AMP 2013 Half Year Results – Analyst Briefing

Howard Marks

Welcome everyone to AMP's 2013 half year results briefing. My name is Howard Marks and I'm Director of Investor Relations. To my right sits the CEO Craig Dunn, CFO Colin Storrie and Managing Director of the Australian Financial Services Business Craig Meller, who will take you through the result briefing. Thereafter Managing Director of AMP Capital Stephen Dunne will join the guys on stage for a Q&A. So if everyone's ready which I think we are I think we should begin. Thanks Craig.

Craig Dunn

Thanks Howard. Good afternoon everyone. Before we get to our half year results obviously we made another announcement this morning as well regarding my decision to retire as CEO of AMP at the end of the year and the board's announcement of Craig's appointment as the next CEO MD of AMP. So we'll be very happy to take any questions or discuss any issues relating to that when we get to the Q&A but obviously we'll spend pretty well all the time on taking you through our half year result.

So today we report an underlying result of $440 million for the first half against underlying profits of $488 million for the same period last year and that result came in a little higher above the upper end of the market guidance we gave in June largely because of better claims experience in the month of June, excluding what is a disappointing result in wealth protection, the combined earnings growth from the other business units was 17% over the comparative period, so they're all performing pretty strongly. We also saw a big turnaround in the net cash flows in the AFS business, strong investment performance in AMP Capital, slight cost control across the group and a strengthened capital position.

Also I want to make the point that we are starting to see some encouraging signs of some recovery in confidence in our customer base. You can see that through the improving net cash flows. You can also see that through a substantially higher weighting on the contributions which is a proxy for discretionary contributions and we've also seen some up tick in the weighting to growth assets away from cash. Now they're only early signs obviously but the results today does show that if you look at the scalability, the leverage in the model, the potency of our advice footprint that when markets and investor confidence do begin to return it has good things for the result.

With the integration program almost complete, regulatory change being effectively implemented and we'll break the back of that in the second half we do have in my view a very sound springboard to take the next phase of the company forward in terms of its growth and development and again Craig will talk you through the strategies for the future a bit later on. The board declared an interim dividend of

11½ cents a share, it was 70% franked and that represented a payout ratio of 77% of underlying profits.

So on chart 4 we report our key performance indicators. You can see that the cost to income ratio at a group level has gone higher. That's all been driven by the lower revenues in wealth protection. The cost ratios for every other business in the group have improved materially over the past year and controllable costs were down 3%. I mentioned early that we had a very good turnaround in cash flows in AFS, on the other side of the ledger if you like AMP Capital's external net cash flows are being impacted by significant outflows in Japan and what we've got there is investors in that market effectively locking in capital profits with the falling Yen.

If you look at the movement down in our return on equity you can basically essentially break it into three drivers, around 15% of the change is caused by the net fall off in ?? operating earnings and of course that's all driven by wealth protection offset by stronger results elsewhere. About 45% of the return on delta equity over the past period is driven by the lower investment returns that we're getting on shareholder capital because of falling interest rates which we flagged in February and the balance of the delta is driven by a higher capital base.

Now clearly our aim is to turn that around over time and we'll talk more about that as we go through the results, so I'll talk in some detail about what we're doing in our wealth protection business. Colin is going to talk more about our capital base and how we're managing that and how we've dealt with the many new capital requirements which have been placed on us and obviously as they start to come to an end we still have to work our way through conglomerates we'll see a moderation ?? in the capital in the business going forward because of that.

And finally Craig will take you through the next phase of the strategy if you like including the business efficiency program that we announced this morning which will also go to improving the result over time.

Chart 5 sets out the usual profit summary we present for the year. Again I'll take you through the BU results and Colin will walk you through some of the numbers that go below the line.

On chart 6 we've got our water flow chart which sets out how the result has moved over the six months on the prior period. You can see that clearly wealth protection has dragged it back as has the falling investment income on shareholder assets against that, we've had good growth in earnings flowing from improving markets, business growth and lower costs. So if we now just go into the business unit results in a bit more detail.

On chart 8 we've got our summary of the results for AFS by major business area, you can see some very good earnings growth there outside of wealth protection, wealth management up 20% including a 31% improvement in the earnings of the bank, mature earnings up 12%, New Zealand up 21%. Costs have been driven down in AFS despite the inclusion of costs arising from the Cavendish SMF

acquisition which we did last year and net revenue margins are moving in line with our medium term guidance.

On chart 9 we have an update on our net cash flows and as I said this is about a sixfold increase in the net cash flows over the same time last year and that's been a function of stronger inflows and also improvement in our planner franchise including bringing new planners into the group as well as benefitting from improving markets and improving sentiment and that by the way is the best result we've seen in wealth management for six years. We've continued to invest very heavily in the north platform which we inherited with the merger and we've also obviously made it available to a broader advice network with the merger. We're very, very pleased with the way it's going.

If you look back the six months in the first half when the merger occurred net cash flows into north were a bit over $200 million, in this half they've tripled to almost $1.9 billion. So that's very good growth and we've also seen a good result in flexible super with net cash flows above $1 billion.

One of the drivers of net cash flows in the result for the first half as well is the success we've had in attracting new plan of practices into the group and that's been particularly, well it's affected a range of our dealer groups but Hillross has done very well there and it also did some of that in the previous half but the delta of it has improved net flows if you like on the half over the previous half is around $330 million from new practices joining the Hillross network.

That all helped push up AUM on average by about 12% with controllable costs largely flat in a business growing well saw our ratio of costs to AUM for six basis points down to 56 basis points.

Then we start our overview on a wealth protection business on chart 10 and obviously given the significance of this result we're going to spend a bit more time on this than we normally would, I want to talk you through the key drivers of the result and also the actions we're taking to improve that result over time. As you can see the first half operating earnings were down to $64 million with lower profit margins and larger experienced losses and it was pleasing to see a better claims experience outcome in June but I suppose that just reinforces how volatile claims experience can be particularly when you're looking at it on a month by month basis over a shorter period of time and obviously the medium or longer term trends we're seeing are more relevant.

Across the industry as you all know poor claims and lapsed experience is being impacted by a combination of cyclical and structural factors. Some of the cyclical factors include rising unemployment rates, cost of living pressures which means people are more likely to lapse their policies if they'd prefer to spend it as discretionary income elsewhere and against that the structural issues go to more lower customer engagement and increasing propensity to not stay with insurance policies as long as people have in the past particularly for older Australians and also in some areas a greater propensity to claim on the policies.

Now the life insurance industry if you look over time has always been cyclical, that's also true of the volatility of claims experience but again if you look back over the trends what we've really seen is that until the last sort of 12 or 18 months, certainly in our book and I think it's common for other industries as well is you tend to have experienced profits in one part of the insurance book more than offset experienced losses in another part of the book.

So for some period we had very strong mortality experience and we're offsetting some losses in other parts of the book. So on one hand that experience is being made more volatile by the fact that mortality profits are still there but they're not as strong as they have been in the past at the moment. We've obviously got increasing lapsed rates and on the other hand you have had over a period of time a gradual or an increase in the claims rates or claims costs for income protection and also, probably more recently in permanent disability schemes particularly in large standalone schemes often associated for example with an industry fund.

And now one of the benefits of the choices we've made over time is we haven't been big participants in that market. We've tended to pull back from larger group schemes particularly in industry fund market and right now that's where a lot of the negative experience is happening. In fact if you look at our market share our market share in individual risk insurance is about double what it is in group insurance.

So we've got better experience in the group market than others because we don't have the same exposure to those sorts of clients. In the individual market our experience is I think much similar or more similar to trends for other companies and indeed again some competitors we have seen higher increases in income protection claims and lapsed rates more recently.

We've talked a bit before in the past about the issues with mental illness and the higher cost of mental illness claims for both our book and if you like the broader industry. When you break into the detail what's interesting over the last five years is the incidence rate in mental illness claims hasn't grown at a faster rate or any faster rate than the incidence rate of other income protection claims. They've all been growing in absolute terms but the proportional rate has been pretty even. The challenge with mental illness claims is the claims are incurring earlier in their policy life, so you're not getting the same level of premium income to support the claim and also in some parts of our book we've seen a deterioration in the termination rates which is code in the industry for those people are staying on claims longer in some parts of our book. And that's important in mental illness because a mental illness claim, particularly the duration of the claim is twice the length or duration of ?? claims.

Now clearly this is a major issue for the business and there's very strong focus on how we improve our results in wealth protection. If you turn to chart 11 we've talked there more about how we're approaching the improvement in the income protection book that we have and there's a series of actions we're taking if you like at different levels and different timeframes. So there's a number of actions for example that we've been moving on very quickly at a process level making sure we've got more claims assessors, earlier intervention in those claims, tighter claims finalisation

which can all lead to some improvement in the short term outcome of your claims. But if you step back and look at that book in the longer term the way that apart from things you need to do on premium rate increases and the like what we have to move to is a much stronger focus on not just supporting the claimant through a difficult time but actually getting them back to work sooner and that is obviously a good thing for the individual because all the research shows it's better for people to be working than not working and obviously it's also a good thing for the AMP shareholder.

On chart 12 we've then gone into more detail on the actions we're taking to improve the business, so again look at income protection but also lapsed rates and there's a whole series of initiatives that we're undertaking there to seek to turn the business around, customer retention campaigns are being improved, some forms of repricing premiums, even changing the terms on which we work with some advisors who we think are not people we'd like to work with going forward and that's a minority may I stress. We're also investing more in new product design, a new claims management platform, new lapsed management tools and also because you're getting this propensity for people not to hold onto business as long or their policies as long that obviously does challenge industry remuneration structures which have assumed policies stay in force longer.

And so what we need to do or will be doing is working with our advisors to work through that and obviously Craig's also been taking a lead on that with the Industry & Financial Services Council to address those remuneration structures over time so we see better outcomes for customers, better outcomes for advisors and the industry more broadly. So the point I'm trying to make in this slide is a whole series of actions we're working on which go to both the cyclical drivers of the experience and also the structural drivers over time.

We've summarised that on chart 13. That includes the appointment of new senior management team in that part of our business with deep industry expertise and the real message that we want to land with investors today is whilst a lot of that activity can see some improvement in the short term in the experience we're delivering given that the dynamic that we're working with in the industry sustained improvement in claims and lapses is more likely to occur over the medium term.

So in summary we're across the issues, we know what's driving things, there was a clear action plan in place to seek to turn the business around and there's a very strong focus on doing that in a sustainable way that improves shareholder returns over the medium term.

Return now to chart 14 and AMP capital and they've delivered yet another very good set of results. Operating earnings after the minority interest through MUTB is up 13%. AUM has grown to $131 billion. Stephen has driven costs down in that business by 4% and also pleasingly there's been a continued and very significant improvement in the investment returns that AMP Capital is delivering. It is a high quality result, the earnings growth in this business has been driven much more by recurring income and also the drive down in costs.

I said before that the net cash flows in AMP Capital, the external flows particularly have been impacted by the economic situation in Japan which is proving challenging in the short term. We continue to be though very satisfied and really pleased with the relationship that we've got with our partner in Japan through MUTB, there are four funds in the market already and there are more funds scheduled for launch in the second half.

Chart 15 just gives you an overview of our key funds and the investment performance. As I said we've seen some significant improvements there, make the point that three of the top 20 funds, balance funds over the past 12 months in superannuation are in fact AMP capital funds and the top default fund in Kiwi Saver, the equivalent superannuation system if you like in New Zealand has also been managed by AMP Capital, so that's great news for obviously our customers and clients. So with that I'll pass on to Colin to take you through the financials in a bit more detail. Thanks Colin

Colin Storrie

Thank you Craig. I'm going to start with Chart 17 which is the underlying profits reported profit. So this chart looks at how we get from our underlying profit of $440 million which is where we base most of our business unit performance to the statutory profit after tax of $393 million. And interesting to note in this for this period and going forward we've separately grouped the line items that are subject to market variation from the merger related and other items.

So in terms of the merger related and other items the main variation was the AXA integration costs. They were $31 million and lower than previously forecast and that was predominantly timing related, so we're still holding our total integration costs spend. While spend is lower our synergies have continued to be delivered with over 93% of synergies delivered to date. In terms of the lines subject to market variation comprising market adjustments and accounting adjustments the accounting they were in total $36 million positive. Not going to go into the details of those, they are very exciting but they are in our investor report, there's a lot more explanation of those. So overall our statutory profit was $393 million which was $20 million better than the first half of 2012.

Moving on to chart 18 which is cost control, controllable costs were down 3% half on half and that was after adjusting for business acquisitions. The underlying cost growth of around $10 million for the half of the year was more than offset by the delivery of $36 million of integration synergies. Costs were down 2% in AMP Financial Services and 4% in AMP Capital and cost ratios in all business excluding wealth protection improved during the period. In terms of the full year we've maintained our guidance that controllable costs will be around 2% lower than 2012.

So moving on to chart 19 which is our balance sheet. AMP continues to maintain a strong balance sheet. Total capital resources have increased by more than $300 million to $9.6 billion. We've maintained low gearing and have stronger interest coverage ratios. We continue to hold significant liquidity with over $680 million in cash and $500 million in undrawn facilities.

Chart 20 which as Craig has already outlined the interim dividend, the interim dividend is 11½ cents per share and that will be franked to 70%. The dividend represents a 77% payout ratio and that's in line with our stated target dividend pay out ratio range of 70 to 80% of underlying profit. New shares will continue to be issued under the DRP and there will be no discount on the DRP issue price.

So chart 21 takes us through our regulatory capital position. So compared to our post ?? capital position which we outlined at the full year shareholder regulatory capital resources above minimum regulatory requirements have increased by more than $300 million to $1.7 billion and this is largely due to retained earnings, favourable markets, capital efficiency initiatives and repayment of tier 2 capital by AMP Bank to the group.

In May this year APRA released its draft risk and capital standards for conglomerate groups. You may have seen the press release last night that this has been delayed, the final standards will come out on 1st January 2014 and the implementation date has been put back by 12 months to 2015. So we had conducted an initial assessment of the impact of those standards on AMP and the impact was negative, impact to the overall group capital position however the impact was not large and it was considered manageable within the group's surplus capital position. Obviously as these standards evolve and become final standards any assessment that we have made may change in the future.

So moving to chart 22. Chart 22 takes us through how our capital has moved since the AXA acquisition, so that's since the first half of 2011. It shows the sources of AMP's regulatory capital and also the uses of AMP's regulatory capital and the biggest consumer of capital apart from dividends paid was increased regulatory capital requirements and that was driven by the unprecedented development of five new regulatory capital standards over the period and they include APRA's life and general insurance capital standards, ?? three banking standards for AMP Bank, ASIC's responsible entity standards, APRA's operating and financing reserve requirements for superannuation funds and finally the proposed APRA conglomerate standards.

And overall this chart shows that AMP has managed its capital position dynamically over the past two years enabling it well to adapt to a challenging new regulatory environment, respond to a market environment where 10 year interest rates have fallen from 5.2% to 3.8%, fund a successful integration, continue to fund new business growth and pay shareholders $1.6 billion in dividends.

Given the extent of regulatory change we're pleased with the $1.7 billion of capital above minimum requirements and believe it's appropriate given the record low interest rates and continuing economic uncertainty, continued focus on our wealth protection business and the pending conglomerate capital standards. We've reduced our reliance on the dividend reinvestment plan and we will review its ongoing use on a six monthly basis in line with our capital management framework and then also in line with this framework business efficiency costs will be funded by a combination of future retained earnings, capital surplus and the dividend reinvestment program.

So with that I'm going to hand over to Craig again.

Craig Dunn

Thanks Colin. Alright. So obviously a key focus strategically with the organisation over the past few years has been working to sharpen the competitive position of AMP and clearly the AXA merger was a key part of that. As I said earlier the integration is now almost complete. On chart 24 we'll just again remind you of the integration success measures that we set at the start of the process which are all travelling well, in fact we're meeting or exceeding those objectives. The numbers are up significantly, that's against a contracting market more recently. We have increased our market share in superannuation, the synergies are 25% higher than we first targeted and we have clearly with this result continued to benefit from growth outcomes like the north platform.

We've done this at the same time dealing with very significant regulatory change. All the capital stuff that Colin just took you through as well as FOFA and stronger super and in my view we have a strong springboard from here to take the strategy to its next phase and that's something that Craig's been working on is now going to take you through.

Craig Meller

Thanks Craig and good afternoon everybody. At the outset I'd like to say that I'm very excited by the opportunity and the responsibility that comes with being CEO of this company and I'm very much looking forward to the challenges and the opportunities that lie ahead of us.

But it's not just the leadership change that makes this another important inflection point for AMP. Under Craig's leadership AMP has got a very strong base from which to launch the next phase of our strategy and we now have the capacity to accelerate change in our core business by investing to improve customer engagement and drive costs down further.

We've set out on chart 25 showing we have a very strong starting position and the execution capabilities to drive this hard and successfully. That starting point includes our scale, our advice footprint and expertise, our product suite and capabilities through the value chain, the investments we've made in our core technology platform and a refreshed brand that's appealing to a much broader customer base. Indeed the SMSF campaign which I'd be surprised if you haven't seen that we've been running this year is helping consumers see us as more innovative, more contemporary and much more in touch with market trends.

We'll be using these strengths to build on our current strategic priorities as shown in chart 26 and our strategy for the future is being driven by our core belief that the Australian wealth management market place remains highly attractive with the market still projected to double in size in less than a decade. But to maintain success in this market we have to continue to change. We have to change because our customers are changing and want different things from us. There's a

convergence of factors driving these changed behaviours, the aftermath of the GFC, digitisation and mobile technology, regulation, demographic shifts.

The result is a more demanding customer that's searching for more control, more simplicity, more convenience and better value. In response we intend to deepen our relationships with our customers because we believe that an increasingly commoditised world relationships will drive revenue and that's why our number one position in face to face advice is and will remain a critical differentiating factor for AMP. However our customers are also demanding other ways to access our advice on products and our solutions.

Distribution in wealth management will no longer be face to face or direct, it will be both and this will require targeted investment in new capabilities and solutions to maintain and improve our relevance and accessibility for customers and we'll be funding this through our usual annual project spend budget.

As outlined on chart 27 that means investment in next generation advice models, further improved customer experience, technology to deliver more sophisticated customer analytics and new digital and mobile platforms and enhance products and services. This shift in focus on our core domestic market will not be at the expense of the investments that we've had in other growth opportunities.

Chart 28 details that we're growing our SMSF business very strongly and we see significant further upside there and also we'll have no lesser focus on the offshore opportunities AMP Capital is successfully capturing. We also intend to enhance our operating leverage by driving top line growth at the same time as improving the efficiency of our business and we set that out on chart 29.

We've kicked off a program to reduce recurring costs by $200 million per annum pre tax over the next three and half years. This will ensure that we remain competitive, are able to offer more choice and better value to our customers and deliver stronger bottom line growth as well. Some of those sources of the savings are detailed on this chart. Our overriding focus is to eliminate activities that our customers don't value. That $200 million cost savings should be set against an expected underlying cost of 2% to 3% per annum.

On chart 30 we've set out our expectations of the cost benefit profile of this program with the usual expected ?? that this is based on our current planning and as we did with the integration program we'll manage this to ensure we have the flexibility to respond to change in priorities in external markets. At this stage we expect about 80% of the recurring cost savings to be controllable costs with the balance being variable costs like third party asset management fees. We require a one off investment of $320 million to deliver these recurring cost savings as a cost benefit ratio of about 1.6 times and we'll be funding this through a combination of future retained earnings, the existing capital base that we've built up and also continuation of the dividend reinvestment program.

So it's an overview of how we'll progress the next phase of our strategy, our execution priorities are clear, drive top line growth through stronger and broader

customer engagement and deliver better bottom line outcomes by generating that growth across a more efficient business base. Back to you Craig to summarise.

Craig Dunn

Thanks Craig. So quick summary before we go to your questions. Clearly wealth protection is a very strong focus and we have a clear plan of attack to improve the results of that business for shareholders and customers over time. Clearly the rest of the business is performing pretty well as I said the outset outside of wealth protection business unit operating earnings are up 17%. I think that growth in earnings is a good reminder of just how when you start to get some improved markets returning confidence into the wealth management business in Australia of how it can lead to much higher rates of growth in profitability and growth more generally in the AMP business and particularly given the work we've done around the scalability of the business, its operating leverage and also the power of the advice footprint and the stuff Craig was talking about in improving the potency of the brand.

The business is well capitalised. The integration program is almost complete. As I said we're largely through the regulatory change program so we're in good shape to take the business to the next level this time under Craig's leadership.

So Howard we'll go to Q&A

Howard Marks

So while Stephen joins the guys on stage I'd just like to remind you that today's presentation is being webcast live. So if you do have a question please wait for the microphone and then state your name and company clearly so that you can be registered. In terms of protocol what we'll do is we'll start with the floor first and then we'll move to questions from the phone.

Andrew Kearnan – Merrill Lynch

Three quick related questions on the life insurance side. First can you just give us some feeling for the split of the experienced losses between the group and the retail business and I'll ask the next questions after the answer.

Craig Dunn

I think we've laid that out on the slide on page 10, the $11 million of income protection claims experience is all retail, $7 million of the retail lump sum experience and $6 million of group lump sum which is principally what we call total and permanent disability.

Andrew Kearnan – Merrill Lynch

Thanks for the clarity. Can you help educate us a little bit on how price changes work through the life insurance books? I understand obviously the CPI and aged based increases, can you help us understand how they work through on the ??.

Craig Dunn

Each year in the ordinary course of the business in our stepped premium policy rather than a level ?? we increase the client's premiums because they're a year older so each year age has a different premium set for it and with a step premium policy that will go up each year. Typically clients will also CPI link their insurance as well so the cover will just increase ?? the premium for the CPI linkage. In addition to that we can make changes in pricing so long as we do it to a full cohort of clients. We can't individually price for individual customers and that can happen outside of that age and CPI cycle. We're doing that in a targeted way in the income protection portfolios of both NMLA and AMP Life.

Andrew Kearnan – Merrill Lynch

And finally when you push those additional price increases through can you talk to us about what changes you make to your ?? in your book.

Craig Dunn

Yeah, so as we make assessments around the price increases we also make assessment as to what we would call ?? lapsed rates and then we'd create a reserve in order to accommodate those ?? lapsed rates and indeed we're being do that over the past couple of years as we've pushing premiums up. I would say thought that the experience that we've seen in the first half of the year is that lapsed rates have gone up ahead of that ?? experience that we'd put in place and is part of the reason behind the lapsed rate experience. We probably started doing that in our New Zealand business a bit ahead of Australia a couple of years ago and what we have seen there is with less price increases going through the lapsed rate in New Zealand has been coming down relative to a peak a couple of years ago. So there's certainly an effect that comes through but it's quite difficult to differentiate as you're going through it the difference between the structural movement and the one off movement from the ??.

?? – Morgan Stanley

Just a couple of questions, firstly on the investment spend to do with the $200 million savings, can you clarify if there's any IT platform related expenditure is part of that.

Craig Dunn

There will be some IT platform expenditure as part of that, it's more about integrated platforms than it is about individual product platform solutions and there will be some investments, we're envisaging some investment spending there in some of our claims management systems as well.

?? – Morgan Stanley

Just in terms of the split of the savings would we be right in thinking that maybe 70% of that flows through to contemporary wealth management or is there any sort of insight we can get onto ?? cost of living.

Craig Dunn

I haven't got a split on that. I don't think we've disclosed it by business line at this stage.

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We've given it by AFS and Capital and group.

?? – Morgan Stanley

And just on the wealth management margins we seem to have, controlled costs were flat which is good and I understand that's including Cavendish, average AUM was up 12.5%. The revenue margins fell in line with guidance but the variable cost to AUM were actually higher and that was attributed to the reweighting of higher growth assets. It seems to create a bit of a negative squeeze. I'm just wondering why wouldn't we get higher ??.

Craig Dunn

Why wouldn't you get higher revenue ??. ?? management costs. There are many moving parts to the wealth management margins and as well as the impact of changes in fees and what we've seen essentially is just like reweighting towards growth assets, with stronger growth in AUM arising out of markets, I haven't talked about this for a long time, it's good to be able to talk about it again. If I remember pricing structures have ?? so if you get above system growth in AUM then we do see stronger margins ?? and then the third impact is product mix and generally in terms of the product mix the new business is being written at a lower margin that the enforced ??, so the more new business you write the faster the overall impact on margins will be and there's a bit of the impact of those two factors in that as well.

James Coghill - UBS

Craig Meller, congratulations on the new role. Just a couple of questions on the efficiency program. That 320 it's a big number, so you mentioned a 1.6 times conversion ratio. You actually have 40 million of the savings coming from variable costs which aren't really controllable costs, so the ratio is more 2 to 1, $2 below the line to get $1 above the line which does seem like a big spend and running through the list of items that you've flagged there on that, I think it was 12.29 nothing there really stands out as being a cost that isn't business as usual for a financial services company. So I was hoping that you could just provide us with one or two examples of where all that 320 spend is going, in three years time when we look back what can you point to us big benefits that are here now.

Craig Meller

So firstly in terms of the quantum, if I refer back to ?? as part of the merger the ratios that you look at are probably higher than you'd see across all financial services companies, realities for our business that very long standing life insurance and wealth management companies tend to have a bigger legacy issue and a greater

variety of systems and processes that you might get in other sectors of the financial services industry and I think if you looked at our sector generally you'd see that that sort of multiple wasn't that different. It does cost us money to get variable costs out, it's not all fund management fees, those of you who are fund managers will be pleased to know, there are other aspects of it. We expect to deliver benefits in other claims rates and some of the variable costs to do with distribution going forwards as well.

The specific areas are really focused around a number of specific platforms that we expect to move legacy products away from over time. Further rollout of the management operating system that we've been pushing through the business in AMP prior to merger and then through the old AXA parts of the business over the last couple of years moving the IT infrastructure onto cloud computing again has a significant point of cost component to it. So our feeling overall is it's probably in line with what we've seen historic in the financial services side of the business. We very much see it as a one off option. We're splitting out the numbers so that you can see them clearly.

James Coghill - UBS

Under your watch now do you think you can get ?? to a point where managing that cost base can be done through self funding savings. I always recall your disciplines when you were running ?? was to start off the year with zero cost increases in your budget and any reporting manager would have to find savings to justify increases and it feels like you're inheriting an AMP that's lost that discipline because you take into account the AXA integration costs, the costs last year for compliance and these costs the board seems quite willing to sign off quite substantial costs below the line. Is this the last one of do you anticipate three years time sharing another one with us?

Craig Meller

Well I only signed the contract this morning James and running three and half years ahead I reckoned it was far enough for us so I'm not going to make any predictions on what we're doing in the future. I'm looking at a cost spend of 320 million and a pretty high MPV coming out of that, the business case was compelling. I don't feel as though there's any part of AMP that's lost any of his historical cost discipline. We've had some high capital spends to deliver on the synergies and what we're saying is we're going to be spending more to deliver what essentially will be greater cost savings than we would have delivered in the times price of the merger. For me that seems compelling.

Ross Curran – CBA

Just firstly on lapsed rates. I wonder if you could comment on how you think the average age of a policyholder in the individual risk in Australian wealth protection has changed over the past few years if the average age has increased.

Craig Dunn

I haven't got the exact data but the average age of policyholders has moved with the demography of the population and because there's a bubble of boomers there's a bubble of older people which over time should work its way through as they go beyond the age of needing life insurance but the boomer bubble has still got a way to go before it's done.

Ross Curran – CBA

But am I right in assuming that the individual risk policy, average age will be closer to a baby boomer demographic ?? will be slightly under?

Craig Dunn

Group insurance would have a younger age group just because of the nature of who's participating in the superannuation market place. Whereas the retail market tends to be sold to an older demographic who might have more sophisticated needs than can be provided in a group insurance policy.

Ross Curran – CBA

So as that ?? continues to age can we expect that lapsed rate to continue to increase over coming periods?

Craig ??

So the assumption that it will continue to age may or may not be valid, because …

Ross Curran – CBA

That's what I'm asking, is it valid?

Craig ??

The ?? as it is today with age obviously because everybody gets a year older every year but because of what's dropping off it's what coming on instead that will also be the age impact of …

Ross Curran – CBA

That's the question. Are you topping up the bucket with young enough customers to keep the average age stable?

Craig ??

I'd have to come back to you on the detail on that.

Ross Curran – CBA

And then secondly on the platform competition, we've seen a bunch of the banks launch competitive low cost options such as essential supers from CBA. Has that changed your migration assumptions within the wealth of management business?

Craig ??

Are these stronger migration assumptions?

Ross Curran – CBA

Yes.

Craig ??

We've seen little impact from the announcements that have been made by the big banks.

Ross Curran – CBA

Well it seemed to launch three weeks ago. It hasn't changed ?? assumptions.

Craig ??

Although some of the other competitors have been out for two or three years now. We'll look at the market place and how we would intend to address that but it's not giving us any cause or feel for need to change the current profile we've got of the migration of the old stronger super balance is onto the ?? forefronts.

Ross Curran – CBA

So you're still assuming sort of three to four-ish percent margin compression per annum going forward in ?? or do you have a step change increase in the margin compression?

Craig ??

No, we've got clear guidance of three and a half to four and a half per cent out to the end of the stronger super transition period.

Nigel Pittaway - Citi

Another question on lapses, I'm afraid. Obviously the last three third quarters we've seen significant experience losses mostly due to lapses. Obviously you strengthened your assumptions at 31 December but you've already said in first half

lapse rates were ahead of shock lapses, shock lapse assumptions, your lapses did accelerate in June. So what protection do we have against not seeing the same thing at ??.

Craig ??

I would expect the second half lapse rate to be higher than the first half lapse rate. Clearly we're focussing hard on actions that will bring the overall lapse rates down but the first half, second half trends are pretty firmly established. It's very unlikely that we won't see a sort of proportional tick out in the second half.

Nigel Pittaway - Citi

And you're saying that's likely to be quite a bit ahead of any provision you've made for ?? lapses because it's going to be worse than the first half, and already experience is worse than the provision. Is that fair?

Craig ??

So the point I made earlier was that in the first half the experience losses from lapses would be because lapse rates were higher even taking into account the shock lapse allowances that we've made, if the same continues that will flow through to the second half.

Nigel Pittaway - Citi

And you say it's likely it will do because the lapse rate will be higher?

Craig ??

I'd expect it to be, yeah.

Nigel Pittaway - Citi

Just secondly on capital, obviously the divi is down in line with earnings but the capital position continues to strengthen, and I know Colin you gave a number of reasons as to why you think holding this level of capital is appropriate, but how far off are we from being at a level where you say "well, no, that's enough, we can be a bit more flexible with what we do with our capital moving forward".

Craig ??

I think we said that we're comfortable with the $1.7 billion surplus capital position. And given the outlook that we have and the regulatory changes that we have to meet, we've also maintained a bit of flexibility around a couple of things, so that is around the dividend and the use of the dividend reinvestment program, so we said we would reassess that on a six monthly basis and we'll continue to do that. And also in terms of the funding of the transformation program as well, so using a combination of things, so future retained earnings, the existing capital surplus and potentially the DRP as well. So we've left that flexibility in there. There are a couple

of uncertainties that we see which I outlined before, but as I said before, we're comfortable with the 1.7 surplus, so I won't say any more about building it up but we're comfortable with that level. So the other thing to remember is we are quite focussed on ROE and I know we have had a downward trajectory in ROE. We have strong incentive plans in place with management around that, so our targets ?? and also profit less a capital charge, so there's definitely the internal infrastructure there to encourage efficient use of capital as well.

Nigel Pittaway - Citi

And maybe just one more. The number of super products you seem to be wanting to get approval for does seem to be oscillating a bit, I think it was originally 10 and then it went to two and now it's three. So what's the rationale behind three, I guess?

Craig ??

I think if you saw a number of 10 that would be based on a number of our large corporate clients who are going to have individual schemes and the total would still end up at about that number because once you're above 500 employees a corporate can have an individual scheme, and as we've discussed with our largest clients some of them are choosing to do that. The three number is, two would essentially be the same, one would be ?? super, the old AXA superannuation trust and the other ASL AMP superannuation Limited, the AMP superannuation trust. There will be one default fund for each of those two but the chosen investment option will be the same for those. The third is the flexible super product and that will have a default option that's essentially similar to the flexible super core investment option, which is the low cost passive balanced fund.

?? – Deutsche Bank

A couple of following questions just starting on the revenue margins in the wealth business. One thing you've called out of, in terms of one of the reasons why we've seen a contraction this half is the stronger flows into north, so just wondering if you can talk about the fee differential on that platform given it is picking up the lion share of your fund flows?

Craig ??

So the total client fees for that platform aren't much different from flexible super. It's more a function if you win more business than you have in your legacy book then you'll get a margin contraction happening faster if you're growing faster. Typically, the admin fees on north will be about 40 to 60 basis points. The investment management fees can be very low, it can be zero if a client chooses to invest directly in equities, and can be ?? even higher than percent if they choose some of the more expensive funds that are sitting on the platform.

?? – Deutsche Bank

And that dynamic, that is embedded within the 3.4% to 4.5% ?? over the medium

term? And just moving onto costs and the new costs program. Clearly that is, I would imagine, aimed at maintaining the ?? in the wealth business in the higher revenue margin pressure environment. How should we be thinking about the net benefits flowing through to the bottom line. Are you suggesting 200 million pre taxes is the ultimate benefit or should we be thinking a chunk of that will be lost to increased ??.

Craig ??

We're not changing our revenue guidance and our margin squeeze guidance, we're just saying that we'll be delivering $200 million of additional cost savings off the back of an expected underlying cost growth of 2% to 3% a year for the controllable costs. So if you like, the 200 million is the solving for lower margin guidance that we've already given.

?? – Deutsche Bank

And finally on that, on the variable costs which are 40 million out of that 200 million, I think you mentioned that it's not all asset management fees. Perhaps you could give a little bit more detail just given when we have a look at your wealth management business you've got about 220 mil a year of external asset management fees, so 40 mil is north of 20% ?? fairly big renegotiation you'd have to undertake with external asset ??.

Craig ??

And it also depends whether the funds ultimately end up going external to AMP or whether the funds stay within the AMP family if you like. So the trend within large superannuation funds I think coming out of the fee pressures is that houses are bringing more and more asset management in house, I think that's certainly true in the retail sector and also in the industry fund sector. My super default options, the two out of the three that I mentioned to Nigel are going to be manufactured in Steven's shop with a much greater proportion of the assets managed in-house, that will reduce our external asset management fees. The spread of that will happen over the time of the margin squeeze as well as the bank ?? to the forward. The great thing is it comes at a time when, in my whole time at AMP I haven't seen the AMP capital investment performance books as strong.

?? – Deutsche Bank

This is a period where we've seen the strongest fund flows in AFS in six years, apparently, yet the internally managed money you guys are managing for them still saw net outflows I think of about 1.7 billion. What is the outlook for that? I mean, is it going to change off the back of these My Super type products and sort of increasing the internally managed allocation?

Stephen Dunne

Certainly from the perspective of the AMP book. The book is what we call a mature

book, which is in runoff, plus also fees and taxes come out of the AMPCI cash flows. So from our perspective that is, and will continue for as long as the mature book remains on foot. But as Craig mentioned, as we go forward, particularly with the My Super offerings that we want to bring to markets from 1 January, there is a significant opportunity for AMP capital to better partner with AMP Financial Services to actually capture the flows coming in from the financial planning network.

?? – JP Morgan

A couple of questions if I can just on the financial protection issues. Could you give us some idea of how quickly you think some of these problems can be fixed given that some of the immediate actions you're taking seem to be perhaps what you might term on the softer side, and that sort of more structural issues really can only apply to new business. How quickly do you think we can actually fix this problem?

??

I think we've been reasonably clear in the disclosure saying it's going to be a medium term solution. It's two or three years before we start to see some of the structural impacts changing. One of the challenges of life insurance work is, by its nature it's inherently volatile in terms of the sort of month by month, quarter by quarter performance. So the guidance we're given is quite clear, we're expecting improvement over the medium term. Potentially some short term benefits but more likely that we'll see volatility before that ??.

?? – JP Morgan

Your thoughts on if we move into a lower growth economic environment which seems to be what treasury and others are forecasting, should we be expecting the position might actually get worse before it gets better from that impact?

??

There's no doubt there's a cyclical correlation between unemployment rates and claims rates in the insurance sector, so where there's been a significant worsening in the unemployment rate it will be likely that could be worsening experience across the industry.

?? – JP Morgan

And also depends on what sector's impacted by unemployment so we've sort of had a bit of a white collar recession post the GFC which seems to be a fairly significant factor on some of these claims. And finally just a question on wealth management. Beyond 2017 could you give us some idea of whether we should see a moderating in those revenue margin declines? Obviously that's a cut off for the transitional arrangements …

??

We're not going to give any long term guidance. We can do the analysis of what the

underlying balance is in superannuation can be because you know what the compulsory contribution flows are going to be and you can expect investment returns then. The whole time I've worked in this industry prices have only ever gone down, so I wouldn't be predicting margins going out. On the other hand with strong growth in balances you can still get very positive ?? even if you're seeing continued margin pressure into the medium and long term.

?? – JP Morgan

What are you assuming in ???

??

We assume in our ?? continuation of current margins but we also don't presume any future cost efficiencies. So the ?? only include any cost improvements that are expected to be delivered in the following year. And so we've looked at that and considered it and considered it to be a reasonable fair view on the basis that I think our track record is the operating cost leverage of the business has managed to match any margin squeeze historically.

??

I've got a couple of questions on self managed super. Firstly, I couldn't find it again now but this morning I saw a number that showed how many advisors had been trained up on self managed super. How much further do you expect it to go? What sort of penetration rate are you looking for? And then secondly, self funded super hasn't made a material contribution to this period's result, is that because it's wearing the burden of its own associated integration costs or not and when do you expect it to begin to make a positive contribution, or at least a material contribution to the result?

??

There's a range of initiatives in that part of our business rather which go to both cost efficiency and revenue growth, so part of what we're working through now which has been led by Paul is utilising a common technology platform for some of the business that have been acquired or we inherited through AXA with multi port Cavendish so there's some synergies through there. There's also been a very significant investment in financial planner capacity in the self managed fund space. Typically that's been a market that's been much more dominated by accountants, and obviously we want to part with accountants through the strategy as well. We've had a much smaller number of financial planners that have been comfortable working in this space, clearly with the commitment to self managed funds that we've made publicly and internally, our planners and advisors are very keen to up-skill and improve their capacity to operate in that space.

So it's a function of if you like external growth through outside of our distribution but also getting more of our financial planners and advisors to be comfortable operating in this space, and that's important because what we've seen over time with the

growth of this sector is we actually lose AUM or lose existing clients because they move into the SMF sector and if they haven't got a plan or advisor that they're working with who's comfortable in that sector more often than not you lose it to another organisation. So the strategy on revenue is driving up more of our financial advisers to be comfortable in that space. It's expanding revenue through other distribution as well and then, as I said, using more of a common technology platform to drive down costs, and then over time provide additional services from the organisation in terms of we've already launched a new banking product, if people would like to put debt against the property in a self managed fund, also looking at insurance offerings and investment offerings.

??

So there's no specific target, it's just about raising that skill set across the advisor base as fast as possible?

??

Wel, we have internal targets obviously in our business plans in terms of driving that, and I think it's over 6,000 hours of training, Paul, yeah, in the first half, another 15,000 in the second half in terms of up-skilling our financial advisor base, so it's a pretty significant investment in terms of doing that.

??

And one further question on potential conflict that might emerge between shifting from a very much more face-to-face biased model towards one that probably includes a lot more self service type stuff. How are you going to make sure that there's no dyssynergy from your plans for the next three years and you don't kind of upset the apple cart in regards to your providers?

??

Good question. We actually think FOFA is a structure that helps in that regard because financial advisors now have been negotiating their fees for the advice they provide directly with their clients and if you like there'll be no differentiation from a client perspective in terms of the product price that they can collect through their advisor, or if they choose to act directly they could act directly. The other point I would make is I very much see it as a world where it's not face-to-face or direct it's both, our planner's clients are saying they want to continue to deal with their planner but they also want to be able to see what's going on in North, move their own money around if they choose to and they want Internet and mobile access to that as much as the opportunities to speak directly to their planners. So for me this is a both strategy not an either/or strategy.

??

I have three questions if I may with one at a time. My first is a follow up question on price increases in the ?? business, are you able to provide more detail around the

total price increases broadly going through on average between with individual risk and with group risk, that is the discretionary increases being pushed through coupled with its scheduled increases. There have been some media reports particularly on the group side of quite considerable increases going through?

??

We're not going to be disclosing anything around our future pricing intentions. I confirm that we've seen some of our competitors put very hefty increases through and their group premium prices that's particularly in what we would call stand alone group which isn't integrated into a retail superannuation fund.

??

So none have gone through so far ??.

??

Within the AMP book we price pretty much each plan as it comes up, that roles out typically over a three year pricing period, so there will be plans that we're pricing through, somewhere we've put significant increases through because of the experience that we encountered and that business is subsequently gone elsewhere because of the size of the increases. We're pricing for value and when we get the opportunity to put the prices up we do.

??

The second question is a follow up in relation to lapse rates. Now, I understand there are many factors contributing to the increase in lapse rates. I was wondering whether any small part of the increase can be attributed to both the FOFA commencement, that is some planners looking to maximise commissions by churning policies ahead of greater scrutiny under FOFA.

??

I don't know that we've got any evidence to suggest that it's the FOFA changes that have caused some of the increases in lapse rates. We've seen a spike in some planner businesses in lapses occurring at the end of two years which is when there's no call back arrangements and those would be the planner groups where we've taken action in some cases saying "we're not prepared to right life insurance business through that planners business with upfront commissions any more". We're monitoring that pretty tightly now.

??

Sure. And just finally in relation to the SMSF division, can you give us a rough idea as to when you may put out the ?? earnings in the investor report?

??

I think that's a while away yet. It's obviously an important growth prospect for us but in terms of its materiality from a profit perspective it's early days.

??

I just made the comment, I was probably expecting over time that there would be more disclosure but you've actually got less disclosure than last time with Netglobe and a few other items being taken out for SMSF and I would've though over time there would actually be disclosure on this division particularly given how much focus there is on it.

??

Certainly on disclosures we go forward. I think a good guide is AMP banking and we've continued to expand our disclosure there as it's become more significant to the group. The issue on net cash flows is working through it and the changing shape of that business, partly there'll be a potential duplication issue particularly if you're using the SMSF system at north, so you can get duplication in net cash flows and also increasing the shape of that business going forward, it's more member numbers that drive the value in that business, so the more we thought about it, and also the expansion of it into other distribution. Aspects of it if you were doing a white labelling to another distribution channel are almost akin to a form of a technology business. So we just felt as that business changes that net cash flows wasn't a good guide of its growth and that member numbers and other things would be more important over time and as that business expands we'll expand the disclosure. I make an iron cast guarantee for that for the future.

?? – Goldman Sachs

I've got three questions but the good news is none of them are about life insurance. First one is just going back to the discussion that James initiated earlier. With the $320 million spend and the $200 million target in saving, I'm just a bit confused as to, I wonder if you would help me split out, which parts of it is spend and which part of it is savings are things that you wouldn't have had to do anyway under normal course of business. Like, which of them are genuinely discretionary that if you didn't want to spend the money you could do without?

??

I'm a bit confused because if we don't spend the money we won't get the cost down. We've looked at it as a package and said "there's a lot more complexity, there's a lot more components of our business that we could rationalise, does the business case to spends its money add up" and when we've looked at it the business case has added up so we've taken that proposal to the board and the board have given it a tick, and we're absolutely committed to deliver on those cost savings for the highlighted cost.

?? – Goldman Sachs

Can I ask the question another way, maybe I wasn't clear enough. Are there any aspects of what you're going to do under this next phase where if you didn't do them you believe you'd lose market share?

??

Sorry, again, I think there's a short answer to that which is in the short term no, but the longer answer is if we've got a business that's losing three and a half to four and a half per cent of gross revenue margins every year and you're not doing something to address the cost base then you're not going to be able to grow the bottom line, so to me it's the complimentary side to the fact that we're living in a market place where margin squeeze is business as usual.

?? - Goldman Sachs

No qualms with that, just questioning whether the 320 million is really below the line item. But moving onto the next question, maybe more for Colin. It's clear that you guys are comfortable with a good capital buffer and that's fine, but just wondering if you have any plans to change the huge allocation towards cash and ?? within that capital now that the buffer's so good?

Colin Storrie

When we look at the composition of our shareholder capital assets to me you take an ROE basis, so it's how much regulatory capital do you have to hold for the risk of the investment, so taking an ROE approach is where we get the asset allocation that we have, so I guess the shorter answer is we don't have any plans to change that allocation at the moment because it's not capital efficient, if we put it more into equities we'd have to hold more capital and then the return we get on that we're not sure whether it would be efficient, so keeping it in lower risk assets makes sense with the capital standards that we have at the moment.

?? – Goldman Sachs

And finally, just if we go with the bookies and we see a change of government, it seems like one of the things that will actually happen is perhaps they'll take on the productivity commission again. Can you just remind us how significant you think that could be for your business getting access to more default funds?

??

Yes, it's hard to identify, Ryan, but for me there are sort of bigger businesses that are in sectors where ?? memberships are very high it would unlikely that you'd see any change in the choice of superannuation fund. But there's a lot of sectors where there are award structures in place at the present time, which means small businesses are forced to place their employees' super into default funds that we think would be very contestable. It's very hard to make any prediction on what the sort of quantifiable addressable market place might be as a result of that.

David Humphries – ?? Investment Partners

Given the large degree of volatility in experienced losses we've seen a lot protection in the recent past, in fact ?? your announcement on 24 June, there's probably ?? that. What degree of confidence can we take in your planned profit margins going forward given this is not a new thing and it seems as though information that ?? results in large volatility in what you have to tell the market.

Craig Meller

That's a very good question but also a very hard one to answer. Best estimate assumptions are some of the best estimates that we can make and at any point in time we try and set them so that theoretically there's an equal probability of over performance against the best estimates as against under performance of the best estimates. You set the best estimates based on longer term expectations. And the nature of this market is that it would be an extraordinarily unusual half that we actually came in at the planned margin, so it's very hard for me to give you a copper bottom guarantee of "we know that this is going to come out at the best estimate because we know there's volatility in the book". We've strengthened the assumptions in this period because of income protection claims, we'll be looking at all parts of the book over the rest of the year and the actions we'll be recommending to the board at the end of the year whether we should be making any changes to the best estimate assumptions but they are what they say today.

David Humphries – ?? Investment Partners

I guess a follow up then, do you see anything in July to the first few weeks in August ?? confirm one way or the other?

??

So the monthly volatility we've always found is much more variable than you would see over a quarter or over six months and I wouldn't want to be making any projections based on one month's results, but it's probably fair to say that it's going within the range of what we've already experienced here to date.

James Coghill

A quick one on New Zealand. You've called out the provisional tax relief 18 million per annum, so I just want to understand you've always said that there would be revenue and cost benefits that would offset that as it rolled off over two years, so if we were modelling that should we be modelling simplistically 18 million ahead of the operational drivers in that business ?? two years?

??

It drops out in July, 2015, the $9 million, you can now see clearly the financial dynamics of the rest of the business and you can model off that.

James Coghill

?? the benefits, I've always been told that in New Zealand you would generate benefits if the revenue line and the cost line to offset the ??.

??

So our expectation and we're seeing this across the market more broadly now although not to a great extent, is that there will be repricing in the market place there that will to some extent compensate for that loss of tax benefit because it's not an AMP specific issue it's an industry wide issue, and if we look at insurance margins, life insurance margins across the industry in New Zealand we'd probably be at the top end of the sector in terms of margins. So it would be logical to presume that others will be forced into repricing as well.

??

In the first half we saw the greatest increase in capital allocation going into wealth protection about 150 million while the enforced premiums didn't change, and I presume that's all to do with the ?? and the fact that the lapse rate went up. If the lapse rates stay elevated in the second half or ??talking about should we expect also a similar relationship would exist being that the enforced premiums probably don't change that much and yet the capital required also goes up another 100, $150 million?

??

There are a couple of things that drove that change, so the first one there was some requirements of our allocation post ?? of capital, so that lead to higher allocation of capital to the insurance business. You're right, there was also a significant element which was because we've changed our best estimate assumptions in the insurance business we need to hold more capital in reserve, so there is an element of that. So I wouldn't expect unless there's significant changes in I guess the overall assumptions and risk profile of our insurance business for the changes to be large, or as large as they have been, which contained that significant element of reallocation post ??.

Howard Marks

I think that might be it. In that case, I'd like to close off ?? I'd like to thank everyone for attending. If you do have any other questions or issues as the afternoon wears on please do not hesitate to either speak to myself or Steven Daly will be happy to take your call or email. Otherwise I'd like to end. Thank you.