

The Application of Technology for Strategic Advantage



ACIS – 2007

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Topics

- 1. Background on Heritage Building Society**
- 2. The Application of Technology to Banking**
- 3. The Application of Technology – The Downsides**
- 4. The Future – Technology as an Enabler of Superior Service**
- 5. How do we get there?**
- 6. My First Day at Heritage**
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Executive Summary

Australia's largest building society ¹

- \$6.5 billion in assets
- Australia's largest building society
- Retail financial services provider along Australia's eastern seaboard
- APRA regulated ADI licensed under the Australian Banking Act

Investment Grade Ratings

- A2/P1 from Moody's, May 2007
- BBB+/A-2 from Standard & Poor's, June 2006

Conservative Balance Sheet

- High proportion of residentially secured mortgage loans
- Zero sub prime exposure
- Large retail funding base
- Excellent arrears performance, consistently less than half SPIN

Consistent Financial Performer

- 8 consecutive years of record profits
- Strong growth in capital base

1. Source: S&P (By consolidated assets as at June 2007)

Prudent Regulated Retail Lender

Heritage Building Society Limited

Established over 132 years ago

- \$6.5 billion total consolidated assets
 - 713 employees (674 Full-time equivalent)
- Mutual organisation – no issued share capital
- Toowoomba based but asset diversified across Qld, NSW, Vic and SA
 - 59 branches in South East Queensland
 - Lending offices in Brisbane, Sydney, Melbourne & Adelaide
 - 133 points of presence
- Carefully managed business growth strategy
- 14 best building society awards since 2001

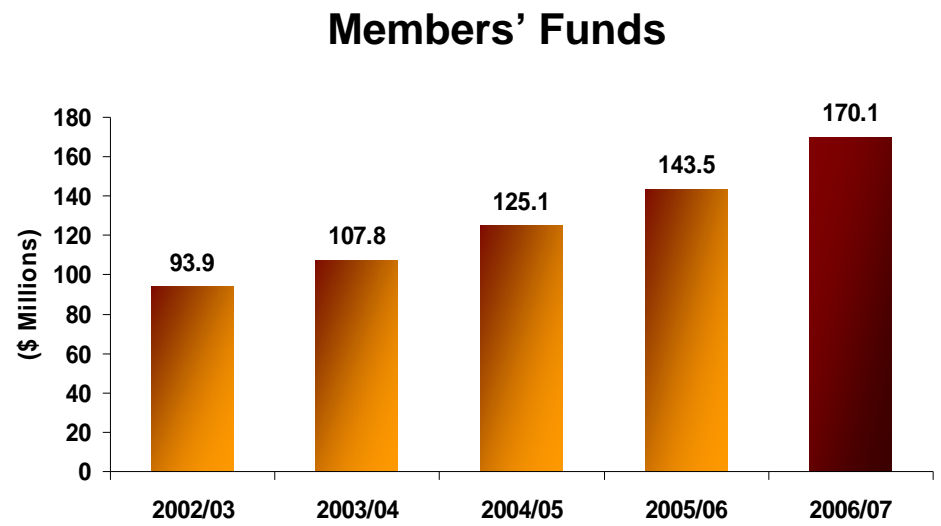
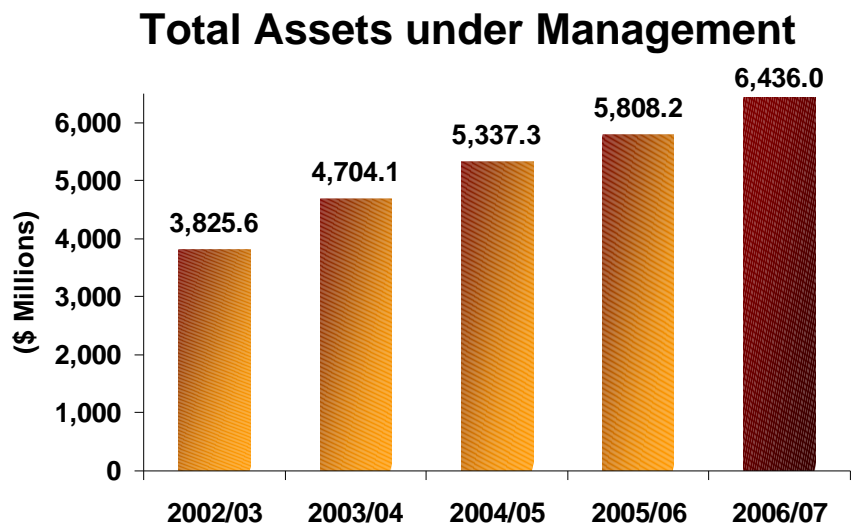
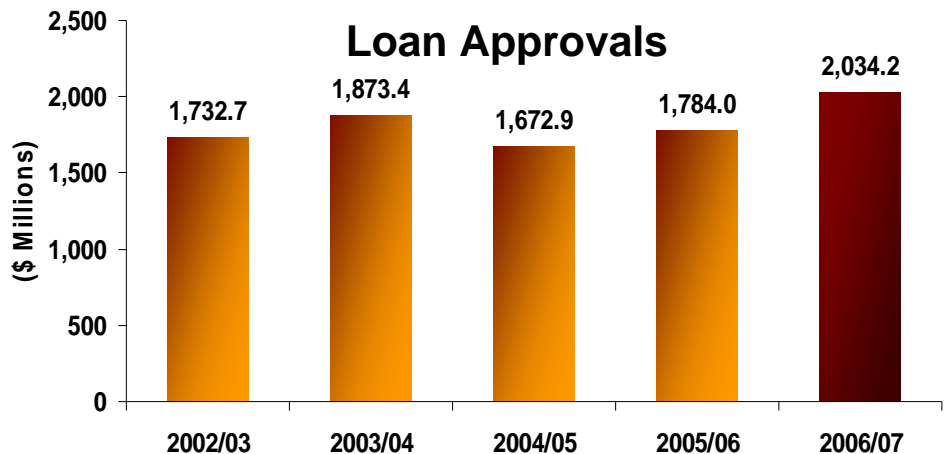
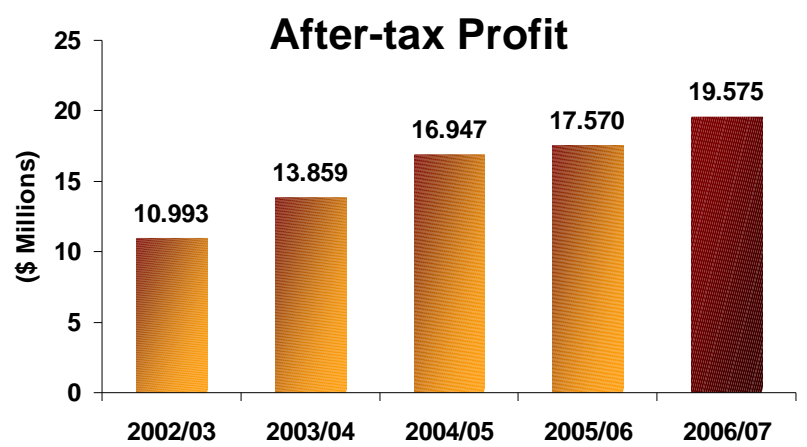
1. Source: KPMG (By consolidated assets as at October 2007)

AWARD WINNING PERFORMANCE

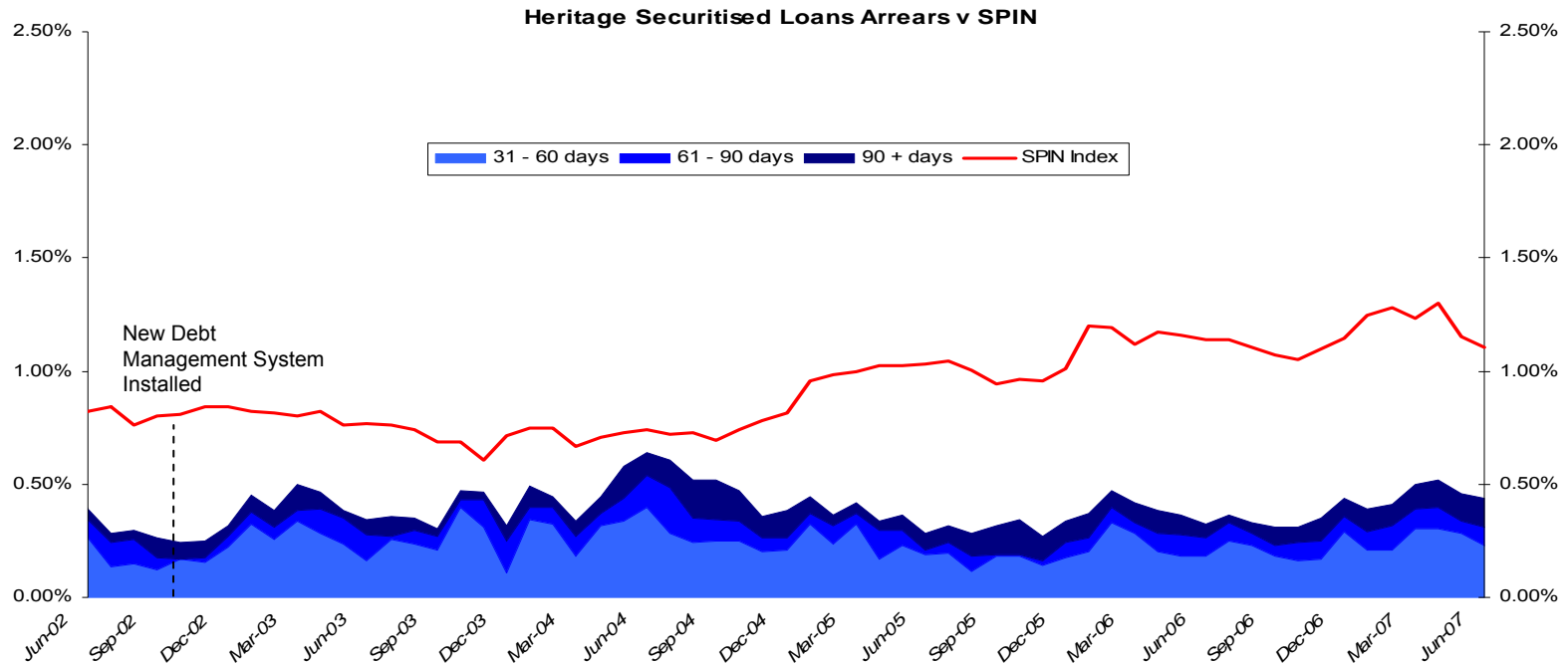


Established Lender along Australia's Eastern Seaboard

Financial Performance: Steady Progress



Arrears Data



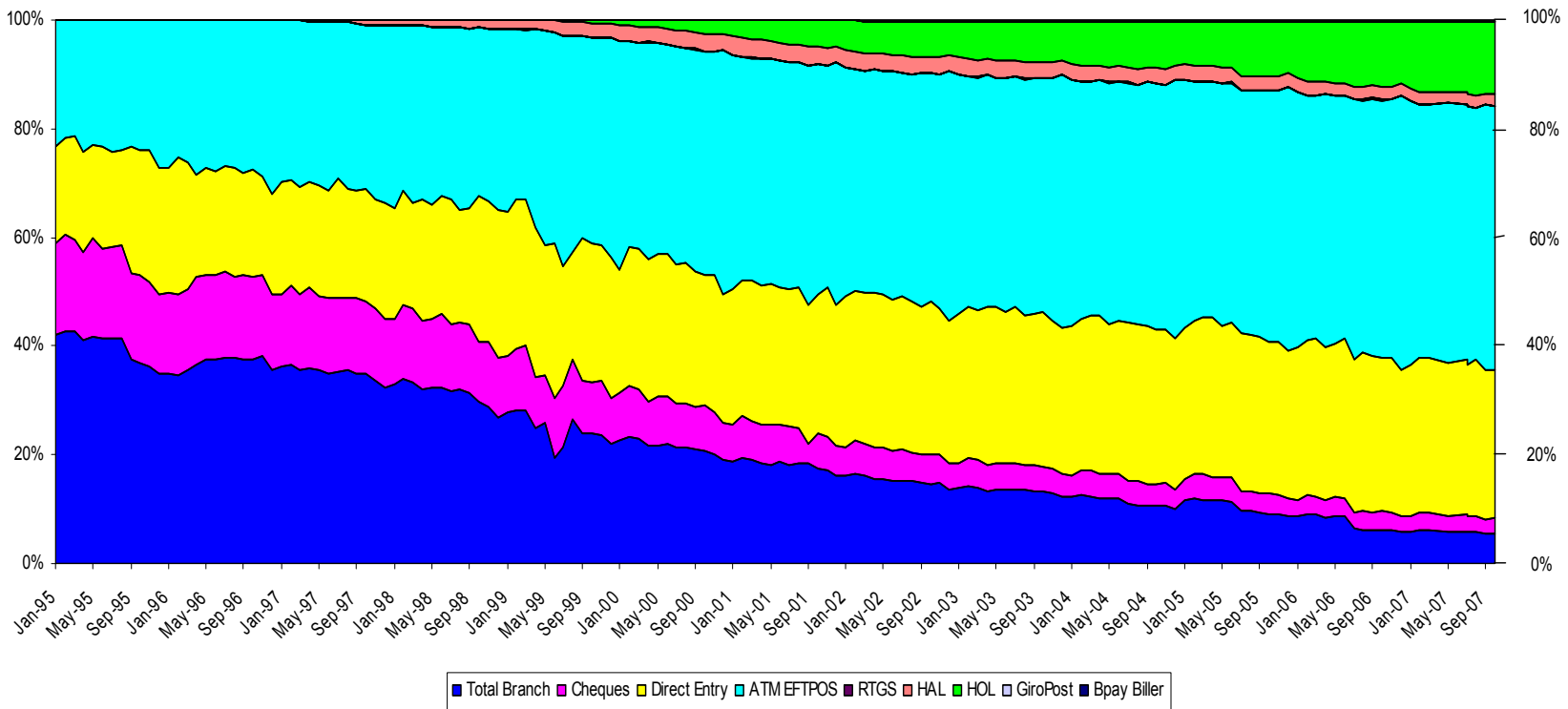
Source: S&P Australian SPIN – June 2007

- As at March 2007, Heritage had the sixth lowest arrears of all issuers included within SPIN (*S&P Australian RMBS Performance Watch March 31, 2007*)

Arrears Consistently Below SPIN

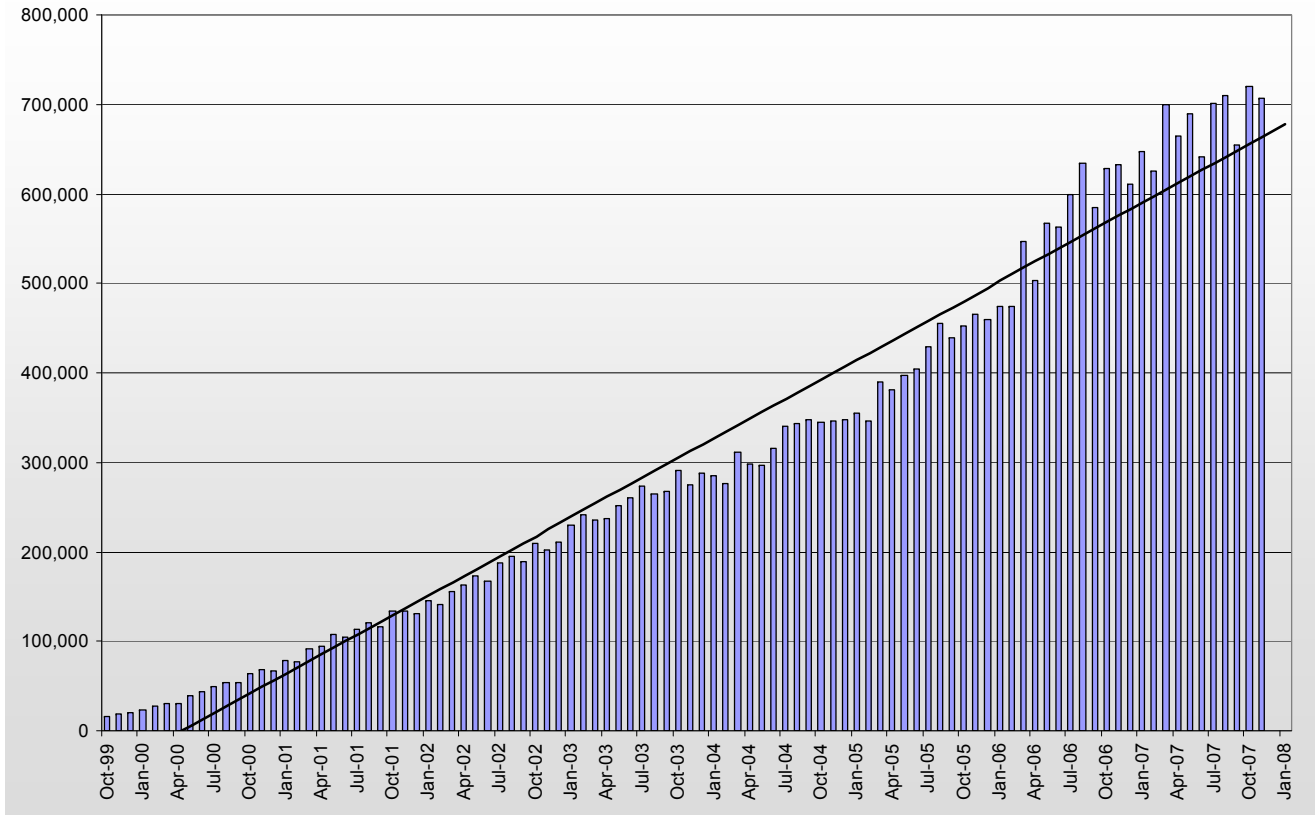
Changing Banking Transactional Pattern

Heritage Building Society
Member Transactions



Internet Banking Trend – since 1999

Heritage on-line Internet Banking
Monthly Logins



The Application of Technology to Banking

- **Internet Banking**
- **Loan Processing**
 - **Blend of new technologies**
 - **Productivity Flowing to Service Advantage**
 - **Standard & Poor's Servicer Evaluation**
- **Technology and Reduced Paperwork**
 - **Imaging**
 - **Signature Scanning**
 - **BPay Payments**
 - **Electronic Statements**
 - **Bill Presentment**
 - **Electronic Credit Contracts**
- **Automated Electronic Finance**

The Application of Technology to Banking

- **Technology and Better Risk Management**
 - **Credit Scoring**
 - **Behavioural Scoring**
 - **Data mirroring**

- **Technology and Automation of Broker Lending**
 - **B2B and the back channel**
 - **Broker Extranets**

- **Technology and Automation of Lenders Mortgage Insurance**

- **Technology and Staff**
 - **Recruitment**
 - **Staff Communication**
 - **Training and Development**

The Application of Technology to Banking

- **Technology & Compliance**
 - **Anti Money Laundering**
- **Technology & Fraud Prevention**
 - **Card transactions**
- **Technology and the Phone Experience**
 - **IVRs**
 - **Computer Telephony Integration**
- **Technology and Personalised Banking**
 - **Your Internet Banking**
 - **Choose Your Own Card**

The Application of Technology – The Downsides

- **Quality management**
- **Reliance on technology**
- **Access to and retention of skilled staff**
- **Electronic fraud**
- **Information Security**

Key Messages

- **Technology's only purpose is to support the strategies and tactics of my business**
- **No technology for technology sake**
 - **Strategic alignment**
 - **IT Governance**
 - **HRIS**
 - **Virtualisation**
- **Strategic advantage is to leverage mutuality to provide our members a superior service and value proposition**
- **Technology is to be responsive to meet dynamic needs of the business**
 - **Technology as a key strength**
 - **In house preference**
- **Technology industry needs to fortify technology channels – security**
- **Bandwidth limits**

The Future of Banking

➤ **Banking in the Information Age**

- **Unlimited and less costly bandwidth**
- **Technology providing self service choice to customers for all products and services**
- **Integrating agent-support with internet self-service banking**
- **Real time access to CBT and staff communications**
- **Integration of CRM across all distribution channels, including predictive direct, targeted and individualised marketing**
- **99.999% availability**
- **Magnetic cards replaced by chip cards**
- **Confidence of banking consumers backed up by low cost dual factor authentication**
- **Dynamic Relationship Pricing Tools**

How do we get there?

- **Partnership-based research on real applications**
- **Collaborative lobbying – bandwidth**
- **Skills shortage – industry working with academic institutions**
 - **Graduate programs**
 - **Advisory Committees**
- **Y Generation will demand it**
- **Focus on Innovation**
- **Competitive Forces**

My First Day at Heritage

- **No PCs (2 in IT Department for host application testing)**
- **Greenscreen dumb terminals**
- **Paper diary**
- **Memos – paper based**
- **Lending – paper based**
- **Audited with a purple pen**
- **Manuals were paper based**
- **Most members had passbooks**
- **John Symond had just started Aussie Home Loans – margins were at 4%**

Conclusion

- Banking without technology – ancient history
- Technology as an enabler of superior service
- Technology as a strength
- Real applications needed