

Question and Answer

Brett Cole

Brett Cole from Business Spectator. Could you tell me what your hopes or dreams are in terms of attracting customers through the online segment? And secondly, what -- given that the acquisition, if I hear you correctly, is predicated on that to some extent, and then what kind of products do you think that these young professionals or young families in the age group you specified want from BOQ and Virgin Money?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

I think given that we're experiencing customer acquisition or Virgin Money's experiencing customer acquisition growth to grow in 20%, we want that to continue. So we know that there's capability to grow in those segments. The opportunities also to cross-sell into those customers that really only just have one product. We want to manufacture a number of products that we believe we have capability, being mortgages, savings, personal loans, some small business loans and grow that over time. But we don't want to lose the customer experience that Virgin Money actually provides at the moment because that is the one that keeps bringing them back. So while we have hopes and dreams, we're not getting too far ahead of ourselves in saying we have to build it pretty well. But the great thing is we are involved with a global challenger brand, where people actually come to the brand rather than us having to go after the customers. And I think that's one of the great successes that Virgin's have across many of its industries.

Edmund Anthony Biddulph Henning

CLSA Limited, Research Division

Ed Henning from CLSA. Can you just talk to us about the positive EPS contribution [indiscernible]? Is that from adding new products to the current Virgin suite? Or is it more the rolloff of the existing labeling contracts? And can you just elaborate on those?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

It has a little bit to do with the customer acquisition because they're growing rapidly. The customer acquisition costs in the early years are actually substantially higher. So as the portfolio matures, more particularly in the credit card space, you'll find it turns to profitability as your acquisition costs roll off and your servicing costs are relatively low. And typically, that's a 3-year position before you actually turn to the profit on it. But having the scale starts driving your increased profitability, as well. So it's a mix of acquisition cost running off and scale starting to improve.

Unknown Attendee

Just a question on a couple of things. Firstly, the variables that impact the royalty payment going forward to the Virgin Group. And secondly, just a better appreciation for what the current mix of the business sits between the various products, and perhaps what this will do to your deposit-to-loan ratio at the bank level. Is it material?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Yes, it won't be material on the deposit-to-loan ratio. For instance, the majority of the customers sit within the credit card portfolio, and 3 probably keep superannuations relatively sizable as well with a book of about \$450 million. The credit card portfolio is backed through CDs, so the loan isn't actually on the balance sheet. The variables that are affecting the royalty are basically the number of customers and the income that it's generated, which drives the royalty out in the back. It's reasonably straightforward from that point of view.

Tony Boyd

Tony Boyd, Fin Review. Stuart, I was looking on the App Store and I couldn't see anything there in relation to Virgin Money, and all the other big banks are obviously well ahead of you. And I just wonder, have you got the capacity, have you got the people, have you got the money to catch up?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Yes, it's a good question. I think if you're not digital, social or mobile, then you are going to have problems competing in this space. And part of the business plans we'll be putting together will be completely aligned with that outcome. And particularly at BOQ, we actually do have a mobile app, which is one of the first in the market for Internet banking. But we haven't invested sufficiently in it. The question is do we have sufficient to keep investing in this because we -- it is an important part of the growth, and the answer is yes because we wouldn't be going to this otherwise. You're on a roll, Tony.

Tony Boyd

Yes, look, just -- well, I've got the microphone. The other banks have all got this -- a sort of simple default, super -- My Super product. Is Virgin Money going to come up with something like that? Or is the 25 to 40 age group, they don't even worry about that stuff?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Oh, that's for Brian.

Brian V. Bissaker

Former Chief Executive Officer of Virgin Money Australia

Virgin already has a strong product offering in default server, and it will be working through that as My Super comes into law [indiscernible] in July. So there's a good product offering there in the default space now, and that's for both corporates and individuals. Over time, we'll be looking to grow out from that.

Andrew Stabback

Stuart, Andrew Stabback, Australian Financial Publication, AB+F. Is there going to be any material impact on the ratings? Or in fact, is there going to be a balance sheet effect in those first 2 years?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

No. The capital impact is the major one, which is the 12 basis points. On the rating impact, you'll have to speak to the rating agency. I mean, they're the ones who determine the outcome. I think the positives are that we're accessing new customer bases, which gives us diversity of source of revenue, and also accessing new geographies, which is giving us a broader spread. So I think even from a business-risk perspective that's a positive step.

Just the phone?

Operator

And your first question comes from the line of Craig Williams from Citi.

Craig Anthony Williams

Citigroup Inc, Research Division

What percentage of the Virgin customers are already multi-product, financial services customers within the Virgin Group? And so what expectations do you have for the deepening relationships with existing customers as opposed to growth of sort of single product relationships?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Yes, there's only 4% of the customer base is actual multi-product within the Virgin Money portfolio, We're working through that those numbers now, Craig. And part of it is actually ensuring that we have the right platform to which to market to the customers. And once we get the ownership, we can actually go in there and understand a bit more about it. We haven't set firm guidelines at this point of time for cross-sell. But we know it's a significant opportunity that is latent in the business.

Craig Anthony Williams

Citigroup Inc, Research Division

Okay. And I think the focus from Bank of Queensland's perspective initially at least is on banking. You do want Andrews [indiscernible] brand on the insurance side. Is there an ability for BOQ's involvement to expand beyond banking in time?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Look, in time. But we've got some -- Virgin Money has some very strong partner relationships already in the insurance space, in life, in general insurance, and we'll be making sure that we work with those partners because they're doing some very good work with Virgin Money at the moment. But certainly, in the future, at the right time, to the extent that BOQ has product capability, then we will look to work with those as well.

Operator

Your next question comes from the line of Mike Wiblin from Macquarie.

Michael Wiblin

Macquarie Research

My question was just around customer ownership as it exists. I'm surprised Craig didn't mention Citigroup there. But does Virgin currently own the customers and as a result can, I suppose, cross-sell effectively? Does this acquisition actually change that at all? And what are the assumptions around attrition in the business case?

Brian V. Bissaker

Former Chief Executive Officer of Virgin Money Australia

Yes, look, Virgin does have rights over customers in certain of the product sets, et cetera. And so we will be able to look at effective cross sells as we move forward. The attrition rates -- as Stuart said, there's a greater than 20% acquisition rate. The attrition rates wouldn't be any higher than a normal attrition rate depending on what product set. For example, in superannuation, I think it's a fairly low attrition right now. It's less than -- standard attrition rate for retail super would be around 20%. Virgin Money, from what I've seen, is closer to 10%, could be 8%. So it's a stickier business in some segments. Certainly, no more than a market attrition rate, and in some segments, better.

Michael Wiblin

Macquarie Research

Okay. And maybe just a question for David. Obviously Virgin's acquisition of Northern Rock in the U.K. was a bit of a step change and certainly a step change in the competitive environment over there. I mean, what is the appetite internationally to have a bit more of a physical presence for the Virgin Money brand?

David Baxby

Former Independent Non-Executive Director

I think it's just going to be down on a case-by-case basis, and we've got a quite a nascent business in South Africa. Clearly, the U.K. has gone through some seismic shifts in terms of the competitive landscape over there. You've got 2 or 3 of the bigger banks over there that are now majority government owned. I mean, Australia certainly doesn't suffer from anything like that. So I wouldn't want to draw the parallel

between the 2 markets. But as we look around the world and obviously, the United States, in particular, is a market that we've had a number of forays into and most notably with our airline over there. We look at that market and we continue to see that as that market continues to stabilize, that there could be further opportunities to continue to build out the brand in those markets. But at this stage, Australia is one of the most important markets for the brand in the world. And that's why we've been spending so much time focused on it to make sure that we find the right partner and continue to grow these businesses.

Operator

Your next question comes from the line of Anthony Hoo from Nomura.

Anthony Hoo

Nomura Securities Co. Ltd., Research Division

Given that Virgin Group is taking up a board seat on the BOQ board, can you talk a bit more about the expected involvement of Virgin Group beyond the Virgin Money business?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

We're only told about the Virgin Money business. They all just probably will give you a bit of an outline as to what we've tried to get to. We have -- part of the agreement, we have the ability to access some of the skill that exists outside of Australia, particularly at the global level with Virgin insights, which is a very good data analytic company, the global brand marketing, as well as access to what is happening with Virgin Money U.K., where we can share best practice and learnings through that. The seat on the board is an important one so that Virgin International is looking and understanding what is happening within Australia given the importance of this brand in the market to them. And that the label of Virgin Money, there'd be an Advisory Committee which is pretty much 3B, 3 BOQ Virgin Money Australia and 3 Virgin International, making sure that we are delivering consistent returns and customer expectation standards, which are consistent with the brand.

Operator

And your next question comes from the line of Kate Kachor from the Financial Observer.

Kate Kachor

My question is for Brian. I'm just wondering what are your plans for the business in terms of expanding further into the wealth management space?

Brian V. Bissaker

Former Chief Executive Officer of Virgin Money Australia

Yes. The business, as I said, already has a good wealth management footprint with the insurance and superannuation. But it's no doubt, and particularly given my background, that we're going to have a look at other products and services. It's just a little bit early to say exactly, and I don't want to say exactly what I'm doing because we want to keep a little bit of powder dry on that one. But there's no doubt that the wealth space, particularly as I said before, you're seeing a lot of movement in the direct space in wealth, and this movement will continue. And that's why I think this brand and what they've already achieved in Australia in wealth and with our small capital injected through BOQ becomes an importance wealth play for not just Virgin Money but also to BOQ.

Operator

And your next question comes from the line of David Shi from Morgan Stanley.

David F. Shi

Morgan Stanley, Research Division

I just wanted to ask, do you see the FY '15 management targets of growing at 1.2x business [indiscernible] in retail loan growth and 1.5x in business loan growth changing as part of this acquisition?

And secondly, as you sell BOQ-manufactured bank products to customers under the Virgin brand, do you see yourself maintaining an above-tier deposit pricing strategy to fund this growth?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

The management tax for FY '15, we'll obviously review them as they came in, but we still believe the businesses will hit those targets on the asset growth. And which reminds me that part of it was taken into account of any asset management group runoff that might occur through that time. What was -- sorry, Dave, what last part of the question?

David F. Shi

Morgan Stanley, Research Division

Yes, the second part of the question is as you sell the BOQ-manufactured bank products to the cost under the Virgin brand, do you see yourself maintaining an above-tier deposit pricing strategy to actually fund this growth?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

I think we watch margin pretty closely, David, so margin applies across the whole book, not just in one particular area. So decisions we make in one part of the balance sheet will also be taken into account across the whole balance sheet. So it's not an isolated instance. And as you'll see with those internal management targets we put out, we put the margin guidance that we measure ourselves on out there, as well.

Operator

And your next question comes from the line of Victor German from Nomura.

Victor German

Nomura Securities Co. Ltd., Research Division

My question relates to your earlier comments, Stuart, on the capital position. As you said, you still maintain quite a strong capital position. Can you give us an idea or a rationale why this acquisition was partly funded using -- were using scrips as opposed to fully funding it using cash? It would have cost you about 25 basis points of capital, and you would still see a reasonably high number. I'm just interested in your thoughts around your capital position, whether you think that you need to maintain that level of capital going forward, or you are still looking for potential opportunities in terms of organic growth going forward as well.

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

The reason we use scrip as the acquisition vehicle is pretty simple, as there's a great alignment of interest between the 2 organizations. Virgin will have a shareholding in the company, which we think is very valuable. And it ties our source of fortunes and interest together very well. So I don't think there's a short-term decrement to the capital position because we're still very strongly capitalized. But any short-term impact that you perceive is more than offset by the long-term impact of alignment of interest, which I believe is critical with any strategic partner. So I'm pretty comfortable with the position we have on a capital basis. And we're releasing the half-year lease next week, so you'll get a better sense of that when we do that. But we still believe we have peer-leading capital position.

Victor German

Nomura Securities Co. Ltd., Research Division

Right. So you're saying it's more driven by alignment of interest rather than any read-through in terms of what you ultimately see as your capacity to make further bolt-on acquisitions?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Well, this is purely about alignment of interest, and we certainly haven't discussed anything further around bolt-on acquisitions.

Operator

[Operator Instructions]

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Sorry. Andrew?

Unknown Attendee

Yes, just one more question. Clearly, customer acquisition in this retail play has technology implications, and progressive modern and efficient technology is going to be a pretty important part of this, I'd imagine you've given this some serious consideration. What would you say your priorities at Bank of Queensland in investment and technology given this announcement? What are the main 3 things you have to do?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

In Bank of Queensland or the Virgin Money?

Unknown Attendee

Together.

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

It's actually getting the platform right. And one of the things we're focused on BOQ was getting the process right, as well, not letting technology for us get ahead of the process that we have to remedy. Plenty of processes put on technology don't actually make for a great recipe. I think technology is moving pretty quickly, too, in the cloud technology space. And we're pretty mindful of watching what's developing in that space because it does provide a very interesting cost effective solutions, but it's still in its infancy. So we're trying to monitor what are the best platforms for us to use going forward being, I suppose, not a scale provider, which typically can give you some benefits. But with the advent of where cloud is moving, we can get global scale benefits at -- to a much greater degree than we have previously. So I think it's actually measuring our timing around because we have -- while you might have the capital to move, that's where you've got the resources that you have to move at the same pace as well. So timing is actually one of the most critical things in line with our strategy.

Unknown Attendee

You mentioned that you thought customers were disillusioned somewhat in the offerings of the big 4. Could you expand on that and why they would want to come to this new product suite?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Well, I think the customers are coming already. I mean, if you look at the growth rate that Virgin Money has been able to achieved, there are very few financial services institutions that had been running at customer acquisition growth greater than 20% per annum for the last 3 years, I would suggest. Most institutions are trying to find ways of attracting customers, but the service offerings still come back to the same core system at the end of the day. The attraction of Virgin is that it has this ability to move across industrial spaces, which is quite unique for brands, whereas most banks are actually quite locked into the financial services space. And with that, the attraction is much wider than just being associated with financial services actually being a fan, which is completely different to being a customer. And I think if

you talk to most of the Virgin people, I would suggest that their so-called customers are actually fans, which means that they actually believe in the brands and believe with what is being offered, and that's a fundamental difference to where I think most bank customers sit at the moment.

Leng Yeow

Leng Yeow from Financial Review. Question for Brian. Brian, given your background in the complexity around financial services and wealth products, do you think there's a need to have advice coupled with that?

Brian V. Bissaker

Former Chief Executive Officer of Virgin Money Australia

I think the, Leng, the term advice will -- is a broad spectrum, and it starts with information. It starts with an engagement with the customer. And I think that's what attracts me to what Virgin has been able to do here in Australia around the way that they've market the product, acquire the information, et cetera, keep it simple, keep it clean, develop a dialogue with the individual. And it gets back to this point I made about the individual feeling confident enough to self-fulfill in the financial services space. So that to me is advice and certainly there's a range of information and things like calculators and other tools that we'll be able to build out from what Virgin Money already has. Looking at full-blown financial advice, if you like, there's no capability there at this stage. And I would rather focus on this engagement with the customer to have a one-on-one direct relationship with them, rather than working through intermediaries. And we'll see how that evolves over time, but I think there's a lot of upside there.

Leng Yeow

And just a question quickly for David. A lot of your competitors and institutions in this space have sort of targeted older people. They tend to be more aware of this superannuation and wealth. How are you going to use your brand to sort of get young people engaged?

David Baxby

Former Independent Non-Executive Director

It's funny. When we do a lot of the brand research, there's a couple of different customer segments that naturally get attracted to the brand. And you obviously highlight the younger generation, which like the challenge status, unlike what Richard goes out there and tries to achieve. But we're all aware of the demographic issues around a lot of us at the western OECD economies at the moment, and we call them the growing old disgracefully crowd, which in quite a similar vein, identify with Richard and with his lifestyle and with their own aspirational lifestyle as well, which is why we went into super some 7 or 8 years ago because people want to have control over one of their largest financial assets. They want it to be cheap, cost-effective, transparent and very aligned. I think just building on what Brian said before, if you look at where technology is going the ability to continue to drive down that chain and then continue to enhance that brand perception across all those demographics, not just the younger generation, I think it sounds pretty exciting.

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

There's one more from the phone, I think.

Operator

And your final question comes from Nicole Mehalski from Merrill Lynch.

Nicole Mehalski

BofA Merrill Lynch, Research Division

My question is around the opportunity you talked about, the selling, the mortgage and SME products under the VMA brand. And I guess the evidence is suggesting that customers still prefer a face-to-face

experience sitting around these products, and the change is still some years away. So I'm just interested in your strategy on that front.

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Preferences are changing. And what we are targeting is select channels that we'll operate within, and we know that a number of people are moving into the online channel. So we'll look at the channels and the advocacy as to where it moves. But what we're highlighting is that there are opportunities in the online, but we could also look at opportunities where they may well be kiosks around, as well, to supplement the online products. So we're not discounting Virgin as just a pure online play. But we're looking at how the brand actually resonates with customers in multiple segments and what is the best way to approach those customers in a way that isn't confrontational and is easy to access.

I think that's it. So thanks very much for your attendance today, and we look forward to seeing you next week. Thanks very much.