the occurrence of: <ul style="list-style-type: none"> • a Tax Event; or • a Change of Control Event 	Clauses 4.2 and 4.3 of the Terms	55
Key benefits of investing in Heritage Bank Retail Bonds	<ul style="list-style-type: none"> • Term of five years • Fixed interest rate of 7.25% per annum, payable quarterly in arrears • Interest paid as cash, without franking credits • Heritage Bank Retail Bonds may be sold on ASX prior to maturity • Provide investors an opportunity to diversify their investment portfolio • Interest is not deferrable by Heritage Bank nor are payments discretionary • Rank equally with all other senior and unsecured creditors of Heritage Bank. However, Heritage Bank Retail Bonds rank behind any creditors preferred by law (including holders of Protected Accounts) and any secured creditors. They rank ahead of all subordinated creditors including Heritage Notes holders 		

<p>Key risks of Heritage Bank Retail Bonds</p>	<p>You should read Section 3 “Key Risks of Heritage Bank Retail Bonds” in full before deciding whether to invest. The key risks outlined in that Section include the following risks associated with Heritage Bank Retail Bonds:</p> <ul style="list-style-type: none"> • Investments in Heritage Bank Retail Bonds are unsecured and are not Protected Accounts or deposit liabilities of Heritage Bank under the Banking Act • Heritage Bank may fail to pay Interest and/or Face Value on Heritage Bank Retail Bonds • The market price of Heritage Bank Retail Bonds may fluctuate and you may not recover the full Face Value if you sell your Heritage Bank Retail Bonds • There may not be a liquid market for Heritage Bank Retail Bonds and there is no guarantee the Heritage Bank Retail Bonds will remain listed on ASX. You may not be able to sell your Heritage Bank Retail Bonds at a price acceptable to you or at all • Interest rates may rise, which could cause the Heritage Bank Retail Bonds to become a comparatively less desirable investment. This could cause the trading price of Heritage Bank Retail Bonds to fall • Heritage Bank may Redeem Heritage Bank Retail Bonds early if a Tax Event or a Change of Control Event occurs • Holders do not have the right to request that their Heritage Bank Retail Bonds be Redeemed early • Heritage Bank may raise more debt than it currently has and issue further securities which may rank equally with or ahead of Heritage Bank Retail Bonds, whether or not secured • The BBB+ credit rating assigned to Heritage Bank Retail Bonds is subject to revision or withdrawal <p>The key risks outlined in Section 3 include the following risks associated with Heritage Bank’s business that may affect Heritage Bank Retail Bonds:</p> <ul style="list-style-type: none"> • Heritage Bank may be adversely affected by a downturn in the Australian economy • Heritage Bank is exposed to credit risk and may incur losses • Heritage Bank is subject to extensive regulation. Changes to relevant regulations (including prudential capital requirements) could impose additional funding and operational costs on Heritage Bank • Heritage Bank is subject to intense competition • Heritage Bank may be adversely affected by harm to its reputation • Acquisitions of other businesses by Heritage Bank, or change of ownership or control of Heritage Bank, may adversely affect its performance or financial position • Heritage Bank is exposed to liquidity and funding risk, which may adversely affect its performance or financial position • Heritage Bank may be subject to contagion risk 	<p>Section 3</p>	<p>31</p>
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<p>Key differences between savings accounts, term deposits, Heritage Bank Retail Bonds and Heritage Notes</p>	<p>There are differences between savings accounts, term deposits, Heritage Bank Retail Bonds and Heritage Notes. You should consider these differences in the light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding whether to invest in Heritage Bank Retail Bonds</p> <table border="1" data-bbox="336 465 1094 1384"> <thead> <tr> <th></th> <th>Savings account</th> <th>Term deposit</th> <th>Heritage Bank Retail Bonds</th> <th>Heritage Notes</th> </tr> </thead> <tbody> <tr> <td>Issuer</td> <td>Bank, credit union or building society</td> <td>Bank, credit union or building society</td> <td>Heritage Bank Limited</td> <td>Heritage Bank Limited</td> </tr> <tr> <td>Guarantee under the Australian Government Financial Claims Scheme¹</td> <td>Yes</td> <td>Yes</td> <td>No</td> <td>No</td> </tr> <tr> <td>Term</td> <td>At call (usually)</td> <td>One month to five years (usually)</td> <td>Five years unless redeemed earlier</td> <td>Ten years unless redeemed earlier</td> </tr> <tr> <td>Interest rate</td> <td>Variable (usually)</td> <td>Fixed (usually)</td> <td>Fixed</td> <td>Fixed³</td> </tr> <tr> <td>Interest payment dates</td> <td>Monthly (usually)</td> <td>End of term or per annum (usually)</td> <td>Quarterly</td> <td>Quarterly</td> </tr> <tr> <td>Interest is deferrable</td> <td>No</td> <td>No</td> <td>No</td> <td>Yes⁴</td> </tr> <tr> <td>Transferable</td> <td>N/A</td> <td>No²</td> <td>Yes – quoted on ASX</td> <td>Yes – quoted on ASX</td> </tr> <tr> <td>Ranking</td> <td colspan="4">See Section 1.3.4</td> </tr> </tbody> </table> <p>Notes:</p> <ol style="list-style-type: none"> From 1 February 2012, the guarantee is provided for up to \$250,000 deposited per person with each financial institution Can be withdrawn subject to conditions Interest on Heritage Notes issued on 26 October 2009 is fixed until 27 October 2014. After that date Heritage Notes will pay interest calculated on a floating rate basis until the maturity date or a redemption date Some or all of a scheduled interest payment on Heritage Notes will be deferred if Heritage Bank is insolvent immediately before the interest payment or would become insolvent as a result of the interest payment 		Savings account	Term deposit	Heritage Bank Retail Bonds	Heritage Notes	Issuer	Bank, credit union or building society	Bank, credit union or building society	Heritage Bank Limited	Heritage Bank Limited	Guarantee under the Australian Government Financial Claims Scheme ¹	Yes	Yes	No	No	Term	At call (usually)	One month to five years (usually)	Five years unless redeemed earlier	Ten years unless redeemed earlier	Interest rate	Variable (usually)	Fixed (usually)	Fixed	Fixed ³	Interest payment dates	Monthly (usually)	End of term or per annum (usually)	Quarterly	Quarterly	Interest is deferrable	No	No	No	Yes ⁴	Transferable	N/A	No ²	Yes – quoted on ASX	Yes – quoted on ASX	Ranking	See Section 1.3.4					
	Savings account	Term deposit	Heritage Bank Retail Bonds	Heritage Notes																																												
Issuer	Bank, credit union or building society	Bank, credit union or building society	Heritage Bank Limited	Heritage Bank Limited																																												
Guarantee under the Australian Government Financial Claims Scheme ¹	Yes	Yes	No	No																																												
Term	At call (usually)	One month to five years (usually)	Five years unless redeemed earlier	Ten years unless redeemed earlier																																												
Interest rate	Variable (usually)	Fixed (usually)	Fixed	Fixed ³																																												
Interest payment dates	Monthly (usually)	End of term or per annum (usually)	Quarterly	Quarterly																																												
Interest is deferrable	No	No	No	Yes ⁴																																												
Transferable	N/A	No ²	Yes – quoted on ASX	Yes – quoted on ASX																																												
Ranking	See Section 1.3.4																																															
<p>1.2 The Offer and how to apply</p>		<p>Where to find more information</p>	<p>Page</p>																																													
<p>Use of proceeds</p>	<p>The Offer is being made as part of Heritage Bank's general funding strategy. The funds raised from the issue of Heritage Bank Retail Bonds may be used to refinance existing debt of Heritage Bank</p>																																															

Investment Overview

Offer structure	The Offer comprises: <ul style="list-style-type: none"> • a Member Offer; • a General Offer; • a Broker Firm Offer; and • an Institutional Offer No brokerage is payable if you apply for Heritage Bank Retail Bonds under the Offer	For further information on the different types of Offer and how to apply see Section 5	43
Minimum application size for Heritage Bank Retail Bonds	50 Heritage Bank Retail Bonds (\$5,000) and thereafter in multiples of 10 Heritage Bank Retail Bonds (\$1,000)	Section 5.2.1	44
How to apply	To apply for Heritage Bank Retail Bonds, you must complete an Application Form and follow the instructions in Section 5 "How to Apply"	Section 5	43
Will I become a Heritage Member by investing in Heritage Bank Retail Bonds?	You will not become a Heritage Bank Member by investing in Heritage Bank Retail Bonds. If you wish to obtain information about how to become a Heritage Bank Member, you should visit a Heritage Bank branch, contact Heritage Bank on 13 14 22 or visit the Heritage Bank website at www.heritage.com.au		
What if I am a Heritage Bank Member?	If you are already a Heritage Bank Member, you may be eligible to apply for Heritage Bank Retail Bonds under the Member Offer. If there is excess demand for Heritage Bank Retail Bonds, Applicants under the Member Offer will be given priority over General Offer Applicants	Section 5.1.1	44

1.3	More information about Heritage Bank Retail Bonds	Where to find more information	Page
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1.3.1 Interest Payments

Calculation of Interest	<p>Interest payable on each Heritage Bank Retail Bond for each Interest Period is calculated using the following formula:</p> $\text{Interest payable} = \frac{\text{Face Value} \times \text{Interest Rate} \times \mathbf{N}}{365}$ <p>where N means the number of days in the Interest Period For example, if the Interest Period was 90 days, the Interest for the relevant Interest Period would be calculated as follows: A\$100 x 7.25% x 90/365 = \$1.7877 per Heritage Bank Retail Bond</p> <p>Heritage Bank will announce to ASX the amount of Interest payable in respect of each Heritage Bank Retail Bond for each Interest Period. This announcement will be made no later than the fourth Business Day of each Interest Period (beginning with an announcement on the Issue Date)</p>	Clause 3.2 of the Terms	54
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Interest Payment Dates	<p>Interest is scheduled to be paid quarterly in arrears on the following dates until all Heritage Bank Retail Bonds have been Redeemed:</p> <ul style="list-style-type: none"> • 20 March; • 20 June; • 20 September; and • 20 December <p>If any of these scheduled dates is not a Business Day, then the Interest Payment Date will generally be the next Business Day and Interest will continue to accrue until that date</p> <p>The first Interest Payment Date is expected to occur on 20 September 2012</p>	Clause 10.1 of the Terms	61
Payments	Interest will be paid to Holders whose details are recorded with the Registry at 5.00pm on the Record Date, which is the date that is eight days prior to the relevant Interest Payment Date or as otherwise permitted by ASX	Clause 6.4 of the Terms	57
Interest payment obligation	Interest payable is not deferrable by Heritage Bank nor are payments discretionary		
No set-off	Except where expressly permitted by law, Heritage Bank has no right to set off any amount due and payable to it by you (e.g. a mortgage payment) against any claim by you to be paid the Interest and Face Value. Similarly, you have no right of set-off against Heritage Bank	Clause 6.9 of the Terms	57

1.3.2 Repayment of Face Value

Repayment of Face Value on the Maturity Date	<p>On the Maturity Date, you will receive the sum of:</p> <ul style="list-style-type: none"> • the Face Value (\$100); plus • the final payment of Interest for the period from (and including) the preceding Interest Payment Date to (but excluding) the Maturity Date 	Clauses 4.1 and 10.1 of the Terms	55 and 61
Early Redemption rights for Heritage Bank	<p>Heritage Bank has the right to Redeem all (but not some) Heritage Bank Retail Bonds at any time if:</p> <ul style="list-style-type: none"> • a Tax Event occurs; or • a Change of Control Event occurs <p>On the Redemption Date, you will receive the sum of:</p> <ul style="list-style-type: none"> • the Face Value (\$100); plus • the final payment of Interest for the period from (and including) the preceding Interest Payment Date to (but excluding) the Redemption Date 	Clauses 4.2, 4.3 and 10.1 of the Terms	55 and 62

Investment Overview

No early Redemption rights for Holders	Holdings do not have the right to request that their Heritage Bank Retail Bonds be Redeemed early for any reason To realise your investment, you can sell your Heritage Bank Retail Bonds on ASX at the prevailing market price. However, there is no guarantee that the Heritage Bank Retail Bonds will remain listed or that an active trading market will develop	Section 3.2.5	32
Change of Control Event	Heritage Bank has the right to Redeem all (but not some) Heritage Bank Retail Bonds if a Change of Control Event occurs Holdings do not have a right to request that their Heritage Bank Retail Bonds be Redeemed if a Change of Control Event occurs. However, following a Change of Control Event, the Interest Rate will increase by 2.50% (unless Heritage Bank exercises a right to Redeem Heritage Bank Retail Bonds) In addition, to realise your investment, you can sell your Heritage Bank Retail Bonds on ASX at the prevailing market price. However, there is no guarantee that the Heritage Bank Retail Bonds will remain listed or that an active trading market will develop	Clauses 4.3 and 4.4 of the Terms	55

1.3.3 Events of Default

Events of Default	An Event of Default will occur if Heritage Bank: <ul style="list-style-type: none">• fails to pay some or all of the Face Value when due or fails to pay Interest within 15 days of the due date;• becomes insolvent; or• is wound up or ceases to carry on a general banking business in Australia If an Event of Default occurs each Holder may by notice to Heritage Bank declare that, the amount applicable to a Heritage Bank Retail Bond owned by that Holder is due and payable on the next Business Day after service of the notice unless, prior to that date, Heritage Bank has cured or otherwise made good all Events of Default subsisting prior to that date	Clauses 8.1 and 8.2 of the Terms	58
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1.3.4 Ranking of Heritage Bank Retail Bonds

No security	Heritage Bank Retail Bonds are not secured by any specific assets of Heritage Bank	Clause 2.1 of the Terms	54
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<p>Ranking in a winding up</p>	<p>If Heritage Bank is unable to meet its obligations or suspends any payments it is required to make, your claim will rank after the claims of any creditors preferred by law (including holders of Protected Accounts), and any secured creditors</p> <p>Except for those preferred claims, your claim will rank equally with Holders of other Heritage Bank Retail Bonds, equally with claims of all other senior and unsecured creditors of Heritage Bank, and ahead of all subordinated creditors including holders of Heritage Notes</p> <table border="1" data-bbox="336 573 1094 1529"> <thead> <tr> <th></th> <th>Examples of existing Heritage Bank obligations/securities¹</th> <th>Amount as at 31 December 2011</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Higher ranking</td> <td>Secured debt²</td> <td>Repurchase Agreement with the Reserve Bank of Australia ("RBA")</td> <td>\$147.76 million</td> </tr> <tr> <td>Liabilities preferred by law</td> <td>Protected Accounts (generally, saving accounts and term deposits) and other liabilities preferred by law including employee entitlements</td> <td>\$4,174.96 million</td> </tr> <tr> <td rowspan="2"></td> <td>Senior unsecured debt</td> <td>Heritage Bank Retail Bonds</td> <td>\$125 million³</td> </tr> <tr> <td></td> <td>Other equal ranking senior unsecured debt obligations</td> <td>\$1,558.17 million</td> </tr> <tr> <td></td> <td>Subordinated and unsecured debt</td> <td>Heritage Notes</td> <td>\$60.00 million</td> </tr> <tr> <td>Lower ranking</td> <td>Equity holders</td> <td>Members</td> <td>\$290.81 million</td> </tr> </tbody> </table> <p>Notes:</p> <ol style="list-style-type: none"> This is a simplified capital structure of Heritage Bank and does not include every type of security issued or that could be issued in the future by Heritage Bank. Heritage Bank could raise more debt or guarantee additional amounts at any time As of the date of this Offer Document, Heritage Bank has not given a mortgage, charge or other security interest over its assets. However, in the ordinary course of business Heritage Bank (or its subsidiaries) may enter into certain funding arrangements (including arrangements with the RBA) which are treated as being secured in certain circumstances. Furthermore Heritage Bank may elect to grant security interests over its assets in the future This amount is provided for indicative purposes only. Also note that Heritage Bank has the ability to raise more or less than this amount 		Examples of existing Heritage Bank obligations/securities ¹	Amount as at 31 December 2011	Higher ranking	Secured debt ²	Repurchase Agreement with the Reserve Bank of Australia ("RBA")	\$147.76 million	Liabilities preferred by law	Protected Accounts (generally, saving accounts and term deposits) and other liabilities preferred by law including employee entitlements	\$4,174.96 million		Senior unsecured debt	Heritage Bank Retail Bonds	\$125 million ³		Other equal ranking senior unsecured debt obligations	\$1,558.17 million		Subordinated and unsecured debt	Heritage Notes	\$60.00 million	Lower ranking	Equity holders	Members	\$290.81 million	<p>Clause 2.1 of the Terms</p>	<p>54</p>
	Examples of existing Heritage Bank obligations/securities ¹	Amount as at 31 December 2011																										
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	Subordinated and unsecured debt	Heritage Notes	\$60.00 million																									
Lower ranking	Equity holders	Members	\$290.81 million																									

1.3.5 Miscellaneous

<p>No participation rights</p>	<p>Heritage Bank Retail Bonds do not carry a right to participate in any offering of new securities by Heritage Bank</p>	<p>Clause 1.6 of the Terms</p>	<p>54</p>
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Investment Overview

No voting rights for Holders	<p> Holders do not have rights to vote at general meetings of Heritage Bank</p>	<p> Clause 1.6 of the Terms</p>	<p> 54</p>
Further issues of securities	<p> Heritage Bank has the right to issue additional Heritage Bank Retail Bonds</p> <p> Heritage Bank also has the right to issue any other notes, shares or any other form or type of securities, or incur or guarantee any indebtedness, whether ranking equally with, in priority to, or junior to the Heritage Bank Retail Bonds. If such securities rank ahead of Heritage Bank Retail Bonds, they may affect your ability to recover Interest or the Face Value due to you if Heritage Bank becomes insolvent</p>	<p> Section 3.2.9 Clause 9.7 of the Terms</p>	<p> 33 and 60</p>
ASX quotation	<p> Heritage Bank will apply for quotation of Heritage Bank Retail Bonds on ASX. It is expected that Heritage Bank Retail Bonds will be quoted under ASX code "HBSHB"</p>	<p> Section 5.3 Clause 1.5 of the Terms</p>	<p> 45 and 54</p>
Amendment of Terms	<p> Heritage Bank may amend the Terms if the amendment has been approved by a Extraordinary Resolution of Holders, or without the consent of Holders in limited other circumstances</p>	<p> Section 3.2.10 Clauses 9.3 and 9.4 of the Terms</p>	<p> 33 and 59</p>
Deed Poll	<p> There is no trustee for Heritage Bank Retail Bonds. Instead, there is a Deed Poll made by Heritage Bank in favour of every person who is from time to time a Holder. The Deed Poll contains:</p> <ul style="list-style-type: none"> • Heritage Bank's undertaking to pay all amounts owing under Heritage Bank Retail Bonds; • an obligation to appoint the Registry; • the Terms; and • provisions for meetings <p> Holders will be bound by the terms of the Deed Poll when Heritage Bank Retail Bonds are Issued to them or they purchase Heritage Bank Retail Bonds. The Registry holds the original executed Deed Poll in Brisbane on behalf of Holders. Each Holder can enforce Heritage Bank's obligations under the Deed Poll, including the Terms and the provisions for meetings, independently of the Registry and each other</p> <p> Meetings can be called by Heritage Bank or by Holders, who together or alone hold 10% or more of the total Face Value of Heritage Bank Retail Bonds on issue. Heritage Bank must give Holders at least 21 days' notice of any meeting. The meeting provisions provide for, among other things, the approval of resolutions, quorums, adjournments, proxies, voting and other procedural matters</p>	<p> Section 4.2.1</p>	<p> 38</p>

If you have any questions about the Offer or Heritage Bank Retail Bonds, you should seek advice from your financial adviser or other professional adviser. You can also call the Heritage Bank Retail Bonds Information Line on 1300 558 416 (within Australia) or +61 3 9415 4067 (outside Australia) (Monday to Friday 8.30am – 5.00pm, Queensland time) during the Offer Period. Applicants in the Broker Firm Offer may also call their Syndicate Broker.



Section 2

Information about Heritage Bank

Information about Heritage Bank

2.1 Profile of Heritage Bank

Heritage Bank is a public company limited by shares and guarantee that operates as a mutual organisation. Initially called Heritage Building Society, the company was formed in 1981 by the merger of Toowoomba Permanent Building Society (established 1875) and the Darling Downs Building Society (established 1897). In December 2011, the company changed its name from Heritage Building Society to Heritage Bank. While the name changed, Heritage Bank retained its mutual ownership structure and, as at 11 May 2012, was the largest customer-owned bank in Australia based on consolidated assets.

Heritage Bank is an ADI and as such is regulated by APRA. Heritage Bank's head office is situated in Toowoomba, Queensland and the organisation provides retail banking services via:

- a network of 59 branches and 65 mini-branches across southern Queensland;
- access with preferential pricing to approximately 3,000 Heritage Bank and Westpac Group ATMs across Australia; and
- mortgage broking intermediary offices servicing customers in every state and territory in Australia.

In addition, customers can transact with Heritage Bank via the Bank@Post network with more than 3,000 outlets across Australia. Heritage Bank supplements its physical distribution channels by providing customers with a call centre, and internet and phone banking capabilities.

Heritage Bank offers customers a variety of retail banking products and services including mortgage loans, credit cards, personal loans, savings accounts, cheque accounts and term deposits. It has a business banking operation and provides general insurance products and services to customers via an alliance with Allianz Australia Limited. Heritage Bank also operates its own financial planning

and wealth management division. Heritage Bank accesses various sources of funds including retail deposits, wholesale funding and securitisation.

2.2 Becoming Heritage Bank

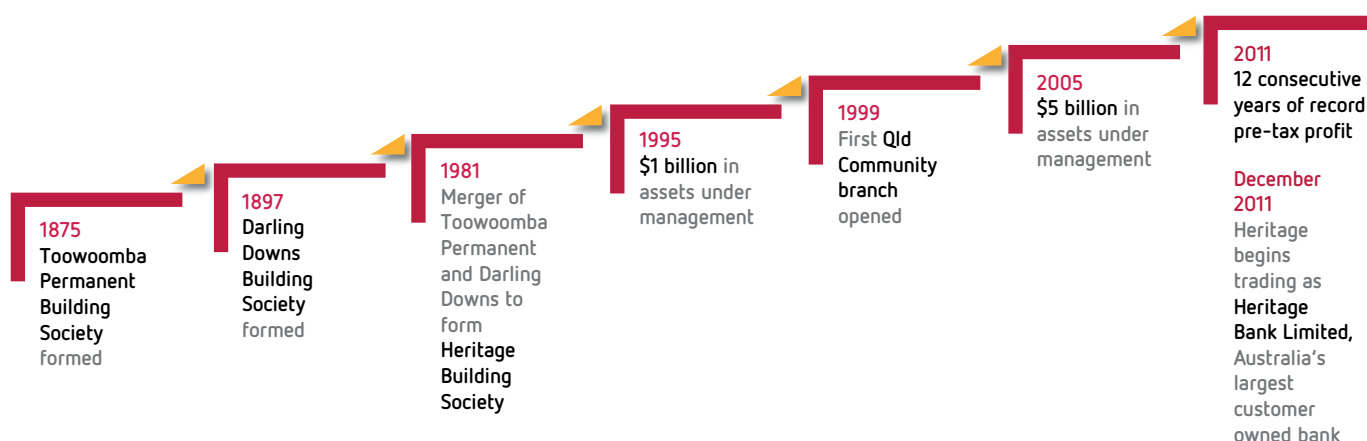
Heritage Bank's change of name in December 2011 from Heritage Building Society represented an important milestone for the business. The new brand is intended to better position Heritage Bank for future growth by clarifying its value proposition to existing and prospective customers. The adoption of the Bank title was a change in name only with no alteration to the mutual structure or Heritage Bank's focus on providing the best possible value for customers.

2.3 Mutual structure

As a mutual organisation, Heritage Bank is effectively owned by and run for the benefit of its Members who are also predominantly its customers. Heritage Bank has not issued share capital so does not pay dividends to shareholders. Heritage Bank retains profits for future growth and to meet prudential capital requirements.

Heritage Bank believes its mutual structure is an important component in its business philosophy as it means the organisation does not have the conflicts between customer and shareholder interests as can be the case for ADIs that do not have a mutual structure. As a result, Heritage Bank believes Members, as effective owners of the business, benefit through competitive pricing and better levels of service.

History of the formation of Heritage Bank Limited



2.4 Businesses of Heritage Bank

Heritage Bank is a retail banking institution that provides its customers with a wide variety of everyday banking services. Its core business is mortgage lending, which comprises approximately 95% of total lending. However, through strategic alliances, Heritage Bank is able to provide its customers access to a greater range of products and services. Heritage Bank's product suite is offered through its branch network with some lending products also sourced via broker channels.

2.4.1 Heritage Bank's business overview

Personal Banking	Member Services	Insurance ¹
<ul style="list-style-type: none"> • Savings and access accounts • Investments • Loan offset accounts • Home and investment lending • Credit cards • Debit cards 	<ul style="list-style-type: none"> • Superannuation • Financial planning • Rewards program¹ • "Working for You" newsletter • Leisure and lifestyle discounts 	<ul style="list-style-type: none"> • Motor vehicle • Home and contents • Life, trauma, disability and income protection • Mortgage and loan repayment • Travel
Foreign Exchange ¹	24-Hour Banking	Business Services
<ul style="list-style-type: none"> • Travellers Cheques • Foreign currency • Cash Passport and Debit cards • Foreign Drafts • Telegraphic Transfers 	<ul style="list-style-type: none"> • Automatic Teller Machines • Telephone banking • Internet banking • BPAY[®] • On-line share trading¹ • Mobile banking 	<ul style="list-style-type: none"> • Agribusiness • Business loans • Farm management deposit accounts • Overdraft facility • Business accounts • Trust accounts • EFTPOS merchant facilities¹ • Business on-line banking • Business Visa • Payroll service • BPAY[®] Biller

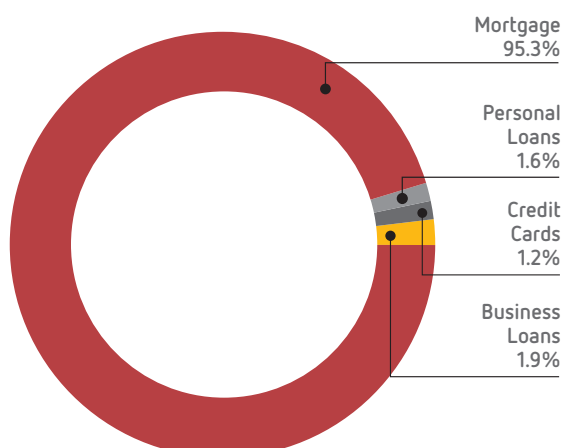
Note:

1. By arrangement with an outside supplier

2.4.2 Heritage Bank's business mix

Heritage Bank's core lending business is low risk residential mortgage lending, supplemented by personal loans and credit cards. All lending is approved through a strict assessment process. For further information about the mortgage business, see Section 2.5 "Mortgage business".

Loan portfolio composition as at 31 December 2011 (%)



Proportion of loans secured as at 31 December 2011 (%)

Portfolio	Proportion of loans secured (%)
Mortgage	100%
Personal Loan	63% ¹
Credit Card	0%
Business Loan	96% ¹

Note:

1. Loans might be partially secured rather than fully secured

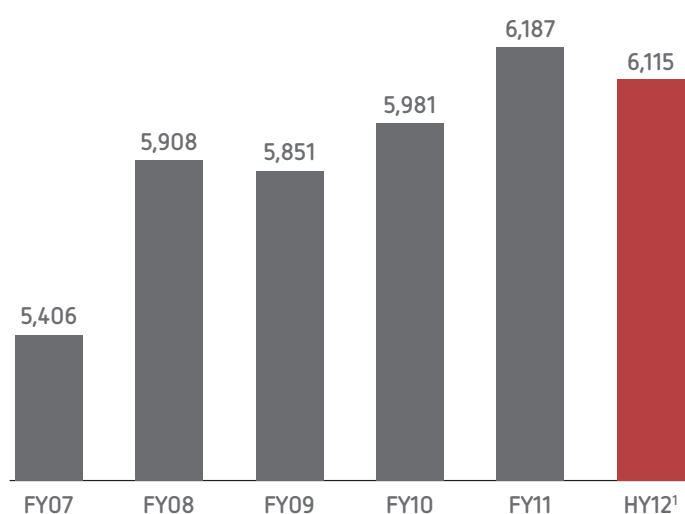
Information about Heritage Bank

2.5 Mortgage business

Heritage Bank's mortgage business comprises predominantly low risk residential mortgage lending, sourced through its branch networks and mortgage broking intermediary offices across Australia. It does not participate in "no doc" or "low doc" lending. The commercial mortgage business of Heritage Bank comprises less than 2% of its total loan mix.

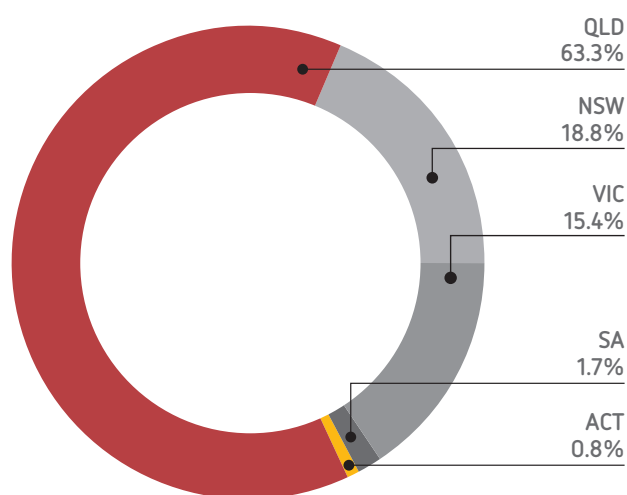
Loans are approved through a strict assessment process. The majority of loans are individually assessed by credit staff members that are independent from sales staff. These credit staff members do not have sales targets and have approval authorities set by the Board.

Mortgage portfolio balance as at 30 June (\$m)



Note:
1. As at 31 December 2011

Mortgage portfolio distribution by state as at 31 December 2011 (%)¹

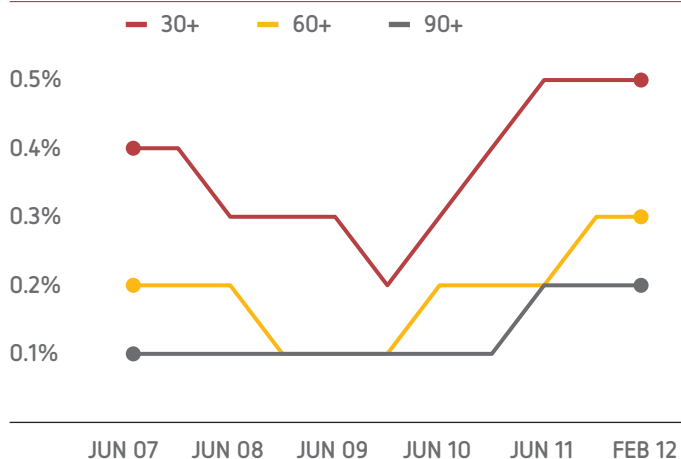


Note:
1. Heritage Bank commenced lending into Western Australia, Northern Territory and Tasmania in February 2012

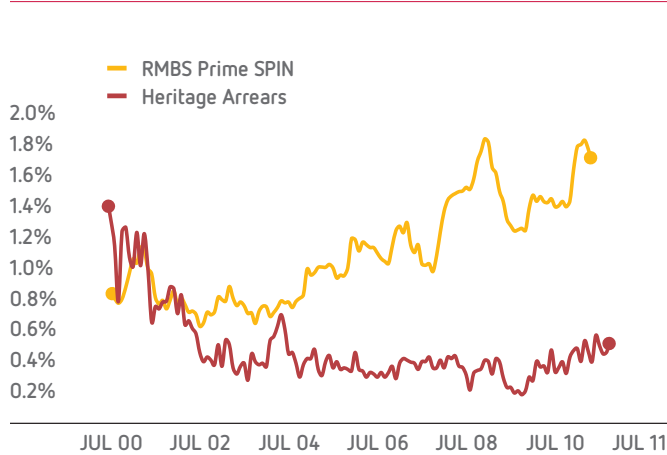
2.5.1 Asset quality

Heritage Bank's asset quality remains strong despite uncertainty associated with the current economic climate. Arrears over 30 days remain low by comparison to industry benchmarks. In relation to the residential mortgage business, the weighted average loan to valuation ratio for the portfolio was 57.4% as at 31 December 2011. The maximum loan to valuation ratio may change depending on market conditions. Lender's mortgage insurance is required in certain situations.

Mortgage arrears greater than 30 days

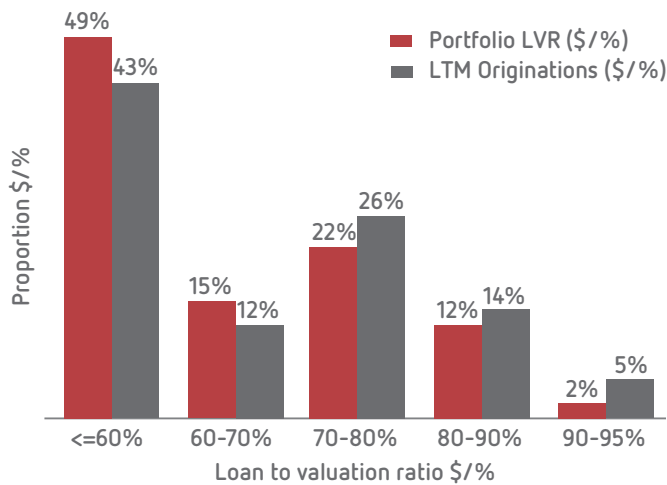


Arrears as a percentage of loan portfolio (%)



Source: Standard & Poor's

Residential mortgage portfolio as at 31 December 2011



2.6 Business strategy of Heritage Bank

Currently, Heritage Bank does not have any issued shares. The mutual business structure is an integral component of Heritage Bank’s business philosophy. The focus of the business is to maximise value to customers through competitively priced products, superior levels of service and a “People first” culture.

Heritage Bank’s core strategy is to leverage infrastructure, competitive pricing and customer satisfaction to deliver value to customers. Heritage Bank uses a proactive approach to technology and business innovation to drive the efficiencies needed to meet customers’ service expectations and to provide opportunities for growth. At the same time, Heritage Bank retains a prudent approach to business acquisition and has avoided offering customers riskier lending products. As such, the credit quality of the balance sheet is very strong.

To bolster the business structure after a period of strong growth Heritage Bank has, in recent years, expanded the physical distribution network through the opening of new branches and mini-branches, most recently opening a new branch on George Street in the Brisbane CBD. In 2010, Heritage Bank secured an agreement enabling its customers to use all Westpac Group ATMs without incurring a direct fee. That has provided customers with preferential pricing access to a fleet of approximately 3,000 ATMs around Australia.

In addition, Heritage Bank has invested in new systems in key departments such as Treasury to reinforce the infrastructure of the business and has developed human resourcing initiatives designed to attract, retain and develop the skills of its people. Heritage Bank is committed

to putting people first through staff engagement and the services provided to customers.

Heritage Bank has a track record of robust financial performance over many years and, in the absence of shareholders pressuring short-term outcomes, can focus on long-term objectives when making business decisions. To that end Heritage Bank is focused on increasing balance sheet diversity and investigating opportunities in other areas of financial services.

2.7 Capital, funding and liquidity management

2.7.1 Prudential regulation

APRA is the prudential regulator of the Australian financial services industry. It oversees credit unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies, most members of the superannuation industry, and banks.

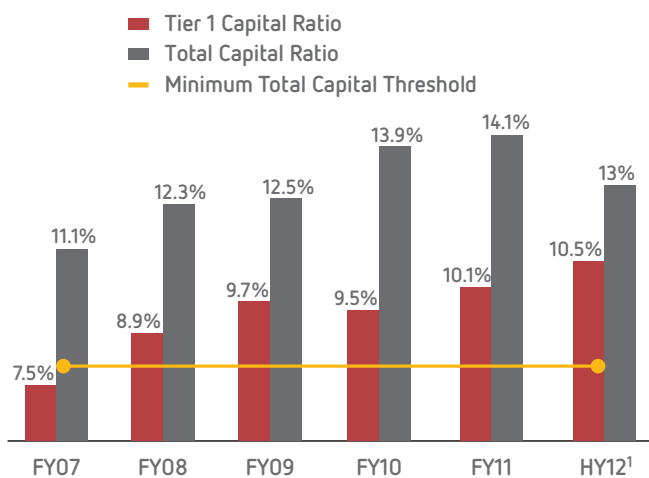
Currently, the regulatory limits applied to Heritage Bank’s capital ratios are consistent with the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, also known as Basel II, issued by the Bank of International Settlements. This framework reflects the calculation of regulatory capital through defined methodologies.

As provided for in the Basel II accord, APRA has exercised discretions to make the framework more relevant in the Australian market, and has applied discretion in the calculation of the components of regulatory capital.

Australian banks are required to maintain a minimum ratio of capital to risk-adjusted assets of at least 8%. At least half of this capital must be in the form of Tier 1 Capital. The balance of eligible capital can be held in the form of Tier 2 Capital, subject to limitations.

As Heritage Bank is an ADI regulated by APRA and is required to hold capital in line with APRA’s prudential guidelines, Heritage Bank calculates various capital ratios using common methodologies. Its Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2011 were 10.48% (\$259,796,987) and 12.99% (\$321,941,295) respectively. Both ratios were in excess of the prudential capital requirements. The ratios represent the amount of capital Heritage Bank holds as a percentage of risk weighted assets and exposures and is intended to protect its depositors in times of economic stress. Either ratio may increase or decrease in the future. Further information on Heritage Bank’s capital ratios is provided in Heritage Bank’s 2010/11 Financial Report and on the Heritage Bank website.

Tier 1 and Total Capital Ratios as at 30 June (%)



Note:

1. As at 31 December 2011

2.7.2 Proposed regulatory changes

From 1 January 2013 some elements of a new regulatory regime will become effective for all Australian ADIs. Many components of the revised rules are currently in draft form; however, Australian banks are likely to be required to maintain a minimum ratio of total capital to risk-adjusted assets of at least 10.5% from 1 January 2016. It is likely that more than 80% of minimum total eligible capital must be in the form of Tier 1 Capital with the balance able to be held in the form of Tier 2 Capital, subject to limitations. APRA has yet to advise whether total capital adequacy requirements applied to Heritage Bank will change under the new regime. Heritage Bank believes it may be required to maintain a higher minimum capital ratio to meet its prudential requirements.

2.7.3 Capital management strategy

APRA's rationale for adopting revised regulatory standards is to improve the quality, consistency and transparency of regulatory capital. Although the specific targets for Heritage Bank have not yet been advised, Heritage Bank expects to maintain a higher proportion of Tier 1 Capital relative to Tier 2 Capital when the new regulatory capital regime is introduced.

Heritage Bank has a prudent approach to capital management. Heritage Bank's capital management strategy is focused on maintaining its strong capital position by growing its core capital relative to growth in total assets through appropriate profit generation, whilst maintaining flexibility to grow and further diversify its business. Heritage Bank aims to maintain its capital adequacy ratio above prudential regulatory guideline levels.

2.7.4 Funding and liquidity

Heritage Bank has a Board approved liquidity management policy that incorporates controls and guidelines designed to satisfy regulatory minimum levels and define approved investment types, reporting and forecasting requirements. Heritage Bank manages its liquidity and funding profile by:

- diversifying funding sources;
- maintaining growth in retail funding through Member acquisition and increased marketing within Heritage Bank's retail branch footprint;
- moderating the business's use of securitisation;
- prudently managing the wholesale debt maturity profile of the business;
- accessing the RBA's open market operations;
- growing capital through profitability; and
- supplementing prudential capital through subordinated debt issues.

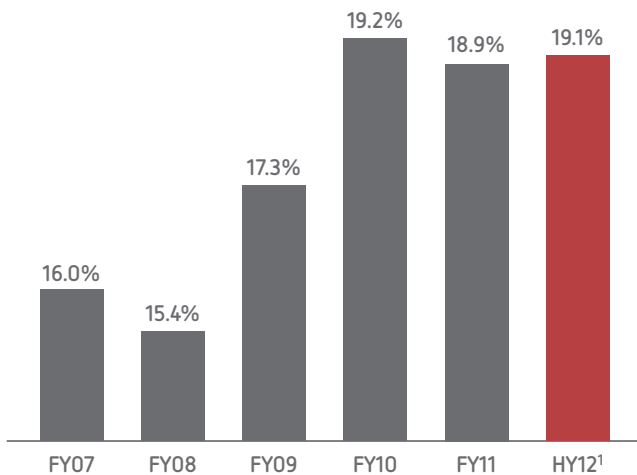
Other innovations undertaken to increase funding options have included acquiring an exchange settlement account, making all short-term wholesale debt repo-eligible with the RBA, and completing an internally-funded transaction to enable access to the RBA's open market operations. Heritage Bank has also managed funding requirements by controlling loan originations.

2.7.5 Liquidity ratio

Heritage Bank's liquidity ratio of 19.09% as at 31 December 2011 remains well above prudential regulatory guideline levels.

APRA requires an ADI to maintain a proportion of their balance sheet in liquid financial assets to protect against unexpected cash outflows. The definition of what qualifies as a liquid asset is determined by APRA. Under the current rules, an ADI must hold a volume of liquid assets at least equal to a minimum of 9% of total on balance sheet liabilities including irrevocable commitments but excluding eligible capital. This definition is likely to change as part of the proposed Basel III reforms. Heritage Bank believes it may be requested by APRA to transition to the Scenario Analysis methodology of prudential liquidity management, which could increase the volume of liquid assets that Heritage Bank is required to hold to meet minimum prudential requirements. Heritage Bank aims to maintain its liquidity ratio above prudential regulatory guideline levels.

Liquidity ratio as at 30 June (%)

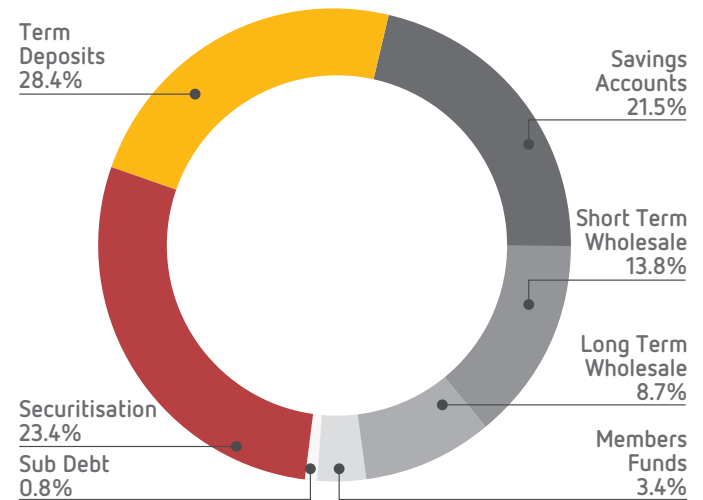


Note:
1. As at 31 December 2011

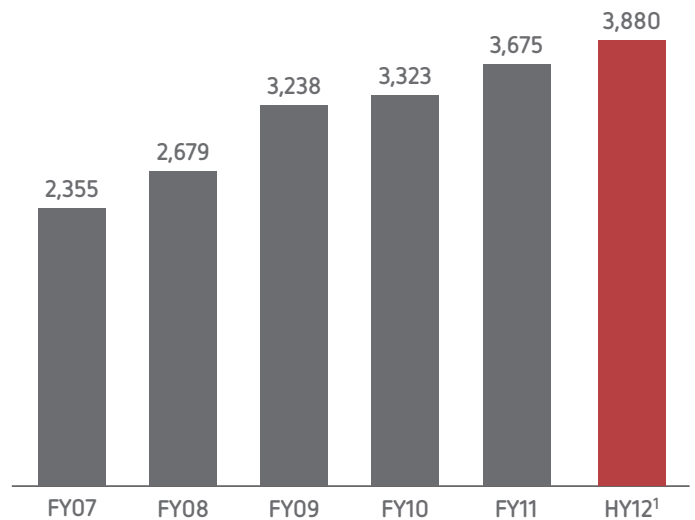
2.7.6 Heritage Bank's total funding as at 31 December 2011

Heritage Bank's retail deposit funding as a proportion of its total funding mix is growing. Retail deposit funding as at 31 December 2011 represented 50% of Heritage Bank's total funding compared with 38% of total funding as at 31 December 2007. Over the same period, securitisation has decreased in significance as a funding source, falling from 49% of total funding as at 31 December 2007 to 23% as at 31 December 2011.

Total funding as at 31 December 2011 (%)



Retail deposits as at 30 June (\$m)



Note:
1. As at 31 December 2011

2.8 Directors of Heritage Bank

The Heritage Bank Board currently comprises nine non-executive Directors. Heritage Bank's Directors are listed below:

Mr Brian R. Carter AM, LLB, HonDUniv, FAICD Chairman

Mr Carter is a retired Solicitor and a Toowoomba businessman. He served as a Director of Darling Downs Building Society from 1975-81 and was Deputy Chairman in 1980-81. He has been a Director of Heritage Bank since the merger in 1981. He was Deputy Chairman 1981-82 and has been Chairman of Directors since 1982. Mr Carter is an ex officio member of, and has involvement with, all Board Committees. Mr Carter has also been Chairman of the Council of the Queensland Institute of Medical Research 1997-98 and Chairman of the Board of St. Vincent's Hospital, Toowoomba, 1990-96, and various other organisations. Mr Carter was appointed a Member in the General Division of the Order of Australia "For service to business and commerce through the building society industry, and to the community through health care and medical research organisation". He was awarded the Centenary of Federation Medal for distinguished service to the community. Mr Carter was awarded an honorary doctorate at the University of Southern Queensland for his strong advocacy of the university and his significant contribution to the community through his voluntary charitable and sporting contributions. Mr Carter has announced his intention to retire as both the Chairman and as a Director after the Board meeting in June 2012.

Mr Kerry J. Betros BBus, FCPA, MAICD Deputy Chairman

Mr Betros is Managing Director of Betros Bros Holdings Pty Ltd and associated companies, Darling Downs-based wholesalers and retailers and Chairman of HBS Custodian Pty Ltd. He has previously served on various other boards and organisations. He has served on the Heritage Bank Board since 1991. Mr Betros is Chairman of the Heritage Bank Finance Committee. Mr Betros was awarded the Centenary of Federation Medal for distinguished service to the community. Mr Betros will assume the position of Chairman of Directors after the June Board meeting.

Dr Dennis P. Campbell PhD, MBA, FCHSE, CHE, FAIM

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 and is involved in organisational health consulting. Dr Campbell joined the Heritage Bank Board in 2000 and is a member of Heritage Bank's Insurance, Constitution Review and Finance Committees. Dr Campbell became Chairman of Permanent LMI Pty Limited on 1 January 2010. He also serves as a trustee of the Queensland Museum Foundation and is Chairperson of the Management Advisory Committee of the Cobb & Co Museum, Toowoomba. 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 will become the Deputy Chairman of Directors after the June Board meeting.

Mrs Vivienne A. Quinn MAHRI, MRCSA, FAICD

Mrs Quinn is the Managing Director of Quinn & Associates Pty Ltd, a Brisbane-based staff recruitment consultancy which operates throughout Australia. She has had 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 and is a member of the Audit and Compliance Committee, the Remuneration and Appointments Committee and is Chairman of the Superannuation Policy Committee.

Professor Peter Swannell AM, BSc, PhD, HonDUniv, FIEAust, CPEng(Ret)

Emeritus Professor Swannell was the Vice-Chancellor and President of the University of Southern Queensland from November 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 over 20 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 is Chairman of the Insurance Committee and was a member of the Finance Committee until 30 June 2011. He became a director of Permanent LMI Pty Limited on 1 July 2011. He was appointed as a Member in the General Division of the Order of Australia, "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, FFTA, FFin, MAICD, BCom, GradDip(SIA), MBA

Ms Campbell was appointed as a Director in 2005 and brings with her a range of finance skills from the banking and financial services sector. She is managing director of ARGYLL, a specialist financial consulting services firm, and is Heritage Bank's first interstate director. Ms Campbell is a member of the Finance Committee. Susan is active with the Institute of Chartered Accountants Australia and the Australian Financial Markets Association and works with many organisations in Australia and Asia developing their treasury and risk management skills. Her previous work has included working with global banks, corporate treasury and as a senior lecturer at RMIT University.

Mr Brendan P. Baulch BCom, LLB, CA

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.

Mr Stephen Davis CRV, 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 and Compliance Committee.

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 to fill the vacancy that will be created when Chairman Mr Brian Carter retires after the June Board meeting.

2.9 Management of the businesses of Heritage Bank

The senior management team at Heritage Bank has over 150 years combined experience and expertise in retail banking and financial services.

John Minz BCom, GradDipCommercialComputing, CertBankFin, FAICD, FFin, FAIM
Chief Executive Officer

Bill Armagnacq BCom, FCA, FAICD
Company Secretary/Assistant CEO

Jane Calder BSc (Hons)
General Manager Marketing

Peter Cavanagh BHMS, DipEd
General Manager Strategy

Peter Cleary BBus, CPA
Chief Financial Officer

Paul Francis
General Manager Retail Services

Bob Hogarth MBA, AssocDipAdmin
General Manager Human Resources

Dunstin Lynch BBus, CPA
General Manager Technology

John Williams AssocDipEng, AssocDipAppSc (Maths), GradCertBus, GAICD, FACS, AFAIM
Chief Operating Officer

Paul Williams BA, MA (Cantab), MBA, GradDipAppFin, CFTP
Chief Treasury and Business Strategy Officer

2.10 Corporate governance of Heritage Bank

Heritage Bank is committed to managing its business ethically and maintaining the highest standards of corporate governance, applied in a manner that is appropriate to Heritage Bank's particular circumstances. Heritage Bank is an ADI supervised by APRA under the *Banking Act 1959* and ASIC under the Corporations Act and has been granted Australian financial services and credit licences. Heritage Bank currently has unsecured subordinated debt securities quoted on ASX under ASX code "HBSHA" and is therefore subject to continuous disclosure obligations.

If you wish to obtain further information about Corporate Governance at Heritage Bank, please visit www.heritage.com.au to view copies of Heritage Bank's recent Annual Reports and its current Constitution.

2.10.1 Constitution

Heritage Bank is established and operates as a public company with the liability of its Members limited by shares and guarantee. The current Constitution was adopted on 1 December 2011.

2.10.2 Selection of Directors

Heritage Bank's Constitution 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 nine independent non-executive directors. Upon the Chairman's retirement from office, the Board will comprise eight independent non-executive directors. There is currently 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 judgement in the interests of Heritage Bank and its Members. In this regard, and more broadly, Heritage Bank chooses to substantially comply with the directions contained in the Corporate Governance Principles and Recommendations published by ASX's Corporate Governance Council and APRA's Prudential Standard APS 510 Governance.

2.10.3 Meetings of the Directors and access to information

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 and the Finance Committee, both of which operate under their own charter that is reviewed annually. Other Heritage Board Committees include the Remuneration and Appointments Committee and the Insurance Committee. The Board may establish other committees as circumstances require.

2.10.4 Access to information

Each Director has the right of access under a Deed of Indemnity, Access and Insurance to relevant Heritage Bank 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.

2.10.5 Ethical standards

Heritage Bank complies with APRA Prudential Standard APS 520 Fit and Proper, which requires that those responsible for the management and oversight of an ADI 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.

In accordance with the Corporations Act and Heritage Bank's Constitution, directors must keep the Board advised of any interest that could potentially conflict with the interests of Heritage Bank. The Board has developed guidelines to assist directors in disclosing potential conflicts of interests.

The Directors have adopted a Directors' Code of Conduct and Heritage Bank 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.

2.10.6 Audit arrangements

An effective Internal Audit function provides an independent assurance function. Heritage Bank's internal audit plan is prepared and 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 Chief Executive Officer 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.

The current external auditor is Ernst & Young. The key partner representatives are refreshed periodically as required by law. The external auditor has access to the Audit and Compliance Committee and the Board through the Chairman of the Board.

2.10.7 Risk management

Heritage Bank has adopted an integrated approach to risk management which meets the international standard ISO 31000 Risk Management. Heritage Bank also manages risk to a prudential level under APRA Prudential Standard APS 310 Audit & Related Matters.

2.11 Financial information

This Section contains information concerning the historical and pro forma financial information of Heritage Bank.

The financial information disclosed in this Section is consolidated financial data of Heritage Bank (the parent entity) and trust vehicles that have been established for the purpose of securitising Heritage Bank's loans. The financial reports from which this information has been obtained comply with Australian Accounting Standards and International Financial Reporting Standards.

Heritage Bank's annual reports for the full years ended 30 June 2009, 30 June 2010 and 30 June 2011 ("**Annual Reports**") are incorporated by reference into this Offer Document. A copy of any Annual Report can be obtained from www.heritagebankretailbonds.com.au free of charge during the Offer Period and from the About Heritage section at www.heritage.com.au after the Issue Date.

The financial information presented in this Section has been presented in abbreviated form. It does not contain all of the disclosures usually provided in an annual report prepared in accordance with the Corporations Act. Heritage Bank is not aware of any material adverse change to its operating performance or financial condition which has arisen since the half year accounts dated 31 December 2011.

Further detail on key accounting policies for Heritage Bank can be found in the financial reports, which can be obtained from the About Heritage section at www.heritage.com.au or www.asx.com.au.

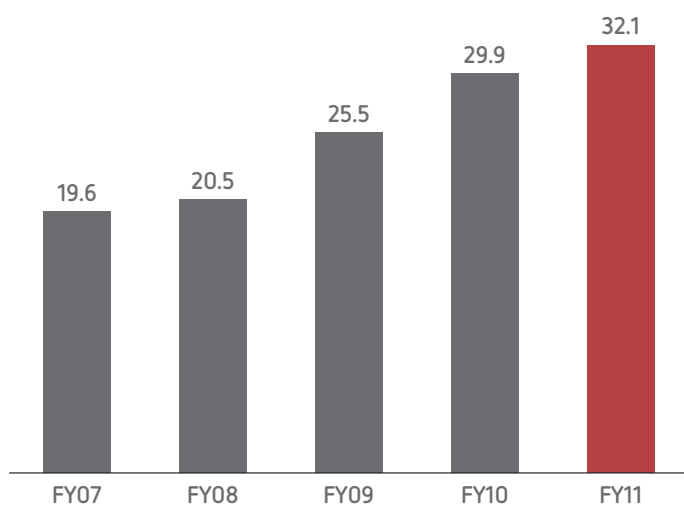
Investors should note that past performance is not a reliable indicator of future performance.

Information about Heritage Bank

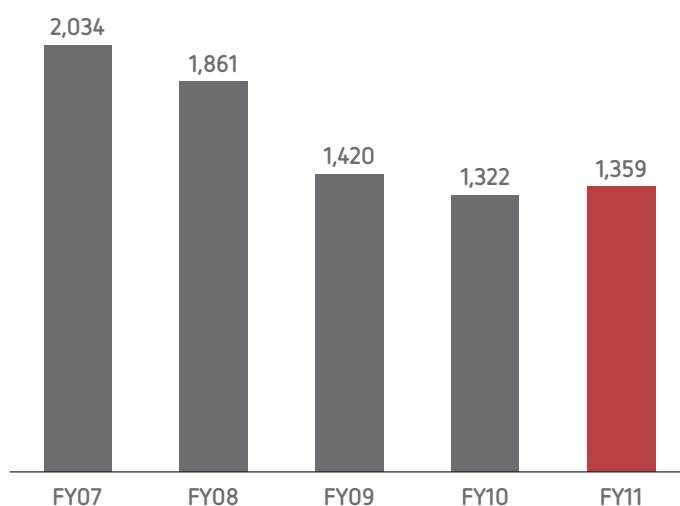
2.11.1 Financial performance

Heritage has demonstrated resilience across a variety of operating conditions in the previous decade by recording twelve consecutive years of record pre-tax profit. In recent years, profit has continued to grow despite moderating loan origination levels. This has been achieved through a sustained focus on prudent credit risk management as well as improving cost efficiency.

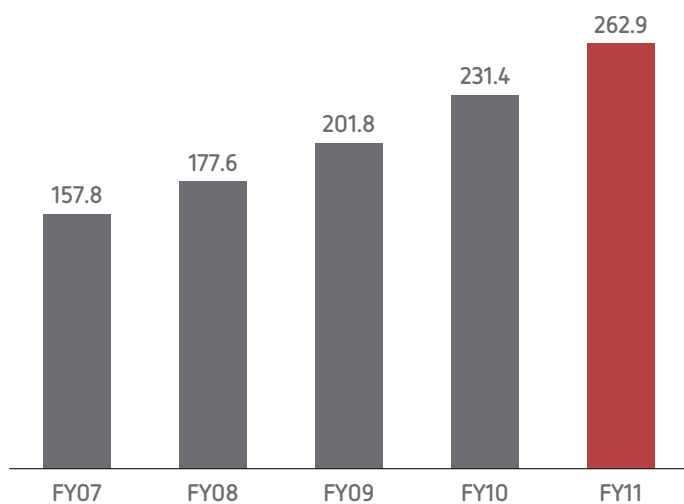
Profit after tax (\$m)



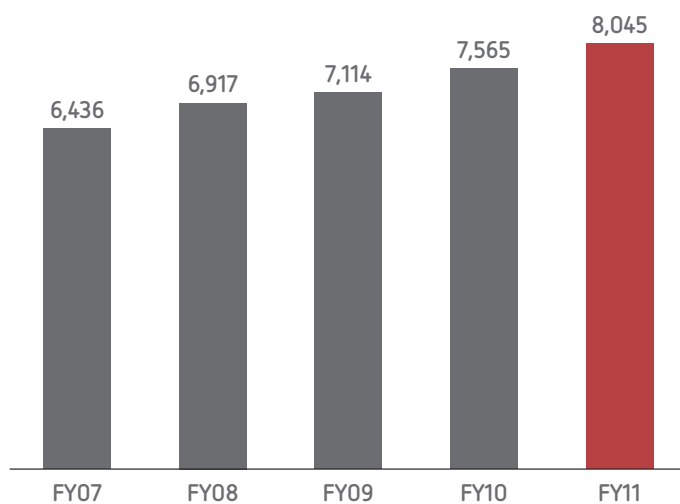
Loan approvals (\$m)



Retained earnings as at 30 June (\$m)



Total consolidated assets at 30 June (\$m)



2.11.2 Income Statement

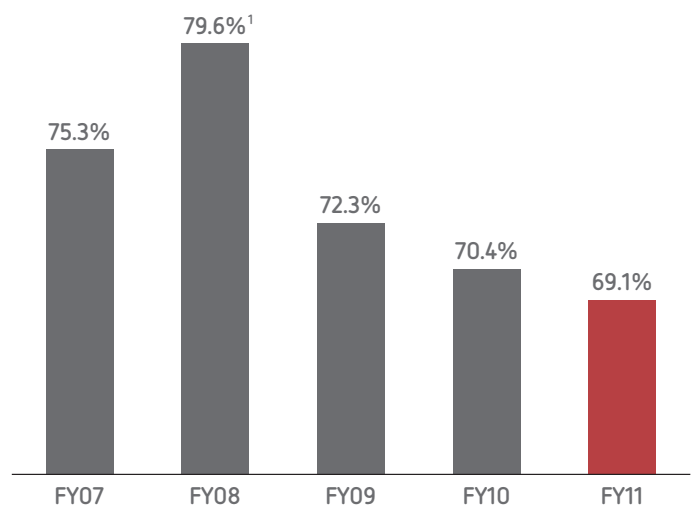
Consolidated Income Statement	Full year ended 30 June 2011 (\$'000)	Full year ended 30 June 2010 (\$'000)	Half year ended 31 Dec 2011 (\$'000)	Half year ended 31 Dec 2010 (\$'000)
Income				
Net interest income				
Interest revenue	507,974	444,100	270,267	249,799
Interest expense	392,192	327,502	210,410	194,472
Interest margin	115,782	116,598	59,857	55,327
Other income	32,011	32,280	16,305	16,458
Share of net profit of associate	1,017	792	300	459
Total income after interest expense	148,810	149,670	76,462	72,244
Expenses				
Impairment losses on loans and receivables	2,040	1,960	1,127	1,020
Other expenses				
Marketing expense	6,199	7,151	3,468	2,956
Occupancy expense	9,374	8,879	4,932	4,646
Employee benefits expense	53,034	54,383	28,296	26,725
Administrative expense	19,942	20,527	10,751	10,038
Other expense	14,335	14,432	6,834	6,891
Total other expenses	102,884	105,372	54,281	51,256
Profit before tax	43,886	42,338	21,054	19,968
Income tax expense	11,830	12,448	6,319	5,505
Profit after tax	32,056	29,890	14,735	14,463

2.11.3 Cost to income ratio

The cost to income ratio represents Heritage Bank’s operating expenses as a percentage of total operating income and was 69.14% as at 30 June 2011. This ratio is a key measure of Heritage Bank’s efficiency and may assist you to understand Heritage Bank’s financial capacity to pay the Face Value and Interest on Heritage Bank Retail Bonds.

Heritage Bank’s cost to income ratio has been steadily improving as a result of a disciplined approach to cost management.

Cost to income ratio
(operating expenses/total operating income)



Note:

- FY08 percentage excludes operating income from the gain on Visa Initial Public Offering

Information about Heritage Bank

2.11.4 Pro forma consolidated Balance Sheet

The following table sets out Heritage Bank's balance sheet as at 30 June 2011 and 31 December 2011, as well as the pro forma adjustments that would be made to the consolidated Balance Sheet for the half year ended 31 December 2011 assuming the Offer was completed and \$125 million of Heritage Bank Retail Bonds were issued on 31 December 2011.

The net proceeds of the Offer will be used by Heritage Bank for general funding purposes. The funds raised from the issue of Heritage Bank Retail Bonds may be used to refinance existing debt of Heritage Bank. The Offer will not have a material impact on Heritage Bank's cash flow.

Consolidated Balance Sheet	As at 30 June 2011 (\$'000)	As at 31 Dec 2011 (\$'000)	Pro forma adjustment¹ (\$'000)	Pro forma 31 Dec 2011 (\$'000)
Assets				
Cash and cash equivalents	40,649	66,289		66,289
Receivables due from other financial institutions	398,956	259,703		259,703
Other receivables	57,096	43,453		43,453
Loans and receivables	6,486,295	6,414,407		6,414,407
Held to maturity financial assets	1,020,973	1,222,427	121,500	1,343,927
Investments accounted for using the equity method	4,111	4,411		4,411
Available for sale financial investments	5,421	34,323		34,323
Derivatives	1,101	2,532		2,532
Property, plant and equipment	21,029	20,380		20,380
Other assets	1,341	2,042		2,042
Intangibles	1,408	1,113		1,113
Deferred tax assets	6,468	7,159		7,159
Total assets	8,044,848	8,078,239	121,500	8,199,739
Liabilities				
Deposits and borrowings	7,400,553	7,525,415	121,500	7,646,915
Accounts payable and other liabilities	214,504	155,144		155,144
Derivatives	43,528	33,025		33,025
Current tax liabilities	4,075	2,723		2,723
Deferred tax liabilities	2,834	2,985		2,985
Provisions	9,288	9,647		9,647
Retirement benefit liability	849	2,326		2,326
Subordinated debt	97,196	63,296		63,296
Total liabilities	7,772,827	7,794,561	121,500	7,916,061
Net assets	272,021	283,678		283,678
Members' funds				
Retained profits	262,941	276,093		276,093
Reserves	9,080	7,585		7,585
Total members' funds	272,021	283,678		283,678

Note:

1. Assumed Offer size of \$125 million less assumed Offer costs of \$3.5 million

2.11.5 Heritage Bank Retail Bond credit rating

As at the date of this Offer Document, the Heritage Bank Retail Bonds have been assigned a BBB+ long-term credit rating by Australia Ratings. Australia Ratings has also assigned a "Green" Product Complexity Indicator to the Heritage Bank Retail Bonds. For further information about the credit rating and Product Complexity Indicator associated with Heritage Bank Retail Bonds, see Section 4.7. For risks associated with the credit rating, see Section 3.2.11.



Section 3

Key Risks of Heritage Bank Retail Bonds

Key Risks of Heritage Bank Retail Bonds

3.1 Introduction

This Section describes some of the risks which could affect the performance of Heritage Bank Retail Bonds, including:

- risks associated with Heritage Bank Retail Bonds specifically; and
- risks associated with Heritage Bank's business that may affect Heritage Bank Retail Bonds.

If you have any questions about these risks, you should seek advice from your financial adviser or other professional adviser before deciding whether to invest in Heritage Bank Retail Bonds.

The risks described in this Section are not exhaustive and there may be other risks which may affect the performance of Heritage Bank Retail Bonds.

3.2 Risks associated with Heritage Bank Retail Bonds

3.2.1 Holders of Heritage Bank Retail Bonds are unsecured creditors

If Heritage Bank becomes unable to meet its obligations or suspends any payments it is required to make, your claim will rank after the claims of any creditors preferred by law (including holders of Protected Accounts), and any secured creditors.

Except for those preferred claims, your claim will rank equally with Holders of other Heritage Bank Retail Bonds, equally with claims of all other senior unsecured creditors of Heritage Bank, and ahead of subordinated creditors including holders of Heritage Notes.

If, after the claims of creditors preferred by law and secured creditors are satisfied there are insufficient assets, there is a risk that you may lose some or all of the money you invested in Heritage Bank Retail Bonds.

3.2.2 Investments in Heritage Bank Retail Bonds are not deposit liabilities or Protected Accounts under the Banking Act

Investments in Heritage Bank Retail Bonds are not deposit liabilities or Protected Accounts under the Banking Act. Therefore, Heritage Bank Retail Bonds are not guaranteed or insured by any Australian government, government agency or compensation scheme of Australia.

3.2.3 Heritage Bank may fail to pay Interest and/or the Face Value

Depending upon its financial performance and financial position, Heritage Bank may default on payment of some or all of the Face Value or Interest on Heritage Bank Retail Bonds.

If Heritage Bank does not pay some or all of the Face Value, this means that you may lose some or all of the money you invested in Heritage Bank Retail Bonds.

If an Event of Default occurs each Holder may by notice to Heritage Bank declare that, the amount applicable to a Heritage Bank Retail Bond owned by that Holder is due and payable on the next Business Day after service of the notice unless, prior to that date, Heritage Bank has cured or otherwise made good all Events of Default subsisting prior to that date.

3.2.4 The market price of Heritage Bank Retail Bonds may fluctuate

Heritage Bank will apply for quotation of Heritage Bank Retail Bonds on ASX. The market price of Heritage Bank Retail Bonds on ASX may fluctuate due to various factors, including:

- changes in Australian and international economic conditions, interest rates, credit margins, inflation rates and foreign exchanges rates;
- the financial performance or financial position of Heritage Bank;
- movements in the market price of other debt issued by Heritage Bank;
- changes in investor perceptions and sentiment in relation to Heritage Bank or the financial services industry;
- other major Australian and international events such as hostilities and tensions, and acts of terrorism; and
- other factors that may affect the financial performance or financial position of Heritage Bank.

There is a risk that one or more of these factors may cause the market value of Heritage Bank Retail Bonds to decline and trade at a market price below their Face Value.

If Heritage Bank Retail Bonds trade at a market price below the amount at which you acquired them, there is a risk that, if you sell them prior to the Maturity Date, you may lose some of the money you invested.

Heritage Bank does not guarantee the market price of Heritage Bank Retail Bonds.

3.2.5 Holders have no right to request early Redemption

You do not have the right to compel Heritage Bank to Redeem your Heritage Bank Retail Bonds prior to the Maturity Date.

To realise your investment, you can sell your Heritage Bank Retail Bonds on ASX at the prevailing market price, however, depending on market conditions at the time, it is possible that Heritage Bank Retail Bonds may be trading

at a market price below the Face Value and/or the market for Heritage Bank Retail Bonds may not be liquid.

3.2.6 There may be no liquid market for Heritage Bank Retail Bonds

While Heritage Bank has undertaken to use reasonable endeavours to ensure that Heritage Bank Retail Bonds are quoted on, and remain quoted on, ASX, there is no guarantee that Heritage Bank Retail Bonds will remain quoted on ASX or that a liquid market will develop for Heritage Bank Retail Bonds. The market for Heritage Bank Retail Bonds may be less liquid than the market for comparable securities issued by Heritage Bank or other entities. This may result in Holders who wish to sell their Heritage Bank Retail Bonds being unable to do so at a price acceptable to them, or at all.

3.2.7 Interest rates may rise

The Interest Rate payable on Heritage Bank Retail Bonds is fixed for the term of the Heritage Bank Retail Bonds. The market value for Heritage Bank Retail Bonds may fluctuate up or down with movements in prevailing interest rates generally. Interest rate rises create a risk that Heritage Bank Retail Bonds may become less attractive when compared to the rates of return on comparable securities. This reduction in attractiveness may adversely impact the market price of Heritage Bank Retail Bonds.

3.2.8 Heritage Bank may Redeem Heritage Bank Retail Bonds if a Tax Event or a Change of Control Event occurs

Heritage Bank has the right to Redeem Heritage Bank Retail Bonds if a Tax Event or a Change of Control Event occurs.

Depending on market conditions at the time, you may not be able to reinvest the amount you receive on redemption at a rate of return similar to that which you expected on your Heritage Bank Retail Bonds if you had held them until the Maturity Date.

3.2.9 Heritage Bank may issue further securities

Heritage Bank has the right to issue further securities that:

- have the same or different dividend, interest or distribution rates as Heritage Bank Retail Bonds;
- have the same or different maturities as Heritage Bank Retail Bonds;
- have the same or different terms and conditions as Heritage Bank Retail Bonds; and
- rank for payment of principal or interest (including on a winding up of Heritage Bank) after, equally with, or ahead of Heritage Bank Retail Bonds.

A holding of Heritage Bank Retail Bonds does not confer any right to participate in further issues of securities by Heritage Bank or its Related Bodies Corporate.

It is difficult to anticipate the effect, if any, such further issues of securities by Heritage Bank or its Related Bodies Corporate may have on the market price or liquidity of Heritage Bank Retail Bonds.

3.2.10 Heritage Bank may vary the Terms of Heritage Bank Retail Bonds

Heritage Bank may vary the terms without the consent of Holders in certain specific circumstances, including an amendment to correct a defective provision in the Terms where Heritage Bank obtains legal advice that the variation is not materially prejudicial to the interests of Holders generally.

Heritage Bank may also vary the Terms if the variation has been approved by an Extraordinary Resolution of the Holders. Variations under these powers are binding on all Holders despite the fact that a Holder may not agree with the variation.

3.2.11 Credit ratings may change

The credit ratings of Heritage Bank and Heritage Bank Retail Bonds (refer Section 4.7 "Information about Credit Ratings and Product Complexity Indicator") are subject to revision or withdrawal at any time by the relevant rating agencies.

Such changes may adversely affect the market price and liquidity of Heritage Bank Retail Bonds. In addition, the credit rating of Heritage Bank Retail Bonds may not reflect the potential impact of all risks related to the structure under which Heritage Bank Retail Bonds are issued, and additional factors that may affect the trading market for, or trading value of, Heritage Bank Retail Bonds.

If Heritage Bank fails to maintain its current corporate credit ratings, this may adversely affect its cost of funds and related margins, access to capital markets, competitive position and other aspects of its performance, and consequently, the performance of Heritage Bank Retail Bonds and Heritage Bank's ability to fulfil its obligations in respect of the Heritage Bank Retail Bonds. Heritage Bank is considering a range of options in connection with its credit ratings and may elect to add or to subtract from its current group of rating agencies.

The credit rating is not a "market" rating, nor is it a recommendation to buy, hold or sell securities (including Heritage Bank Retail Bonds), inasmuch as it does not comment as to market price or suitability for a particular investor. Additional information on credit ratings can be found in Section 4.7.

Key Risks of Heritage Bank Retail Bonds

3.3 Risks associated with Heritage Bank's business

3.3.1 Heritage Bank may be adversely affected by a downturn in the Australian economy

As an ADI with a core focus on mortgage lending and deposit raising, the performance of Heritage Bank is dependent on the state of the Australian economy, in particular, the Queensland economy, customer and investor confidence and prevailing market conditions.

Heritage Bank monitors international, market, industry and company specific developments which may affect the Australian and Queensland economies and adjusts its businesses to reflect current and expected conditions. However, it is difficult to predict every development that may affect the Australian economy.

Recessive economic cycles also have a negative influence on overall financial performance and position, credit defaults of corporations and other borrowers to which Heritage Bank may have a secondary exposure. Furthermore, weaknesses in global securities markets due to credit, liquidity or other problems could result in secondary impacts on the Australian financial system at wholesale and retail levels.

3.3.2 Heritage Bank is exposed to credit risk and may incur losses

As an ADI and retail lender, Heritage Bank is exposed to credit risk. Credit risk is the potential for loss arising from:

- failure of a debtor or counterparty to meet their contractual obligations (including loans); or
- failure to recover the recorded value of equity investments arising from individual transactions.

Heritage Bank adheres to strict underwriting standards in relation to its lending activities and has in place factors to limit credit risk such as lender's mortgage insurance (as required). However, if Heritage Bank experiences a high proportion of defaults on contractual obligations or high rates of failure to recover recorded value of equity investments its operating and financial performance and the ability to pay Interest on Heritage Bank Retail Bonds could be adversely affected.

For example, Heritage Bank's asset base predominantly comprises loans to Australian individuals and businesses, with a particular exposure to individuals and businesses within Queensland. A significant decline in the Australian or Queensland housing market or property valuations could adversely affect Heritage Bank's home mortgage lending portfolio. If Heritage Bank's financial position was seriously affected, that could impact on Heritage Bank's ability to pay Interest and/or the Face Value on Heritage Bank Retail Bonds.

3.3.3 Heritage Bank is subject to extensive regulation, which may adversely affect its performance or financial position

Heritage Bank's businesses are subject to extensive regulation by Australian regulators, particularly relating to capital levels, liquidity levels, provisioning, and insurance policy terms and conditions. The agencies with regulatory oversight of Heritage Bank and its subsidiaries include, among others, APRA, the RBA, ASX, ASIC and the Australian Taxation Office. Failure to comply with legal and regulatory requirements may have a material adverse effect on Heritage Bank and its reputation among customers, regulators and the market.

As a result of the global financial crisis, regulators have proposed various amendments to financial regulation that will affect Heritage Bank. APRA and the Basel Committee on Banking Supervision ("BCBS") have released discussion papers and proposals in regard to strengthening the resilience of the banking and insurance sectors, including proposals to strengthen capital and liquidity requirements for the banking sector.

The final form that the proposed regulatory changes will take in Australia remains unclear and any such changes could adversely affect Heritage Bank's business, operations and financial condition. The changes may lead Heritage Bank to, among other things, change its business mix, incur additional costs as a result of increased management attention, seek additional amounts of capital, hold significant levels of additional liquid assets and undertake additional long-term wholesale funding to replace short-term wholesale funding to more closely match Heritage Bank's asset maturity profile.

3.3.4 Heritage Bank may be subject to regulatory intervention

Heritage Bank is a prudentially regulated entity subject to the requirements of, among other things, the Banking Act and the prudential standards set by APRA. The Banking Act includes a number of broad powers and restrictions that may be adverse to Holders, including power for APRA to take control of or to appoint a statutory manager to Heritage Bank in certain circumstances or to direct Heritage Bank to do or not to do certain things, including not to make payments or to conduct Heritage Bank's business in a particular way.

The Banking Act also limits the rights of persons dealing with Heritage Bank in certain circumstances including limiting the rights of creditors (such as a Holder) from (i) taking or continuing proceedings against Heritage Bank where a statutory manager has been appointed or (ii) exercising certain rights where APRA has given a direction to Heritage Bank under the Banking Act.

3.3.5 Heritage Bank is subject to operational risks and may incur losses

Heritage Bank is exposed to operational risks in relation to its business operations. Operational risk represents potential variations in earnings as a result of the ineffectiveness of protections afforded by systems, controls, processes and procedures associated with Heritage Bank's day to day activities. Operational risks may also be realised by the failure of strategic and/or business decisions or external events.

Operational risks are continuously monitored, assessed and managed via a mature risk management strategy. Operational risks may have an adverse impact on the operating and financial performance of Heritage Bank and the ability of Heritage Bank to pay Interest and/or the Face Value on Heritage Bank Retail Bonds.

For example, Heritage Bank's performance is dependent to a large extent on the efforts and abilities of Heritage Bank's personnel. This is particularly relevant in divisions of Heritage Bank that use specialised systems and processes (including Payment Systems and Treasury), which are currently operated and maintained by experienced teams. Whilst in most cases each of these executives and managers is party to an employment contract, under the terms of the employment contracts executives are permitted to terminate the contract with between one and three months' notice. In some instances there is limited backup if an executive or manager leaves a team. The loss of one or more of Heritage Bank's key personnel with no suitable successor may have an impact on the operating and financial performance of Heritage Bank. The composition of the executive and management teams may change during the term of the Heritage Bank Retail Bonds.

Heritage Bank's financial success is also dependent upon its ability to retain personnel at all levels from branch to head office to meet its customer service, management, administration and other needs. While every effort is made to retain key employees and to recruit new personnel as the need arises, high turnover of personnel or inability to attract additional personnel may have an adverse impact on the operating and financial performance of Heritage Bank and the ability of Heritage Bank to pay Interest and/or the Face Value on Heritage Bank Retail Bonds.

3.3.6 Heritage Bank is subject to intense competition, which may adversely affect its performance

Heritage Bank faces intense competition primarily from domestic and international retail ADIs. This may affect profit margins, make businesses unsustainable and adversely affect future growth and performance.

3.3.7 Heritage Bank may be adversely affected by reputational harm

Various issues may give rise to reputational risk and cause harm to Heritage Bank's business and prospects. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering laws, privacy laws, information security policies, sales and trading practices and conduct by companies with which Heritage Bank has an alliance or joint venture arrangement. Failure to address these issues appropriately could give rise to additional legal risk, subject Heritage Bank to regulatory enforcement actions, fines and penalties, or harm its reputation among its customers and investors in the marketplace.

3.3.8 Acquisitions of other businesses by Heritage Bank, or change of ownership or control of Heritage Bank, may adversely affect its financial performance and position

Heritage Bank regularly examines a range of corporate opportunities, including mergers with other mutual entities. Any of these opportunities if pursued could, for a variety of reasons, have a material impact on the financial performance and position of Heritage Bank.

3.3.9 Heritage Bank is subject to taxation legislation which may affect its business

Heritage Bank is subject to taxation legislation in the jurisdictions in which it has operations or conducts business. Any significant change in taxation law or its interpretation and application by an administrative body could have an adverse effect on the results of its operations. Heritage Bank manages taxation risk, in relation to specific transactions, by obtaining opinions from taxation specialists and/or rulings from revenue authorities. It also consults with revenue authorities in relation to potential changes in the law, either in its own right or in conjunction with professional and industry bodies.

3.3.10 Heritage Bank may be subject to contagion risk

Contagion risk is the risk that concerns about, or default by, one or more financial institutions could lead to market-wide liquidity problems, losses or defaults by other institutions. This risk arises in part because of the varied interrelationships of many financial institutions (including Heritage Bank) and is heightened by the recent significant volatility in the financial sector and capital markets.

Key Risks of Heritage Bank Retail Bonds

3.3.11 Heritage Bank is exposed to liquidity and funding risks which may adversely affect its performance or financial position

As an ADI, Heritage Bank is subject to “liquidity risk” (i.e. the risk of a timing mismatch between cash inflows and cash outflows). If Heritage Bank does not have available funds on hand to make repayments to depositors, wholesale funders and other parties when those obligations fall due, it may be required to raise additional funding to cover those obligations. Reduced liquidity could lead to an increase in the cost of Heritage Bank’s borrowings and could reduce its ability to make new loans which would adversely affect Heritage Bank’s profitability. While Heritage Bank raises funding from a variety of sources including customer deposits and wholesale funding (both in Australia and overseas), global capital markets have recently been volatile and there is no guarantee that it will always be able to obtain necessary funding on terms acceptable to it or at all. Any substantial reduction in global liquidity could have an adverse effect on Heritage Bank’s ability to replace maturing liabilities, including upcoming government guaranteed bonds, and access funding in a timely and cost effective manner necessary to fund and grow its business.



Section 4

Other Information

Other Information

4.1 No material breaches of loan covenants or debt obligations

Heritage Bank has not materially breached any loan covenants or debt obligations in the two years prior to the date of this Offer Document.

4.2 Other documents relevant to the Offer

4.2.1 Deed Poll

A trustee has not been appointed for Heritage Bank Retail Bonds. Instead, there is a Deed Poll made by Heritage Bank in favour of each person who is from time to time a Holder. The Deed Poll gives legal effect to Heritage Bank's obligations in the Terms, including Heritage Bank's obligation to repay the Face Value and to pay Interest and other amounts owing under Heritage Bank Retail Bonds, and to comply with the Terms.

Under the Deed Poll, Heritage Bank also undertakes to appoint the Registry and procure the Registry to establish and maintain a principal Register.

The Deed Poll also includes provisions for meetings of Holders.

Holders will be bound by the terms of the Deed Poll, the Terms and this Offer Document when Heritage Bank Retail Bonds are issued or transferred to them or they purchase Heritage Bank Retail Bonds.

The Registry holds the original executed Deed Poll on behalf of Holders. Each Holder can enforce Heritage Bank's obligations under the Deed Poll, including the Terms and the provisions for meetings, independently of the Registry and each other.

A copy of the Deed Poll can be obtained from www.heritagebankretailbonds.com.au during the Offer Period and from www.heritage.com.au after the Issue Date.

4.2.2 Financial statements

Heritage Bank's consolidated financial reports for the full financial years ended 30 June 2009, 30 June 2010 and 30 June 2011 are incorporated by reference into this Offer Document and can be obtained from www.heritagebankretailbonds.com.au during the Offer Period and from the About Heritage section at www.heritage.com.au after the Issue Date.

4.2.3 Offer Management Agreement

The Joint Lead Managers have entered into an agreement with Heritage Bank to manage the Offer. This agreement is called the Offer Management Agreement.

A summary of the Offer Management Agreement can be obtained from www.heritagebankretailbonds.com.au during

the Offer Period and from the About Heritage Section at www.heritage.com.au after the Issue Date.

4.3 Other documents

Heritage Bank will provide a copy of the Deed Poll and the Terms free of charge to any person who requests a copy during the Offer Period.

4.4 Summary of Australian tax consequences for Holders

The following is a summary of the main Australian tax consequences under the Tax Act for Australian resident (as defined for tax purposes) Holders, and certain non-Australian resident (as defined for tax purposes) Holders, who hold Heritage Bank Retail Bonds on capital account.

The summary is not exhaustive and you should seek advice from your taxation adviser or other professional adviser before deciding to invest in Heritage Bank Retail Bonds. In particular, this summary does not deal with the position of Holders who hold Heritage Bank Retail Bonds as assets used in carrying on a business of share trading, banking or investment or who otherwise hold Heritage Bank Retail Bonds on revenue account. It also does not deal with non-Australian resident Holders who conduct business in Australia through a "permanent establishment" as defined for tax purposes.

This summary is not intended to be, nor should it be construed as being, investment, legal or tax advice to any particular Holder.

The summary is based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practice as at the date of this Offer Document.

4.4.1 Interest

a. Australian resident Holders

The Heritage Bank Retail Bonds should be "debt interests" for the purposes of the Tax Act. Australian resident Holders should be required to include any Interest they receive in respect of their Heritage Bank Retail Bonds in their assessable income.

Whether these amounts should be recognised as assessable income on a cash receipts or accruals basis will depend upon the individual circumstances of each Holder. It may also depend on whether the Holder is subject to Division 230 of the Tax Act (concerning the taxation of financial arrangements) – see also Section 4.4.3 below.

b. Non-Australian resident Holders

Non-Australian resident Holders are generally subject to Australian interest withholding tax at the rate of 10% on any Interest they receive. Australian interest withholding tax is a final tax and non-Australian resident Holders should not be subject to any other Australian tax such as income tax.

However, Interest paid to non-resident Holders in respect of Heritage Bank Retail Bonds should be exempt from Australian interest withholding tax and should not otherwise be subject to Australian income tax because Heritage Bank intends to issue the Heritage Bank Retail Bonds in a manner which will satisfy the requirements of the interest withholding tax exemption contained in section 128F of the Tax Act.

4.4.2 Disposal of Heritage Bank Retail Bonds

a. Australian resident Holders

Where Division 230 of the Tax Act applies to a particular Holder (see Section 4.4.3 below for further information in this regard), a gain or loss (other than previously assessed amounts) on disposal or redemption of Heritage Bank Retail Bonds should be recognised as assessable income or an allowable deduction in the income year of the disposal or redemption. The gain or loss should generally equal the difference between the proceeds of disposal or redemption (other than previously assessed amounts) and the cost of acquisition.

Otherwise, where Division 230 of the Tax Act does not apply to a particular Holder, Heritage Bank Retail Bonds are likely to be treated under the rules for “traditional securities” for the purposes of the Tax Act. Therefore, on disposal (including redemption) of their Heritage Bank Retail Bonds, Australian resident Holders should be required to include any gain on disposal or redemption of the Heritage Bank Retail Bonds in their assessable income. This gain should equal the difference between the proceeds of disposal or redemption and the cost of acquisition of their Heritage Bank Retail Bonds.

In the event that the proceeds of disposal or redemption are less than the cost of acquisition (and Division 230 of the Tax Act is not applicable), any loss should be an allowable deduction in the income year in which the disposal occurs, subject to certain specific exceptions.

A capital gains tax (“CGT”) event should also happen on disposal or redemption of the Heritage Bank Retail Bonds. Any capital gain that results from the disposal should be disregarded to the extent to which that gain is included in the Australian resident Holder’s assessable income.

A capital loss should not arise when a traditional security is disposed or redeemed at a loss.

b. Non-Australian resident Holders

A non-Australian resident Holder may be subject to Australian income tax on any gain derived in respect of the disposal or redemption of Heritage Bank Retail Bonds if that gain has an Australian source. Whether a gain arising on the sale of Heritage Bank Retail Bonds by a non-Australian resident Holder has an Australian source is a question of fact and will depend on all the circumstances of the disposal. A non-Australian resident Holder may be eligible for relief from Australian income tax if that Holder is entitled to the benefit of a double tax agreement between Australia and the non-Australian resident Holder’s country of residence for tax purposes.

Any capital gain or capital loss from a disposal or redemption of Heritage Bank Retail Bonds by a non-Australian resident Holder should be disregarded for CGT purposes.

4.4.3 Application of Division 230

Division 230 of the Tax Act has been enacted and introduces new tax-timing rules for certain taxpayers in relation to recognising gains and losses from “financial arrangements”. Heritage Bank Retail Bonds should be a “financial arrangement” for the purposes of Division 230 of the Tax Act.

Division 230 does not apply to certain taxpayers. It generally does not apply to Holders who are individuals or to certain other entities (for example, superannuation funds and managed investment schemes) which meet various turnover or asset thresholds, unless they elect for Division 230 to apply to all of their “financial arrangements”.

The consequences of Division 230 applying to a Holder will depend upon, for example, whether the Holder is an Australian resident or non-Australian resident Holder and whether the Holder chooses to apply any of the elective methods of recognising gains and losses from financial arrangements.

Therefore Holders should seek their own tax advice regarding the application of Division 230 of the Tax Act to their individual circumstances and the implications (if any) this has on the holding, disposal or redemption of Heritage Bank Retail Bonds.

If payments of Interest are exempt from Australian withholding tax under section 128F of the Tax Act, Division 230 does not override this.

Other Information

4.4.4 Provision of Tax File Number or Australian Business Number

Where a Holder has provided Heritage Bank with their Tax File Number (“TFN”), or in certain circumstances their Australian Business Number (“ABN”), or is otherwise exempt from providing this information, no amount of tax should be withheld by Heritage Bank from payments of Interest to the Holder.

You do not have to provide this information and it is not an offence if you fail to do so. However, in respect of an Australian resident Holder, Heritage Bank will be required to withhold Australian tax at the maximum marginal tax rate (currently 46.5% including the Medicare Levy) from any Interest payment and remit the amount to the Australian Taxation Office unless and until you provide your TFN, your ABN (in certain circumstances) or proof of some other exemption. An Australian resident Holder should be entitled to claim a tax credit/rebate (as applicable) in respect of any tax withheld on an Interest payment in their Australian income tax returns.

If payments of Interest are exempt from Australian interest withholding tax under section 128F of the Tax Act, then non-Australian resident Holders should not be subject to any withholding tax under these rules.

4.4.5 Goods and Services Tax (“GST”)

No Australian GST should be payable on the Issue, disposal or redemption of Heritage Bank Retail Bonds as the supply of Heritage Bank Retail Bonds should comprise either an input taxed financial supply or (in the case of a non-Australian resident Holder) a GST-free supply.

No Australian GST should also be payable in respect of the payment of Interest by Heritage Bank.

The acquisition of Heritage Bank Retail Bonds should constitute an “acquisition financial supply” (input taxed) by a Holder that is registered for Australian GST. While no GST should be payable by a Holder as a result, this may impact on the ability to claim tax credits on any costs incurred by a Holder in relation to the acquisition. Holders that are registered for GST purposes should seek their own tax advice in regard to their particular circumstances.

4.4.6 Stamp duty

No stamp duty should be payable in Australia on the Issue, disposal or redemption of any Heritage Bank Retail Bonds.

4.5 Fees

4.5.1 Handling fee

Heritage Bank will pay non-Syndicate Brokers and financial planners in Australia a handling fee of 1.00% of the Application Monies received from Applications accepted in the Member Offer and General Offer and which include the stamp or adviser code of that broker or financial planner, subject to a cap of \$1,000 per Application. This fee is inclusive of any applicable GST. Heritage Bank reserves the right to aggregate Applications that appear to be multiple Applications from the same Applicant.

4.5.2 Cornerstone Institutional Investor fees

Heritage Bank reserves the right, in its discretion, (but is not required) to pay to Institutional Investors which apply for a sufficiently large number of Heritage Bank Retail Bonds that Heritage Bank considers them to be cornerstone investors:

- 0.25% of the amount they commit to which is then allocated to them; and
- an additional 0.25% of their allocation provided they continue to hold that allocation three months after the Issue Date.

4.6 US Persons

Heritage Bank Retail Bonds have not been and will not be registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States. They may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, any US Person, unless an exemption from such registration applies. Any offer, sale or resale of Heritage Bank Retail Bonds within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act if made prior to 40 days after the Closing Date or if purchased by a dealer in the Offer.

The Offer Document does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States or to, or for the account or benefit of, any US Person. Neither this Offer Document nor any Application Forms or other materials relating to the Offer may be distributed in the United States.

Each Applicant in the Offer will be taken to have represented, warranted and agreed on behalf of themselves and each person for whom they are applying for Heritage Bank Retail Bonds as follows:

- they are not located in the United States at the time of application and are not acting for the account or benefit of, any US Persons;

- they have not distributed this Offer Document or any other written materials concerning the Offer to any person in the United States or to any US Persons; and
- they understand that the Heritage Bank Retail Bonds have not been and will not be registered under the US Securities Act and may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, any US Person, unless an exemption from such registration applies.

4.7 Information about credit ratings and Product Complexity Indicator

4.7.1 About Australia Ratings

Australia Ratings was established in 2010 and is licensed by ASIC to issue credit ratings for use in the retail and wholesale financial markets. The Managing Director of Australia Ratings was the former Managing Director for Standard & Poor’s in Australia & New Zealand from 2000-2008 and the four other analysts of Australia Ratings are former Standard & Poor’s ratings analysts.

The activities of Australia Ratings are overseen by its three person board which includes two non-executive directors with significant financial markets experience. For more information visit www.australiaratings.com.

4.7.2 Credit ratings

A credit rating is a statement, opinion or research dealing with the creditworthiness of a body or the ability of an issuer of a financial product to meet its obligations under the financial product.

Australia Ratings assigns credit ratings to differentiate the degree of creditworthiness of organisations and debt securities available to investors in the Australian financial market. Credit ratings are assigned on a long-term and short-term rating scale. A long-term credit rating is assigned to an organisation or fixed income product where the term of the investment or financial exposure is greater than 12 months and a short-term credit rating is assigned where the period of the financial exposure or term of the debt security is less than 12 months.

Australia Ratings assigns long-term ratings from ‘AAA’ to ‘C’. The ratings from ‘AA’ to ‘C’ may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. Australia Ratings’ credit rating scale is set out below.

Australia Ratings’ credit rating scale

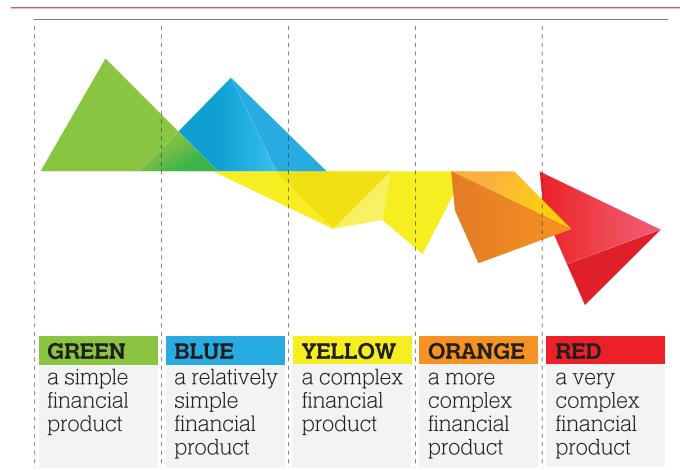
Creditworthiness classification	Long-term categories included	Short-term categories included
High	‘AAA’, ‘AA’, ‘A’	‘a-1’, ‘a-2’
Intermediate	‘BBB’, ‘BB’	‘a-3’
Low	‘B’, ‘CCC’, ‘CC’, ‘C’	‘b’, ‘c’

4.7.3 Product Complexity Indicators

A Product Complexity Indicator is a colour coded indicator that helps differentiate debt securities which may have similar credit attributes by highlighting to potential investors the nature of the security in terms of complexity or non-standard features that could give rise to unanticipated variability or change in the returns from the investment.

Australia Ratings assigns a Product Complexity Indicator to debt securities by using a colour spectrum similar to that used to provide warnings to the public in other non-financial circumstances. Australia Ratings assigns Product Complexity indicators ranging from “Green” to “Red”.

Product Complexity Indicator



4.7.4 Credit ratings assigned to Heritage Bank Retail Bonds

Australia Ratings has assigned a long-term credit rating of BBB+ to the Heritage Bank Retail Bonds to be issued, subject to no material changes occurring to the transaction structure or documentation.

Credit ratings are statements of opinion, not statements of fact or recommendations to buy or hold securities. Credit ratings may be changed, withdrawn or suspended at any time.

4.7.5 Product Complexity Indicator assigned to Heritage Bank Retail Bonds

Australia Ratings has assigned a "Green" Product Complexity Indicator to the Heritage Bank Retail Bonds to be issued, subject to no material changes occurring in the transaction structure or documentation.

Product Complexity Indicators are statements of opinion, not statements of fact or recommendations to buy or hold securities. Product Complexity Indicators may be changed, withdrawn or suspended at any time.

4.7.6 Australia Ratings' disclaimer

Australia Ratings has consented to the inclusion of information about the credit ratings and Product Complexity Indicator it has assigned to the Heritage Bank Retail Bonds in the form and context in which that information appears. Australia Ratings has made every effort to ensure the accuracy and reliability of the assigned credit rating and Product Complexity Indicator as disclosed in this Offer Document. The credit rating and Product Complexity Indicator assigned are based on information provided to Australia Ratings or which was obtained from sources which it believed to be accurate and reliable at the time of the assignment of the rating. Australia Ratings does not guarantee the completeness and accuracy of the rating and it is possible that subsequent material events or information may come to light after the publication of the credit rating which are not known to Australia Ratings and which may have a material impact on the credit rating assigned.

4.8 No statements by Advisers

None of any of the Joint Lead Managers, Co-Managers, Freehills or the Registrar has made any statement that is included in this Offer Document or any statement on which a statement made in this Offer Document is based. Each of those parties expressly disclaims all liability in respect of, makes no representations regarding and takes no responsibility for, any statements in, or omission from, this Offer Document.

4.9 Dealings in Heritage Bank Retail Bonds

Heritage Bank or any other member of Heritage Bank may subscribe for, purchase or resell Heritage Bank Retail Bonds from time to time.

4.10 Personal information

If you lodge an Application, Heritage Bank will collect information about you. Heritage Bank will use this information to process your Application, administer your Heritage Bank Retail Bonds and keep in touch with you in relation to your Heritage Bank Retail Bonds.

Heritage Bank may disclose this information for these purposes to its subsidiaries and companies on a confidential basis, as well as to agents, contractors and third party service providers that provide services on its or their behalf (e.g. the Registry and a printing firm or mailhouse engaged to print and mail statements to you). Some of these parties may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

If you used a financial adviser who recommended your investment in Heritage Bank Retail Bonds (as indicated on your Application Form), Heritage Bank may disclose details of your holding to that adviser.

Heritage Bank will also disclose this information if required or permitted to do so by law or if you consent to or request the disclosure.

If you think Heritage Bank's records of your personal information are incorrect or out of date, you can contact Heritage Bank and request that the information be corrected. Subject to certain exceptions, you may access your information at any time by contacting the Registry in writing. Heritage Bank is permitted to charge a fee for such access but does not intend to do so.

You may choose not to provide your personal information or to limit the information you provide, in which case Heritage Bank may not be able to process your Application, administer your Heritage Bank Retail Bonds, or make payments to you.

4.11 Governing Law

These Terms and Heritage Bank Retail Bonds are governed by and must be governed in accordance with the law in force in Queensland, Australia.



Section 5

How to Apply

How to Apply

5.1 Applying for Heritage Bank Retail Bonds

To apply for Heritage Bank Retail Bonds, you must complete the Application Form attached to the Offer Document or the online Application Form at www.heritagebankretailbonds.com.au.

The Offer comprises:

- a Member Offer made to Eligible Members of Heritage Bank;
- a General Offer made to members of the general public who are resident in Australia;
- a Broker Firm Offer made to Australian resident retail or high net worth clients of Syndicate Brokers; and
- an Institutional Offer to Institutional Investors.

The instructions for lodging your Application and accompanying Application Monies vary depending on whether you apply under the Member Offer, the General Offer, the Broker Firm Offer or the Institutional Offer.

5.1.1 Applying under the Member Offer

The Member Offer is available to Eligible Members of Heritage Bank.

You are an Eligible Member if, at the Opening Date you have a Heritage Bank Member Number and have a registered address in Australia. You will also need to meet the conditions outlined in "Restrictions on foreign jurisdictions" on the inside front cover of this Offer Document.

As an Eligible Member, you may apply for Heritage Bank Retail Bonds under the Member Offer by either:

- applying online at www.heritagebankretailbonds.com.au, providing your Heritage Bank Member Number, and following the instructions in relation to payment of your Application Monies; or
- completing the Application Form attached to this Offer Document, providing your Heritage Bank Member Number, and lodging your Application and accompanying Application Monies with the Registry.

If you apply for Heritage Bank Retail Bonds under the Member Offer you will receive priority over Applicants under the General Offer if there is excess demand for Heritage Bank Retail Bonds.

5.1.2 Applying under the General Offer

The General Offer is available to members of the general public who are resident in Australia.

Applications under the General Offer can be made by completing and lodging the Application Form accompanying this Offer Document, and lodging your Application and accompanying cheque and/or money order with the Registry.

You may also apply for Heritage Bank Retail Bonds online at www.heritagebankretailbonds.com.au.

5.1.3 Applying under the Broker Firm Offer

The Broker Firm Offer is available to Australian resident retail clients (or high net worth clients in certain other permitted jurisdictions) of Syndicate Brokers.

If you are applying under the Broker Firm Offer, you should contact the Syndicate Broker who has offered you an Allocation in the Broker Firm Offer for information about how and when to lodge your Application and accompanying Application Monies. Generally, you will lodge your Application with your Syndicate Broker.

5.1.4 Applying under the Institutional Offer

The Institutional Offer is open to Institutional Investors in Australia and certain overseas jurisdictions.

Applications under the Institutional Offer may only be submitted through the Joint Lead Managers or as the Joint Lead Managers permit. Full details on how to participate, including order conditions, will be provided to Institutional Investors by the Arranger.

5.2 Completing and lodging your Application

5.2.1 Minimum Application

The amount you have to pay for each Heritage Bank Retail Bond is \$100. You must apply for a minimum of 50 Heritage Bank Retail Bonds, which is a minimum investment of \$5,000. Applications for greater than 50 Heritage Bank Retail Bonds must be in multiples of 10 Heritage Bank Retail Bonds (\$1,000).

5.2.2 Lodging your Application (if you don't apply online at www.heritagebankretailbonds.com.au)

If you are applying under the Broker Firm Offer, you should contact the Syndicate Broker who has offered you a Broker Firm Allocation for information about how and when to lodge your Application. Generally, you will lodge your Application with your Syndicate Broker. Heritage Bank and the Registry take no responsibility for any acts or omissions by your Syndicate Broker in connection with your Application.

If you are applying under the Member Offer or the General Offer, you should lodge your Application and accompanying cheque and/or money order with the Registry by mailing to:

Mail Address

Heritage Bank Retail Bonds Offer

c/- Computershare Investor Services Pty Limited
GPO Box 2115
Melbourne Victoria 3001

If you would like to deliver your Application to the Registry please call the Heritage Bank Retail Bonds Information line on 1300 558 416 (within Australia) or +61 3 9415 4067 (outside Australia) (Monday to Friday 8.30am – 5.00pm, Queensland time) during the Offer Period.

Application Monies must be paid by cheque and/or money order in Australian dollars drawn on an Australian branch of a financial institution. It should be made payable to "Heritage Bank Retail Bonds Offer Account" and be crossed "not negotiable".

Applications and Application Monies must be received at the above address by 5.00pm (Queensland time) on 13 June 2012 for the Member Offer and the General Offer and by 10.00am on 19 June 2012 for the Broker Firm Offer and the Institutional Offer.

Applications and Application Monies will not be accepted at Heritage Bank's registered office or at any branch of Heritage Bank.

5.2.3 No brokerage or stamp duty

You do not have to pay brokerage or stamp duty on your Application for Heritage Bank Retail Bonds. However, you may have to pay brokerage (and applicable GST) on any subsequent purchases or sales of Heritage Bank Retail Bonds on ASX.

5.2.4 Allocation policy

Applications (excluding Applications under the Broker Firm Offer and Institutional Offer) may be scaled back if there is excess demand for the Offer. This may include scaling back to below the minimum Application of 50 Heritage Bank Retail Bonds (\$5,000). Some Applications may be rejected.

In the event of any scale-back, Applicants under the Member Offer will receive priority over Applicants under the General Offer.

Any scale-back and the basis of Allocation will be announced on the Issue Date (expected to be 20 June 2012) on ASX and through advertisements in The Australian, Australian Financial Review, The Sydney Morning Herald, The Courier Mail and The Age newspapers.

If you have applied under the Broker Firm Offer, your Syndicate Broker is responsible for determining Allocations. Heritage Bank takes no responsibility for any Allocation, scale-back or rejection that is decided by your Syndicate Broker.

Until Heritage Bank Retail Bonds are Issued, Heritage Bank, or its agent, will hold the Application Monies in a trust account. The account will be established and kept solely for the purpose of depositing Application Monies and dealing with those funds.

If you are not Allocated any Heritage Bank Retail Bonds or less than the number of Heritage Bank Retail Bonds you applied for, you will receive a refund cheque as soon as practicable after the Closing Date. No interest will be payable on Application Monies which are refunded. Any interest earned in the trust account will be retained by Heritage Bank.

5.3 Issue and quotation of Heritage Bank Retail Bonds

If ASX does not grant permission for Heritage Bank Retail Bonds to be quoted by the Issue Date, Heritage Bank Retail Bonds will not be Issued and all Application Monies will be refunded (without interest) as soon as practicable.

It is expected that Heritage Bank Retail Bonds will be quoted under the ASX code "HBSHB".

5.4 Trading and Holding Statements

5.4.1 Commencement of trading of Heritage Bank Retail Bonds

It is expected that Heritage Bank Retail Bonds will begin trading on ASX on a deferred settlement basis on 20 June 2012. Trading on a deferred settlement basis occurs when Holding Statements have not yet been despatched and it is not possible to settle trades on a trade date plus three business days (T+3) basis. The trade is settled on a date specified by ASX.

It is expected that Heritage Bank Retail Bonds will begin trading on ASX on a normal settlement basis on 25 June 2012.

It is your responsibility to determine your holding of Heritage Bank Retail Bonds before trading to avoid the risk of selling Heritage Bank Retail Bonds you do not own. To assist you in determining your holding prior to receipt of a Holding Statement, Heritage Bank will announce the basis of Allocation by placing advertisements in The Australian, Australian Financial Review, The Sydney Morning Herald, The Courier Mail and The Age newspapers on the Issue Date which is expected to be 20 June 2012. You should

How to Apply

also check your holding by asking your Syndicate Broker or calling the Heritage Bank Retail Bonds Information Line on 1300 558 416 (within Australia) or +61 3 9415 4067 (outside Australia) (Monday to Friday 8.30am – 5.00pm, Queensland time) during the Offer Period.

5.4.2 Holding Statements

Heritage Bank will apply for Heritage Bank Retail Bonds to participate in CHESS and, if accepted, no certificates will be issued. Instead, a Holding Statement will be mailed to Holders.

If your holding of Heritage Bank Retail Bonds changes, you will receive an updated Holding Statement.

5.4.3 Provision of TFN and/or ABN and banking instructions

Once you have received your Holding Statement in the mail, you will receive information about how to provide your TFN and/or ABN, if you wish to do so (see Section 4.4.4 “Provision of Tax File Number or Australian Business Number”).

5.4.4 Provision of bank account details for payments of Interest and Face Value

When your Holding Statement is mailed to you, you will also be mailed a form on which to provide your bank account details for payments of Interest and repayment of the Face Value.

5.4.5 US Persons

Restrictions applying to US Persons are outlined in Section 4.6 “US Persons”.



Section 6

Glossary

Glossary

Term	Meaning
ABN	Australian Business Number
ADI	Authorised Deposit-taking Institution
Allocation	The number of Heritage Bank Retail Bonds allocated under this Offer to Applicants under the Member Offer, General Offer, Broker Firm Offer and Institutional Offer. Allocated has a corresponding meaning
Applicant	A person who lodges an Application Form in accordance with this Offer Document
Application	A valid application for Heritage Bank Retail Bonds made through a completed Application Form in accordance with this Offer Document
Application Form	A paper or electronic form (as the context requires) attached to, or accompanying, this Offer Document or made available at www.heritagebankretailbonds.com.au upon which an Application for Heritage Bank Retail Bonds may be made
Application Monies	The amount payable on each Application, being the Face Value multiplied by the number of Heritage Bank Retail Bonds applied for
APRA	Australian Prudential Regulation Authority
Arranger	Commonwealth Bank of Australia (ABN 48 123 123 124, AFSL 234945)
ASIC	Australian Securities and Investments Commission
ASIC Guide	The guide published by ASIC entitled "Investing in corporate bonds?"
ASX	ASX Limited (ABN 98 008 624 691) or the securities market operated by it (as the context requires)
ASX Listing Rules	The listing rules of ASX, with any modification or waivers which ASX may grant to Heritage Bank from time to time
Australia Ratings	Australia Ratings Pty Limited (ABN 90 141 393 375, AFSL 346138)
Australian Financial Services Licence or AFSL	Has the meaning given to that term in the Corporations Act
Banking Act	Banking Act 1959 (Cth)
Board	The board of directors of the Issuer acting as a board
Bookbuild	The process through which Syndicate Brokers and certain investors bid for a firm Allocation of Heritage Bank Retail Bonds
Broker Firm Allocation	The Allocation allocated to a Syndicate Broker through the Bookbuild process
Broker Firm Offer	The offer as described in Section 5 "How to Apply"
Business Day	Has the meaning given to that term in the ASX Listing Rules
CHESS	Clearing House Electronic Subregister System
Change of Control Event	Has the meaning given in Clause 10.1 of the Terms

Term	Meaning
Closing Date	The closing date for the Offer which is expected to be 5.00pm on 13 June 2012 for the Member Offer and General Offer and 10.00am on 19 June 2012 for the Broker Firm Offer and the Institutional Offer
Co-Managers	Dornbusch Partners Pty Ltd, RBS Morgans Limited and Westpac Institutional Bank – a division of Westpac Banking Corporation
Commonwealth Bank	Commonwealth Bank of Australia (ABN 48 123 123 124, AFSL 234945)
Constitution	The constitution of Heritage Bank, as amended from time to time
Corporations Act	Corporations Act 2001 (Cth)
Deed Poll	Means the deed poll dated 17 May 2012 made by Heritage Bank
Directors	The directors of Heritage Bank
Dornbusch Partners	Dornbusch Partners Pty Ltd (ABN 68 107 237 196, AFSL 277493)
Eligible Member	An Applicant that has a Heritage Bank Member Number and a registered address in Australia as at the Opening Date
Evans and Partners	Evans and Partners Pty Limited (ABN 85 125 338 785, AFSL 318075)
Event of Default	Means any of the events specified in Clause 8.1 of the Terms
Face Value	A\$100 per Heritage Bank Retail Bond
General Offer	The offer as described in Section 5 “How to Apply”
GST	Goods and Services Tax
Heritage Bank	Heritage Bank Limited (ABN 32 087 652 024, AFSL 240984)
Heritage Bank Member Number	Means the number allocated by Heritage Bank to a Member to identify the account(s) that Member holds with Heritage Bank
Heritage Notes	Means the securities called Heritage Notes issued pursuant to a prospectus dated 14 September 2009
Holder	A registered holder of Heritage Bank Retail Bonds
Holding Statement	A statement issued to Holders by the Registry which sets out the number of Heritage Bank Retail Bonds Issued to that Holder
Institutional Investor	An investor to whom Heritage Bank Retail Bonds are able to be offered under applicable laws without the need for any Offer Document registration or other formality (other than a registration or formality which the Issuer is willing to comply with) and who has been invited by the Joint Lead Managers to bid for Heritage Bank Retail Bonds
Institutional Offer	The offer as described in Section 5 “How to Apply”
Interest	Interest payable on each Heritage Bank Retail Bond

Glossary

Term	Meaning
Interest Payment Dates	20 March, 20 June, 20 September, 20 December each year until the Maturity Date or a Redemption Date. If any of these scheduled dates is not a Business Day, then the Interest Payment Date will be the next Business Day. If payment is made into an account on a Business Day on which banks are not open for general banking business in the place which the account is located, then the due date for payment will be the first following day on which banks are open for general banking business in that place. The first payment will be made on 20 September 2012
Interest Period	Each period commencing on (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date. However: <ol style="list-style-type: none"> the first Interest Period commences on (and includes) the Issue Date; and the final Interest Period ends on (but excludes) the Maturity Date or a Redemption Date
Interest Rate	The Interest Rate will be fixed until the Maturity Date at 7.25%
Issue	The process of issuing Heritage Bank Retail Bonds to Holders. Issued has a corresponding meaning
Issue Date	The date Heritage Bank Retail Bonds are Issued which is expected to be 20 June 2012
Issuer	Heritage Bank Limited (ABN 32 087 652 024, AFSL 240984)
Joint Lead Managers	Commonwealth Bank, Evans and Partners and UBS
Maturity Date	20 June 2017
Member	Means a person listed on Heritage Bank's register of members
Member Offer	The offer as described in Section 5 "How to Apply"
Offer	The offer made through this Offer Document by Heritage Bank of Heritage Bank Retail Bonds to raise \$125 million, with the ability to raise more or less. The offer comprises the Member Offer, the General Offer, the Broker Firm Offer and the Institutional Offer
Offer Document	This Offer Document which was released to ASX on 17 May 2012
Offer Management Agreement	The offer management agreement entered into between Heritage Bank and the Joint Lead Managers, as summarised in Section 4.2.3
Offer Period	The period from the Opening Date to the relevant Closing Date
Opening Date	The opening date of the Offer which is 17 May 2012
Participating Brokers	Any participating organisation of ASX selected by the Joint Lead Managers to participate in the Bookbuild
Protected Account	Such accounts as are identified from time to time under the Australian Government's Financial Claims Scheme (see http://www.guaranteescheme.gov.au/qa/deposits.html#3)
RBS Morgans	RBS Morgans Limited (ABN 49 010 669 726, AFSL 235410)

Term	Meaning
Record Date	Has the meaning given in Clause 10.1 of the Terms
Redeem	In relation to a Heritage Bank Retail Bond, to redeem that Heritage Bank Retail Bond in accordance with Clause 4 of the Terms. "Redemption" and "Redeemed" have corresponding meanings
Redemption Date	Means, in respect of a Heritage Bank Retail Bond, the Maturity Date or any earlier date specified by the Issuer as the Redemption Date in accordance with the Terms
Register	The register of Heritage Bank Retail Bonds maintained by the Registry on Heritage Bank's behalf and including any subregister established and maintained in CHES
Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that Heritage Bank appoints to maintain the Register
RMBS	Residential mortgage-backed securities
SPIN	Standard & Poor's Mortgage Performance Index
Syndicate Broker	Any of the Joint Lead Managers, Co-Managers and Participating Brokers
Tax Act	Income Tax Assessment Acts of 1936 (Cth) and Income Tax Assessment Act 1997 (Cth)
Tax Event	Has the meaning given in Clause 10.1 of the Terms
Terms	The terms of Heritage Bank Retail Bonds attached as a schedule to the Deed Poll, as set out in the Appendix
TFN	Tax File Number
Tier 1 Capital	Tier 1 capital of ADIs as described by APRA from time to time
Tier 1 Capital Ratio	The ratio so described by APRA (or any equivalent successor term)
Tier 2 Capital	Tier 2 capital of ADIs as described by APRA from time to time
Total Capital Ratio	The ratio so described by APRA (or any equivalent successor term)
UBS	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087)
US Person	Has the meaning given in Regulation S of the US Securities Act
US Securities Act	United States Securities Act of 1933, as amended
Westpac	Westpac Institutional Bank – a division of Westpac Banking Corporation (ABN 33 007 457 141, AFSL 233714)

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Appendix

Terms of Heritage Bank Retail Bonds

Appendix

The following are the terms which will apply to each Heritage Bank Retail Bond.

Each Holder and any person claiming through or under a Holder is entitled to the benefit of, is bound by, and is taken to have notice of, these Terms, the Deed Poll and the Offer Document.

1 Form of Heritage Bank Retail Bonds

1.1 Constitution and Form

- a. Heritage Bank Retail Bonds are registered debt obligations of the Issuer constituted by, and owing under, the Deed Poll and take the form of entries in the Register.
- b. Each entry in the Register constitutes a separate and individual acknowledgement to the relevant Holder of the indebtedness of the Issuer to that Holder.
- c. No certificate or other evidence of title to a Heritage Bank Retail Bond will be issued unless the Issuer is required to do so by applicable law or regulation.

1.2 Currency

Heritage Bank Retail Bonds are denominated in Australian dollars.

1.3 Face Value

Each Heritage Bank Retail Bond is issued fully paid with a face value of A\$100 (**Face Value**).

1.4 Clearing system

The rights of a person holding an interest in Heritage Bank Retail Bonds registered in CHESS are subject to the rules and regulations of CHESS.

1.5 ASX quotation

The Issuer must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure that the Heritage Bank Retail Bonds are quoted on ASX on or as soon as possible after the Issue Date and remain quoted on ASX until Redeemed.

1.6 No other rights

Heritage Bank Retail Bonds confer no rights on a Holder:

- a. to become a member of the Issuer;
- b. to vote at any meeting of members of the Issuer;
- c. to subscribe for or participate in any new securities of the Issuer on any basis; or
- d. to otherwise participate in the profits or property of the Issuer, except as set out in these Terms or the Deed Poll.

2 Status and ranking

2.1 Status and ranking

- a. The Heritage Bank Retail Bonds are interest bearing, unsubordinated and unsecured obligations of the Issuer and rank equally among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, except liabilities mandatorily preferred by law including, but not limited to, sections 13A and 16 of the Banking Act and section 86 of the Reserve Bank Act 1959 (Cth).
- b. The Heritage Bank Retail Bonds rank ahead of all subordinated obligations of the Issuer.
- c. The Heritage Bank Retail Bonds do not constitute deposit liabilities or Protected Accounts of the Issuer in Australia for the purposes of the Banking Act.
- d. The exercise of any contractual rights of set off between the Holders and any claims by the Issuer against those Holders is not permitted. The Holders have no equivalent rights against the Issuer.

3 Interest

3.1 Interest

Each Heritage Bank Retail Bond bears interest (**Interest**) on its Face Value during each Interest Period from (and including) the Issue Date to (but excluding) the Redemption Date.

Interest on each Heritage Bank Retail Bond under this clause 3.1 accrues daily and is payable in arrears on each Interest Payment Date or (in the case of the final Interest Period) on the Redemption Date.

3.2 Calculation of Interest

The amount of Interest payable on each Heritage Bank Retail Bond for an Interest Period under clause 3.1 is calculated according to the following formula:

$$\text{Interest payable} = \frac{\text{Face Value} \times \text{Interest Rate} \times N}{365}$$

where:

N means, in respect of an Interest Period, the number of days in that Interest Period.

3.3 Notification of Interest Rate, Interest payable and other items

The Issuer must notify the Registry, ASX and the Holders of the Interest Payment Date, the Interest Rate and the amount of Interest payable on each Heritage Bank Retail Bond for each Interest Period.

The Issuer must give notice under this clause 3.3 as soon as practicable after it makes its calculations and by no later than the fourth Business Day of the relevant Interest Period.

The Issuer may amend its calculation or determination of any amount, item or date (or make appropriate alternative arrangements by way of adjustment) as a result of the extension or reduction of the Interest Period or calculation period without prior notice but must notify the Registry and ASX promptly after doing so.

3.4 Determination final

The determination by the Issuer of all amounts, rates and dates calculated or determined by it under these Terms is, in the absence of wilful default, bad faith or manifest error, final and binding on the Issuer, the Registry and each Holder.

3.5 Calculations

For the purposes of any calculations required under these Terms:

- a. all percentages resulting from the calculations must be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005% being rounded up to 0.00001%);
- b. all figures must be rounded up to four decimal places (with 0.00005 being rounded up to 0.0001); and
- c. all amounts that are due and payable must be rounded to the nearest one Australian cent (with one half of an Australian cent being rounded up to one Australian cent).

4 Redemption and purchase

4.1 Redemption on the Maturity Date

Each Heritage Bank Retail Bond must be redeemed by the Issuer paying to the Holder the Redemption Amount for that Heritage Bank Retail Bond in accordance with clause 6 on the Maturity Date unless:

- a. the Heritage Bank Retail Bond has been previously Redeemed; or
- b. the Heritage Bank Retail Bond has been purchased by the Issuer and cancelled.

4.2 Early redemption of Heritage Bank Retail Bonds for Tax Event at the option of the Issuer

If a Tax Event occurs the Issuer may Redeem all (but not some) of the Heritage Bank Retail Bonds in whole on an Interest Payment Date before their Maturity Date for their Redemption Amount.

However, the Issuer may only Redeem the Heritage Bank Retail Bonds under this clause 4.2 if the Issuer has given

notice of its election to do so at least 15 Business Days (and no more than 45 Business Days) prior to the proposed Redemption Date to the Registry, the Holders and ASX.

4.3 Redemption on a Change of Control Event at the option of the Issuer

If a Change of Control Event occurs, then:

- a. the Issuer may redeem all (but not some) of the Heritage Bank Retail Bonds in whole before their Maturity Date for their Redemption Amount; and
- b. the Issuer must notify the Registry, Holders and ASX of the occurrence of the Change of Control Event as soon as practicable after becoming aware of the event specifying the date on which the Change of Control Event occurred.

If the Issuer wishes to exercise its right to Redeem Heritage Bank Retail Bonds under this clause 4.3 it must notify the Registry, Holders and ASX of:

- a. its intention to do so within 20 Business Days of the date on which the Change of Control Event occurred; and
- b. a proposed Redemption Date which is at least 15 Business Days (and no more than 45 Business Days) after the date of the notice.

4.4 Increase in Interest Rate on a Change of Control Event

- a. In respect of the first Change of Control Event to occur, if the Issuer has not given a notice under clause 4.3 to Redeem all Heritage Bank Retail Bonds by the 20th Business Day following that Change of Control Event, the Interest Rate will increase by 2.50% per annum with effect from the date on which that Change of Control Event occurs.
- b. The Issuer must notify the Registry, Holders and ASX of any increase in the Interest Rate pursuant to clause 4.4(a) by no later than the 21st Business Day following the relevant Change of Control Event.

4.5 Late Payment

If any Heritage Bank Retail Bonds are Redeemed late because of a default in payment by the Issuer, Interest will continue to accrue on those Heritage Bank Retail Bonds at the rate applicable immediately prior to the Redemption Date until (but excluding) the date on which payment is made to the Holder.

4.6 Effect of notice of redemption

Any notice of Redemption given under this clause 4 is irrevocable and the Issuer must, subject to 6.3, Redeem the relevant Heritage Bank Retail Bonds on the Redemption Date specified in that notice.

4.7 Purchase

- a. The Issuer, any of its Related Bodies Corporate (as defined in the Corporations Act but excluding any Offshore Associate) or any third party nominated by the Issuer may, at any time, to the extent permitted by any applicable laws and regulations, purchase Heritage Bank Retail Bonds in the open market or otherwise and at any price.
- b. Heritage Bank Retail Bonds purchased under this clause 4.7 may be held or resold (or, if the purchaser is the Issuer, cancelled) at the option of the purchaser, subject to compliance with any applicable law or requirement of ASX.

5 Title and transfer of Heritage Bank Retail Bonds

5.1 Title

Title to Heritage Bank Retail Bonds passes when details of the transfer are entered in the Register.

5.2 Effect of entries in Register

Each entry in the Register of a person as the Holder of a Heritage Bank Retail Bond constitutes:

- a. conclusive evidence of that person's:
 - i. absolute ownership of that Heritage Bank Retail Bond; and
 - ii. entitlement to the other benefits given to Holders under these Terms and the Deed Poll in respect of Heritage Bank Retail Bonds; and
- b. an undertaking by the Issuer to pay Interest, the Redemption Amount and any other amount in accordance with these Terms,

subject to correction of the Register for fraud or error.

For the avoidance of doubt, any entry in the Register does not make the Holder a member of the Issuer or confer rights on a Holder to become a member of the Issuer.

5.3 Non-recognition of interests

Except as required by law, the Issuer and the Registry must treat the person whose name is entered in the Register as the holder of a Heritage Bank Retail Bond as the absolute owner of that Heritage Bank Retail Bond. This clause 5.3 applies whether or not a Heritage Bank Retail Bond is overdue and despite any notice of ownership, trust or interest in the Heritage Bank Retail Bond.

5.4 Joint Holders

Where two or more persons are entered in the Register as the joint holders of a Heritage Bank Retail Bond then they are taken to hold the Heritage Bank Retail Bond as joint tenants with rights of survivorship and subject to the terms of the Deed Poll, but the Registry is not bound to register more than three persons as joint holders of any Heritage Bank Retail Bond.

5.5 Transfers in whole

Heritage Bank Retail Bonds may be transferred in whole but not in part.

5.6 Transfer

A Holder may transfer a Heritage Bank Retail Bond:

- a. for so long as Heritage Bank Retail Bonds are registered with CHESS, in accordance with the rules and regulations of CHESS; or
- b. at any other time:
 - i. by a proper transfer under any other computerised or electronic system recognised by the Corporations Act; or
 - ii. by any proper or sufficient instrument of transfer of marketable securities under applicable law.

The Issuer must not charge any fee on the transfer of Heritage Bank Retail Bonds.

5.7 Stamp Duty

The Holder is responsible for any stamp duty or other similar taxes which are payable in any jurisdiction in connection with the transfer, assignment or other dealing with Heritage Bank Retail Bonds.

5.8 Market obligations

The Issuer must comply with all Applicable Regulations and any other relevant obligations imposed on it in relation to the transfer of Heritage Bank Retail Bonds.

5.9 Delivery of instrument

If an instrument is used to transfer Heritage Bank Retail Bonds according to clause 5.6, it must be delivered to the Registry, together with such evidence (if any) as the Registry reasonably requires to prove the title of the transferor to, or right of the transferor to transfer, Heritage Bank Retail Bonds.

5.10 Transferor to remain Holder until registration

A transferor of Heritage Bank Retail Bonds remains the Holder of Heritage Bank Retail Bonds until the transfer is registered and the name of the transferee is entered in the Register.

5.11 Transmission

A person becoming entitled to a Heritage Bank Retail Bond as a consequence of the death, bankruptcy, liquidation or a winding-up of a Holder or of a vesting order by a court or other body with power to make the order or a person administering the estate of a Holder may, upon providing such indemnity and producing such evidence as to that entitlement or status as the Issuer considers sufficient, transfer the Heritage Bank Retail Bond or, if so entitled, become registered as the holder of the Heritage Bank Retail Bond.

6 Payments

6.1 Summary of payment provisions

Payments in respect of Heritage Bank Retail Bonds will, subject to the Deed Poll, be made in accordance with this clause 6.

6.2 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 7.

6.3 Payments on Business Days

If any payment:

- a. is due on a day which is not a Business Day, then the due date for payment will be the next Business Day; or
- b. is to be made to an account on a Business Day on which banks are not open for general banking business in the place in which the account is located, then the due date for payment will be the first following day on which banks are open for general banking business in that place.

In none of these cases will there be any adjustment to the amount payable by reason of any delay or early payment.

6.4 Payment of Interest

Payments of Interest (other than Interest included in a Redemption Amount) will be made to the person registered at 5.00pm on the Record Date for that payment as the Holder of that Heritage Bank Retail Bond.

6.5 Payment of Redemption Amount

Payments of the Redemption Amount will be made to the person registered at 5.00pm on the Redemption Date as the Holder of that Heritage Bank Retail Bond.

6.6 Payments to accounts

Monies payable by the Issuer to a Holder may be paid by crediting an Australian dollar bank account maintained in Australia with a financial institution and nominated in writing by the Holder by close of business on the relevant Record Date (or in the case of Redemption, by close of business on the fifth Business Day prior to the Redemption Date) or in any other manner the Issuer decides.

6.7 Unsuccessful attempts to pay

If the Holder has not notified the Registry of an account for the purposes of payment under clause 6.6 or the transfer of any amount for crediting the nominated account does not complete for any reason (other than an error made by or on behalf of the Issuer), the Issuer will be treated as having paid the amount on the date on which it would otherwise have made the payment and a notice will be sent to the address most recently notified by the Holder advising of the uncompleted payment. In that case, unless the Issuer decides to complete the payment by another method, the amount of the uncompleted payment will be held on deposit in a non-interest bearing account maintained by the Issuer or the Registry with an ADI until the Holder nominates a suitable Australian dollar account maintained in Australia for crediting with the payment or the claim becomes void under clause 9.1. No additional interest is payable in respect of any delay in payment. The account in which a payment is held under this clause may be used to hold payments due to other holders of Heritage Bank Retail Bonds but for no other purpose.

6.8 Payment to joint Holders

A payment to any one of joint Holders will discharge the Issuer's liability in respect of the payment.

6.9 No set-off, counterclaim or deductions

All payments in respect of Heritage Bank Retail Bonds must be made:

- a. in full without set-off or counterclaim by the Issuer in respect of claims by the Issuer against the Holders of Heritage Bank Retail Bonds, except as permitted by clause 7.3; and
- b. without any withholding or deduction in respect of Taxes, unless the withholding or deduction is required by law or permitted by clause 7.3.

7 Taxation

7.1 Withholding tax

Subject to clause 7.2, if a law requires the Issuer to withhold or deduct an amount in respect of Taxes from a payment in respect of a Heritage Bank Retail Bond such that the Holder would not actually receive on the due date the full amount provided for under the Heritage Bank Retail Bond, then:

- a. the Issuer may deduct the amount for the Taxes (and any further withholding or deduction applicable to any further payment due under paragraph (b) below); and
- b. if the amount deducted or withheld is in respect of Taxes imposed by a Relevant Tax Jurisdiction, the amount payable is increased so that, after making the deduction and further deductions applicable to additional amounts payable under this clause 7.1, the Holder is entitled to receive (at the time the payment is due) the amount it would have received if no deductions or withholdings had been required to be made.

7.2 Withholding tax exemptions

No Additional Amounts are payable under clause 7.1(b) in respect of any Heritage Bank Retail Bond:

- a. to, or to a third party on behalf of, a Holder who is liable to such Taxes in respect of that Heritage Bank Retail Bond by reason of the person having some connection with a Relevant Tax Jurisdiction other than the mere holding of that Heritage Bank Retail Bond or receipt of payment in respect of that Heritage Bank Retail Bond;
- b. to, or to a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such Taxes by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or similar case for exemption to any tax authority;
- c. to, or to a third party on behalf of, a Holder who is an Offshore Associate and not acting in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporations Act;
- d. to, or to a third party on behalf of, an Australian resident Holder or a non-resident Holder carrying on business in Australia at or through a permanent establishment of the non-resident in Australia, if the Holder has not supplied an appropriate tax file number, an Australian business number or other exemption details; or
- e. if the Taxes have been imposed or levied as a result of the Holder being party to or participating in a scheme to

avoid such Taxes, being a scheme which the Issuer was neither a party to nor participated in.

7.3 Tax File Number

The Issuer will deduct tax from payments of Interest on Heritage Bank Retail Bonds at the highest marginal tax rate plus the Medicare levy if a Holder has not supplied an appropriate tax file number, Australian business number or exemption details.

If a Holder supplies exemption details and the Issuer subsequently determines that the relevant exemption was not available, the Issuer may recover the amount that should have been deducted from the relevant Holder and may deduct that amount from any subsequent payment due to that Holder in respect of Heritage Bank Retail Bonds.

8 Events of Default

8.1 Events of Default

An Event of Default occurs in relation to Heritage Bank Retail Bonds if:

- a. **failure to pay:** the Issuer fails to pay the Face Value of the Heritage Bank Retail Bonds when due or fails to pay any Interest due on those Heritage Bank Retail Bonds within 15 days of the due date; or
- b. **insolvency:** the Issuer becomes insolvent or its debts are not paid as they mature or the Issuer applies for or consents to or suffers the appointment of a liquidator or receiver of the Issuer or the whole or any part of the undertaking, property, assets or revenues of the Issuer or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors; or
- c. **dissolution:** any law is passed the effect of which is to dissolve the Issuer or the Issuer ceases to carry on a general banking business in Australia or ceases to be authorised to carry on a general banking business within Australia.

8.2 Consequences of an event of default

If an Event of Default occurs each Holder may by notice to the Issuer (with a copy to the Registry at its Registry Office) declare that, the amount referred to in clause 8.3 applicable to a Heritage Bank Retail Bond owned by that Holder is due and payable on the next Business Day after service (determined in accordance with clause 9.6) of the notice unless, prior to that date, the Issuer has cured or otherwise made good all Events of Default subsisting prior to that date. Payment of the amount determined as set out in clause 8.3 in respect of that notice will be made by the

Issuer in the manner determined pursuant to clause 6 as if the next Business Day after the service of the notice was the relevant due date for payment.

8.3 Amount payable on default

For the purposes of clause 8.2 the amount payable in respect of each Heritage Bank Retail Bond is the Redemption Amount.

8.4 Notification

If an Event of Default occurs under clause 8.1, the Issuer will promptly after becoming aware of it notify the ASX and the Registry of the occurrence of the Event of Default specifying details of it and use its reasonable endeavours to procure that the Registry promptly notifies the Holders of the occurrence of the Event of Default by registered post to the address of the Holders recorded in the Register.

9 General

9.1 Time limitations for claims

A claim against the Issuer for a payment under a Heritage Bank Retail Bond is void unless made within 5 years from the date on which payment first became due.

9.2 Voting

The Deed Poll contains provisions for convening meetings of the Holders to consider any matter affecting their interests including certain variations of these Terms which require the consent of the Holders. Resolutions passed at any such meeting will be binding on all Holders.

9.3 Amendments without consent

At any time and from time to time, but subject to compliance with the Corporations Act and all other applicable laws, the Issuer may, without the consent of the Holders, amend these Terms or the Deed Poll if the Issuer is of the opinion that such alteration is:

- a. of a formal or technical or minor nature;
- b. made to cure any ambiguity or correct any manifest error;
- c. necessary or expedient for the purpose of:
 - i. enabling Heritage Bank Retail Bonds to be listed for quotation, or to retain quotation, on any securities exchange or to be offered for subscription or for sale under the laws for the time being in force in any place; or
 - ii. complying with the provisions of any statute or the requirements of any statutory authority or the ASX Listing Rules or the listing or quotation requirements of any securities exchange on which the Issuer may

propose to seek a listing or quotation of Heritage Bank Retail Bonds; or

- iii. correcting or supplementing any defective provision of the Terms or amending any provision of the Deed Poll, and in the case of any alteration under paragraph (c) the Issuer has obtained an opinion of reputable legal counsel of recognised standing in Australia that such alteration is otherwise not materially prejudicial to the interests of Holders as a whole.

9.4 Amendments with consent

At any time and from time to time, but subject to compliance with the Corporations Act and all other applicable laws, the Issuer may amend these Terms or the Deed Poll with the approval of the Holders if such alteration is approved by an Extraordinary Resolution.

In this case, the Terms of all Heritage Bank Retail Bonds will be amended from the date specified in an Extraordinary Resolution or otherwise notified to the Holders (provided such date is permitted by the terms of the Extraordinary Resolution).

9.5 Meaning of amend

In clauses 9.3 and 9.4, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

9.6 Notices

a. To Holders

Unless otherwise specified, all notices and other communications to the Holders must be in writing and either:

- i. sent by prepaid post (airmail if appropriate) to or left at the address of the Holders (as shown in the Register at the close of business on the day which is three Business Days before the date of the notice or communication); or
- ii. (if available) issued to Holders through CHES in accordance with any applicable rules and regulations of CHES.

b. To the Issuer and Registry

All notices and other communications to the Issuer or the Registry must be in writing and may be sent by prepaid post (airmail if appropriate) to or left at the address of the Issuer or the Registry, as applicable.

c. When effective

Notices and other communications take effect from the time they are taken to be received unless a later time is specified in them.

d. Receipt

- i. If sent by post, notices or other communications are taken to be received three days after posting (or seven days after posting if sent to or from a place outside Australia).
- ii. If left at the address, notices or other communications are taken to be received when given unless received after 5.00pm in the place of receipt or on a non-Business Day, in which case they are taken to be received at 9.00am on the next Business Day.
- iii. If published as an announcement on ASX, when the announcement is made on ASX.

9.7 Further issues

The Issuer may from time to time, without the consent of the Holders, issue any other notes, shares or any other form or type of securities, or incur or guarantee any indebtedness, whether ranking equally with, in priority to, or junior to the Heritage Bank Retail Bonds, upon such terms as it may think fit in its sole discretion.

9.8 Governing law

These Terms and Heritage Bank Retail Bonds are governed by and must be governed in accordance with the law in force in Queensland, Australia.

9.9 Jurisdiction

The Issuer submits, and each Holder is taken to have irrevocably and unconditionally submitted, to the non-exclusive jurisdiction of the courts of Queensland and courts of appeal and the courts competent to determine appeals from those courts, with respect to any proceedings which may be brought at any time relating to these Terms. The Issuer waives any right to object to an action being brought in those courts including by claiming that the action has been brought in an inconvenient forum.

10 Definitions and interpretation

10.1 Definitions

In these Terms, unless the context requires otherwise:

ADI means an “authorised deposit taking institution” (as defined in the Banking Act).

Additional Amount means an additional amount payable by the Issuer under clause 7.1.

Applicable Regulation means such provisions of the ASX Listing Rules, the ASX Settlement Operating Rules, the rules and regulations of CHESS, the Corporations Act and any regulations or rules pursuant under or pursuant to any such provisions as may be applicable to the transfer.

APRA means the Australian Prudential Regulation Authority.

ASX means ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires.

ASX Listing Rules means the listing rules of ASX from time to time with any modifications or waivers in their application to the Issuer, which ASX may grant.

ASX Settlement Operating Rules means the settlement operating rules of ASX from time to time with any applicable modifications or waivers granted by ASX.

Australian Tax Act means the Income Tax Assessment Act 1936 (Cth) and, where applicable, the Income Tax Assessment Act 1997 (Cth).

Banking Act means the Banking Act 1959 (Cth).

Business Day means a day which is (i) a business day within the meaning of the ASX Listing Rules, and (ii) (for the purposes of payment or calculation of Interest) a date on which banks are open for general business in Queensland.

Change of Control Event means:

- a. A person and/or its associates:
 - i. are in a position to cast, or control the casting of, more than one half of the number of votes that might be cast at a general meeting of the Issuer (other than as a proxy given to the Chairman of the meeting); or
 - ii. have the right to appoint or remove, or control the appointment or removal of, all or the majority of the directors of the Issuer; or
- b. a court makes an order to approve a scheme of arrangement under Part 5.1 of the Corporations Act which, when implemented, will result in a person being in a position to cast more than one half of the maximum number of votes that may be cast at a general meeting of the Issuer; or
- c. the Issuer ceases to be a mutual or (whether or not the Issuer has ceased to be a mutual) a government agency alleges in writing that the Issuer has ceased to be a mutual.

Change of Control Event Redemption Date means the date which is 20 Business Days after the expiry of the Change of Control Event Redemption Period.

Change of Control Redemption Period means the period beginning on the date falling 20 Business Days after the occurrence of a Change of Control Event and ending on the date which is 45 Business Days from that date.

CHES means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532) or any successor or other clearing or settlement system specified by the Issuer.

Corporations Act means the Corporations Act 2001 (Cth).

Costs include costs, charges and expenses.

Deed Poll means the deed poll dated 17 May 2012 executed by the Issuer to constitute the Heritage Bank Retail Bonds.

Event of Default means any of the events specified in clause 8.1.

Extraordinary Resolution means:

- a. a resolution passed at a meeting of the Holders duly called and held under the Meeting Provisions by a majority consisting of at least 75% of the votes cast; or
- b. a resolution passed by postal ballot or written resolution, by Holders of at least 75% of aggregate Face Value of Heritage Bank Retail Bonds then outstanding.

Face Value means the principal amount of each Heritage Bank Retail Bond, as set out in clause 1.3 of these Terms.

Government Body means any country, state or political subdivision or any government or central bank or any governmental, semi-governmental, international, judicial, administrative, municipal, local governmental statutory, fiscal, monetary or supervisory authority, body or entity.

Heritage Bank Retail Bonds means each interest bearing, unsubordinated and unsecured debt obligation denominated in Australian dollars and issued, or to be issued, by the Issuer which is constituted by, and owing under, the Deed Poll, the details of which are recorded in, and evidenced by, entry in the Register.

Holder means in relation to any Heritage Bank Retail Bond, a person whose name is for the time being recorded in the Register as the owner of that Heritage Bank Retail Bond.

Interest Payment Date means, in respect of a Heritage Bank Retail Bond, 20 March, 20 June, 20 September and 20 December each year until all Heritage Bank Retail Bonds have been Redeemed. If any of these Interest Payment Dates is not a Business Day, then the payment will be made in accordance with clause 6.3. The first payment will be made on 20 September 2012.

Interest Period means, for a Heritage Bank Retail Bond:

- a. for the first Interest Period, the period commencing on (and including) the Issue Date and ending on (but excluding) the next Interest Payment Date; and
- b. thereafter each period commencing on (and including) an Interest Payment Date and ending on (but excluding)

the first to occur of the next Interest Payment Date or the Redemption Date for that Heritage Bank Retail Bond.

Interest Rate means 7.25% per annum.

Issue Date means, in respect of a Heritage Bank Retail Bond, the date on which that Heritage Bank Retail Bond is issued.

Issuer means Heritage Bank Limited (ABN 32 087 652 024, AFSL 240984).

Maturity Date means 20 June 2017.

Meeting Provisions means the provisions for the convening of meetings of, and passing of resolutions by, Holders set out in Schedule 2 of the Deed Poll.

Offer means the invitation under the Offer Document made by the Issuer for persons to subscribe for Heritage Bank Retail Bonds.

Offer Document means the offer document dated on or about 17 May 2012.

Offshore Associate means an associate (as defined in section 128F of the Income Tax Assessment Act 1936 (Cth)) of the Issuer that is either:

- a. a non-resident of Australia which does not acquire the Heritage Bank Retail Bonds in carrying on a business at or through a permanent establishment in Australia; or
- b. a resident of Australia that acquires the Heritage Bank Retail Bonds in carrying on business at or through a permanent establishment outside of Australia.

Protected Account means a protected account as defined in the Banking Act.

Record Date means, in the case of:

- a. payments of Interest, the date that is eight calendar days prior to the relevant Interest Payment Date (or as otherwise prescribed by the ASX Listing Rules or if not prescribed by the ASX Listing Rules, a date determined by the Issuer and notified to the ASX);
- b. payments of Face Value, a date determined by the Issuer and notified to the ASX (or such other date as may be prescribed by the ASX Listing Rules).

Redemption means the redemption of a Heritage Bank Retail Bond by the Issuer paying to the Holder of that Heritage Bank Retail Bond the Redemption Amount for that Heritage Bank Retail Bond on the Redemption Date in accordance with clause 6 and the words **Redeem**, **Redeemable** and **Redeemed** bear their corresponding meanings.

Redemption Amount means, in respect of each Heritage Bank Retail Bond, the sum of the Face Value and any Interest which has accrued but is unpaid on that Heritage Bank Retail Bonds on the Redemption Date.

Redemption Date means, in respect of a Heritage Bank Retail Bond, the **Maturity Date** or any earlier date specified by the Issuer as the **Redemption Date** (including a Change of Control Event Redemption Date) in accordance with clause 4 or on which the Heritage Bank Retail Bond is required to be Redeemed under clause 8.2.

Register means the register of Holders established and maintained by, or on behalf of the Issuer in which is entered the names and addresses of Holders, the amount of Heritage Bank Retail Bonds held by each Holder, details of the transfer of those Heritage Bank Retail Bonds and any other particulars the Issuer sees fit. The term Register includes:

a. any sub-register maintained by, or on behalf of the Issuer under the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules; and

b. any branch register,

provided that, in the event of any inconsistency, the principal register will prevail over any sub-register or branch register.

Registry means Computer Share Investor Services Pty Limited (ABN 48 078 279 277) or such other person appointed by the Issuer to maintain the Register and perform any payment and other duties as specified in that agreement.

Registry Office means the office in Brisbane of the Registry.

Relevant Tax Jurisdiction means Australia or any relevant political sub-division.

Tax Event means the receipt by the Issuer of an opinion from a reputable legal counsel or other tax adviser in Australia, experienced in such matters to the effect that, as a result of a change in, or amendment to, the laws of a Relevant Tax Jurisdiction, or any change in their application or official or judicial interpretation or administration, which change or amendment becomes effective on or after the Issue Date it is likely that:

a. the Issuer will be required to pay an Additional Amount; or

b. payment of interest will no longer be fully deductible (or the entitlement to make such deduction shall be materially reduced) by the Issuer in any Relevant Tax Jurisdiction.

Taxes means taxes, levies, imposts, charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties, fines and expenses in connection with them, except if imposed on, or calculated having regard to, the net income of the Holder.

Terms means, in relation to Heritage Bank Retail Bonds, these terms and conditions of issue, as set out in Schedule 1 to the Deed Poll.

10.2 Interpretation

In these Terms unless the contrary intention appears:

a. a reference to:

i. an agreement or instrument includes any variation, supplement, replacement or novation of that agreement or instrument;

ii. a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

iii. a person includes a reference to the person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;

iv. any thing is a reference to the whole and each part of it;

v. one gender includes every other gender;

vi. a document includes all schedules and annexes to it;

vii. a clause or paragraph is to a clause or paragraph of these Terms;

viii. "Australian dollars", "A\$" or "Australian cent" is a reference to the lawful currency of Australia;

b. the singular includes the plural and vice versa;

c. the word "person" includes a firm, body corporate, an unincorporated association, an authority or a Government Body;

d. unless otherwise specified to the contrary, any reference to a time is to Queensland time; and

e. headings are inserted for convenience and do not affect the interpretation of these Terms.



Application Form

Registered Office of the Issuer

Heritage Bank Limited
6th Floor, 400 Ruthven Street
Toowoomba QLD 4350

Arranger and Joint Lead Manager

Commonwealth Bank of Australia
Ground Floor, Tower 1, 201 Sussex Street
Sydney NSW 2000

Joint Lead Managers

Evans and Partners Pty Ltd
32 Jolimont Terrace
East Melbourne VIC 3002

UBS AG, Australia Branch
Level 16, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

Co-Managers

Dornbusch Partners Pty Ltd
Old Post Office Building
Level 1, 140 Margaret Street
Toowoomba QLD 4350

RBS Morgans Limited
Level 29, Riverside Centre, 123 Eagle Street
Brisbane QLD 4000

Westpac Institutional Bank
– a division of Westpac Banking Corporation
Level 2, Westpac Place, 275 Kent Street
Sydney NSW 2000

Legal Adviser

Freehills
MLC Centre, 19-29 Martin Place
Sydney NSW 2000

Auditor

Ernst & Young
1 Eagle Street
Brisbane QLD 4000

Registry

Computershare Investor Services Pty Limited
117 Victoria Street
West End QLD 4101

Heritage Bank Retail Bonds Information Line
1300 558 416 (within Australia)
or +61 3 9415 4067 (outside Australia)
Monday to Friday 8.30am – 5.00pm, Queensland time

