TRANSCRIPTION

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Julia Quinn: Good morning. I'm Julia Quinn and welcome to the AMP half year 2014 results. We've got Craig Meller, Chief Executive of AMP, here to take you through the results and of course he will be available to take your questions following the presentation. We've also got Gordon Lefevre, our Chief Financial Officer, here.

As you know, there've been two announcements today. Rob Caprioli, Group Executive, Advice and Banking, is also here today and immediately after the conclusion of this briefing Rob will remain to go through the advice announcement and take any questions you may have on that.

We have a number of people who've dialled in, so when we turn to questions for those on the phone lines, the moderator will let you know when it is your turn to ask your question. Please avoid using a speakerphone as it can be difficult for us to hear in this room.

For those of you seated around the table, please make sure your mobile phones are now switched off. Thanks very much, and over to you Craig.

Craig Meller: Thanks Julia and good morning everyone. Today we've reported an underlying profit of $510 million for the first six months of 2014 against $440 million for the same period last year. All our contemporary businesses have contributed to this 16% lift in profit and that's enabled us to increase our insurance dividend by 9%.

In addition, we've made considerable progress on the strategy we've set out at the beginning of the year. We've stabilised our Wealth Protection

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business, although we've still got a long way to go. We've generated very good growth in our AUM-based businesses through our strong domestic franchise and from our successful targeted offshore expansion, particularly in China and Japan. We've managed a smooth migration to the MySuper regime and taken some great strides in the customer focus transformation of our core business.

We're delivering on our business efficiency program according to the plan we laid out and we've done this while keeping costs well controlled and our capital position strong. Consequently, our business growth has started to shift our underlying return on equity in the right direction, moving it up to 12.5% for the period.

The Board has declared a final dividend of $0.125 a share, 70% franked, which represents a payout ratio of 73% of underlying profit and we're continuing to neutralise the impact of the dividend reinvestment plan by buying shares on market.

Chart 3 sets out our profit summary for the half year and I'll go through the top half of this in a bit more detail as we talk through our business result.

Chart 4 shows very clearly that the lift in our underlying profit has been driven by growth across all our business lines, particularly our contemporary businesses. So we'll work through these business results in more detail, starting with Wealth Management on chart 6 and this is the story of strong business growth and cost control in our core business, superannuation investment and advice, which is delivering continued earnings growth through a period of well-managed margin compression.

AUM, a key value driver for this business, is up 13% over the year to $104 billion. A combination of earnings growth and costs control expanded the operating earnings to AUM margin in this business by one basis point to 36 basis points. Another key value driver of course is the net revenue margin and you can see margins here continue to move in line with our guidance.

Taking a closer look at cash flows on chart 7 and you can see the net cash flows on AMP retail platforms are up 39% on the first half of last year, continuing the trends that we saw through all of last year. North now has more than $12 billion in assets under management following its fifth consecutive quarter of net flow exceeding $1 billion. These strong flows were pulled back by outflows from external platforms, which were higher than in the same period last year, and as we note on the slide, external platform flows within the first half of 2013 were higher after a number of new practices jointed the Group. That adviser movement has been limited in this half by uncertainty over the FOFA grandfathering provisions, and with that uncertainty now removed, we expect to see more movement among adviser practices over the coming months.

While corporate super flows remain subdued as we focus on the transition to the MySuper environment, we've seen a pickup in new business activity during this half, with 16 successful mandates added and adviser numbers have edged up 2% over the half at a time when total industry numbers are contracting a little as the new FOFA environment beds down.

Onto AMP Bank on chart 8 and as I noted in February, it's becoming an increasingly important contributor to Group profit. Operating earnings were up 11% in the half with a 9% lift in residential mortgages, and more of this mortgage growth is being driven by our aligned adviser channel, which now accounts for almost a quarter of new mortgage business.

The Bank's net interest margin has tightened a little in the face of strong price competition in the mortgage market and more customers electing to take out fixed rate loans. We continue to target above system growth in the Bank subject to funding availability and our return on capital targets being met.

Turning to Wealth Protection on chart 9, we've seen an encouraging recovery in this business as our initial actions to improve claims and lapses gets some traction. Experience across the book in the first half has been broadly in line with our assumptions and it has helped deliver much better operating earnings than for the same period last year, but there's still a way to go.

As we set out on chart 10, this improvement has been largely driven by tactical activities and supported by more benign market conditions. We still have more work to do to build a sustainable long-term base for the business. As we explained in February, our initial focus has been on pricing and processes, particularly in claims, as the fastest way of making an immediate impact. At the same time, we've also been developing a longer term approach in response to the structural changes we've seen in this industry. That work is ongoing and involves implementing a new claims

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management approach, a new claims management platform and a new insurance proposition.

What's been very encouraging for us is our customers' reactions to our shift in focus to help people get back to work sooner. This is driving increased customer satisfaction, as well as better commercial results for us, and it's reinforcing the value we believe we can create through our customer focus strategy.

It's pretty early days still and there's still much to be done to make sure our initial tactical wins become more sustainable but overall we're encouraged with the progress we've made in stabilising our Wealth Protection business and we know we still have more work to do.

Moving on, chart 11 sets out the results of both our New Zealand and mature businesses and both made solid contributions to our overall result. Our New Zealand business continued to deliver earnings growth even after allowing for the positive impact and depreciated currency, and our success in the KiwiSaver market has been one of the highlights of our year in New Zealand so far.

Now turning to AMP Capital on chart 12 and the 12% lift in operating earnings here was driven by robust fee growth, particularly in performance fees across a broad range of high-value-added investment products. One of the highlights in this business in the first half was a very large turnaround in external net cash flows delivered through the ongoing commercialisation of our partnerships with China Life and MUTB.

On chart 13 there are some more details on that cash flow turnaround and AMP Capital investment performance. We've been actively working with both our key offshore partners to deliver investment funds tailored to their market. In China that's resulted in our joint venture company raising $3.7 billion from net cash flows from Chinese retail and institutional investors in its first full half-year of operation.

In Japan, we've been working with MUTB to broaden our product offering in response to changing market conditions there brought about by Abenomics and that has resulted in a $2 billion plus turnaround in cash flows over the same period last year.

More broadly, AMP Capital's investment performance continues to improve, with 76% of funds under management meeting or exceeding defined goals over the three years to June 2014 against a target of 60%.

Stepping back, you can see that all of our business lines, particularly our contemporary businesses, contributed to this set of results.

Now looking forward, as we outlined a year ago and set out again on chart 22, our strategy to drive stronger growth from AMP's unique set of capabilities and assets has four key components. First, to prioritise investment in the highly attractive Australian market, to capture the strong growth projected over the next decade and beyond; second, to use its investments to transform our core Australian business, centre on customers to generate stronger revenue and growth; third, to reduce costs, maintain our market-leading efficiency and create capacity for further reinvestment; and fourth, to expand selectively offshore through AMP Capital partnering with national champions in key markets.

This strategy builds on our current business strengths and helps us respond to a world being reshaped by changing consumer expectations, technology and regulation. As part of this response, we've today made a separate announcement about the actions we're taking to strengthen our advice proposition to consumers and remind them of the strong consumer safety net that our business model provides them.

Rob Caprioli, our Group Executive, Advice and Banking, has detailed a series of steps we're taking to lift the bar on advice professionalism, improve transparency, support industry-wide improvements and remind consumers of the backing AMP brings to the advice we provide.

These commitments will further underpin the work we're doing to develop new advice models to suit different customer needs as part of the transformation of our core Australian business. We've taken some other big steps in that transformation program in the first half of this year as outlined on slide 23. We've broadened our digital reach through our new app, we've sped up our new operating model, we've used human sense of design and behavioural economics to help develop new solutions and improve ways of communicating with our customers. We've taken most of our staff through a very specific program to align them with the delivery of our strategy.

One of the most powerful agents of change will be our new customer measures, including the net promoter system, driving continuous improvement programs right across our business, and we'll reinforce that through the investments we're making in the second half in our new call centre telephony platform and staff up-skilling.

2014 is very much a foundational year for this transformation program, with a focus on getting the right infrastructure in place, ensuring our employees understand what we need from them and getting the right metrics in place, and we've made significant progress on all these fronts.

The third component of our strategy, our business efficiency program, is progressing well with an update in the section on capital position and costs in the presentation. The fourth component is set out on chart 24, which is our selective expansion offshore through AMP Capital and again we're pleased with the progress we're making here.

In China, the time and investment we've put into building a trusted relationship with China Life enabled us to move very quickly last year when regulations around fund managers changed and we are now reaping the benefits of that early-mover action.

Similarly in Japan, our active and ongoing relationship with MUTB has resulted in a number of new investment funds being brought to market in a relatively short timeframe to broaden our offer there. Our strategy of targeting global pension funds using the skills and capabilities developed in Australia is also delivering results. We now have 104 global pension fund clients with over $4.7 billion in funds under management. This strategy is also attracting substantial offshore investment into Australia. Our $5 billion property development pipeline is being strongly supported by pension and sovereign wealth funds from Canada and the Middle East.

So in summary, we've seen some pleasing growth across the business in the first half underpinned by significant traction in the execution of our strategy. The Wealth Protection business is stabilising although we still have more work to do. Our business efficiency and customer transformation programs are on track and our offshore expansion is progressing well. At the same time, we're controlling costs tightly and maintaining a strong balance sheet and all this has enabled us to lift our dividend and push our underlying ROE in the right direction.

I might stop there thanks Julia and back to you.

Julia Quinn: Thanks. We've got some time for questions. I noticed John Durie from The Australian on the telephones has got a question. John would you like to start?

Question: (John Durie, *The Australian*) Yes, hi Craig. I was interested - the government's changed the FOFA rules, could you explain how that's benefitted the AMP please?

Craig Meller: Probably the most significant issue with regard to the tweaks to the FOFA regulations, John, was the change in the position of grandfathering that allows financial advisers to be able to move from one financial planning business to another without losing the benefit of grandfathering, and that means that, if you like, there's freedom for financial planners to choose who they wish to partner with in the marketplace, which would have been restricted had the previous regulations been left in force. That's to us the most significant component of those changes.

Question: (John Durie, *The Australian*) Right. Sorry, I'm not quite sure what you mean. So if they're working for Company X they can change to Company Y without losing any benefit?

Craig Meller: So under all of the FOFA regulations, the previous remuneration benefit the financial advisers received were grandfathered if they stayed within the licensee business or the company under which they operated. If they moved, those grandfathering benefits would be eliminated and that could be a significant negative financial consequence to those financial advisers.

So what that essentially means is that for the last year or so the financial planning industry had has advisers frozen in the licensees under which they're operating. The wind back with these regulations allows that pre-movement to continue again.

Question: (John Durie, *The Australian*) Great, thank you. One quick follow up if I could. There's been a lot of publicity about financial planners and the industry would probably, it's fair to say, doesn't have a very good name. I was just interested in any comments you might have on any of the above.

Craig Meller: Yes, thanks John. Well you'll see from the separate announcement that we issued today regarding the steps we're taking to lift the bar of standards in the financial planning industry that we regard this as an issue that AMP should be absolutely involved in. Part of our growth strategy across our business is to make advice available to more Australians. It's quite clear that only about 15% of Australians currently use a financial adviser. That means there's 85% of the population not using a financial adviser. We think part of that is around consumer confidence in the financial planning industry. The steps that we're taking today are steps to build much stronger confidence in the industry and we believe you should expect that from AMP.

Question: (John Durie, *The Australian*) Great, thank you.

Julia Quinn: Craig, do we have any questions in the room? Thanks Ruth.

Craig Meller: Hi Ruth.

Question: (Ruth Liew, *Australian Financial Review*) [Inaudible] and the figure for your revenue [inaudible] down 20% to [$1.245 billion], can you give us a bit of colour to why that is the case?

Craig Meller: Yep certainly. I'll give you a very high level answer then if you want to catch Gordon, our CFO, afterwards he'll go into detail. One of the challenges in presenting a life insurance company's results is that we are required to present, not just the financial results to the shareholder, but the underlying financial results of all of the policy holders in the fund also. The revenue line to which you refer is essentially the movement in the value of policy holder funds period-on-period. What it's essentially saying is the stock market didn't go up quite so much in the first six months of this year as it did in prior years. What we try to do with the investor report is to present a very clear picture of what's going on to the shareholder component of AMP's accounts. So, as I say, if you want more detail on that you can speak to Gordon afterwards.

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Julia Quinn: We have another couple of questions on the phone. Can we start with Tony Boyd from the *Australian Financial Review*.

Question: (Tony Boyd, *Australian Financial Review*): Oh thanks Julia, Craig I noticed that your return on equity has improved slightly, up to 12.5%. Of course it's still down; I think first half 2010 you've got the document there, it was 27.4%. Talking to people who run other wealth management companies in Australia, they seem to say, yeah 20% top 30% return on equity is what you should be getting. I just wonder how far you are aware from that type of return. I mean is it too ambitious for you or -

Craig Meller: It's a good question Tony. The return on equity number for AMP is a function of the accounting processes that were put through at the time of the merger with AXA. If you look at the return on capital and the growth in our business you'll see that we increased the capital usage in the business by just over $200 million in the first six months of this year and the profit increase was about, I think the number's $70 million. You can work those through together and you'll see the return on capital that we've delivered and the growth in the business is between the numbers that you're talking about. I think that's a more appropriate way to be looking at how efficiently we're driving the business.

Question: (Tony Boyd, *Australian Financial Review*): So a quick follow up then, does that mean that you're sort of hampered because you've got all that goodwill from AXA and that you probably should write some of that off?

Craig Meller: Well it's based on fair value of the underlying assets and that's why it's in the balance sheet at that number. I don't see it as hampering us at all. The Group is very comfortable with its capital position. We're looking to drive an increase in return on capital by not using more capital and by growing profits and that's what we're focussed on doing. Whether the goodwill's in our balance sheet or not isn't making any difference to that.

Question: (Tony Boyd, *Australian Financial Review*): Okay. Just finally, your share price is probably the same today as it was a year ago and I just wonder - actually about the same - but I wonder do you feel any pressure on this front in terms of - I know Charlie Aitken has quite a firm view that the company is a takeover target at this price because he says it's so cheap. But could you give us your perspective on that?

Craig Meller: Yeah, well firstly I'd check your numbers because against a year ago I think, from memory, it's well up. Secondly we have an open register. If anyone wants to buy AMP shares singularly or in bulk, that's up to them to choose to do so. We're absolutely focussed on running the business as best we can. We've laid out our plans for doing that today and we've laid out the early successes in the delivery of our strategy.

Question: (Tony Boyd, *Australian Financial Review*): Thank you.

Julia Quinn: Any other questions from the room? No? We've got another question on the phone, [Katarina Taurian, *SMSF*].

Question: (Katarina Taurian, *SMSF*) Hi Craig, I just wanted to know how AMP SMSF has performed compared to the last quarter and what your thoughts are for the next one.

Craig Meller: Sorry I missed which part.

Question: (Katarina Taurian, SMSF) You there?

Craig Meller: Yes.

Question: (Katarina Taurian, SMSF) I just wanted to know how AMP SMSF has performed compared to the previous quarter and what your thoughts are for the next one?

Craig Meller: So if we look back at our self-managed super fund business, it's really built around developing and then growing what we think is a unique capability in the marketplace around online self-managed super fund administration. Our strategy up until the end of last year has been to grow that business principally by acquisition. Between ourselves and our 50% joint venture partner, SuperIQ, we've grown our share of the SMSF admin marketplace to between 3% and 4% over the past two or three years. Which might not sound a very large number but it's probably ten times the next biggest administrator in the marketplace.

We believe that, going forward, our strategy is going to be more focussed on organic growth rather than through approaching other administrators and switching them to our IT capability. The first half of this year has been around transitioning from the inorganic to the organic growth, if you like, and we've seen reasonably modest growth in SMSF account numbers; just over 300 I believe. But we're expecting to see that accelerate going forward.

Question: (Katarina Taurian, *SMSF*) Okay thanks Craig.

Julia Quinn: Do we have -

Question: (Andrew White, *The Australian*): Just got a question - Andrew White from *The Australian* - the net retail cash flows were down, $615 million going down [to $600 million] Can you elaborate on that a little bit more?

Craig Meller: Yes. So that number was against the broadly flat number in the prior year. The big difference was in 2013, a number of adviser businesses moved to AMP and they happened to be businesses that had external platform business that got switched into the AMP family.

That was not repeated again this year. You are seeing a more usual flow within the external platform business, what we have seen as take up of the North platform amongst our advisers has increased. So we are seeing less new flows going in to some of our older platforms and many of our external platforms, which is why there are both outflows in the sort of traditional platforms within AMP but also in the external platforms as well. It is fundamentally a reflection of the strength of the North proposition.

Question: (Andrew White, *The Australian*): So is that something that North is cannibalising [inaudible]?

Craig Meller: There is an element of flows that historically may have come in to other platforms but now go into North.

Julia Quinn: I do not have any more questions on the phone. Are there any more questions in this room?

Question: (Ruth Liew, *Australian Financial Review*) Yes. Just got one for your life insurance division. Just looking at your [inaudible] before, I was wondering if you could give a bit of colour as to lapse rate [inaudible] experience.

Craig Meller: Yes. So firstly we see a seasonable effect in lapse rates too because most of the CPI and age increases that go through for our policy holders go through in the second half of the year. So we always see a lower lapse rate in the first half of the year relative to the second half. Nevertheless, we have seen a slight improvement on the prior year.

There are two key components and we are trying many different things but there are two key areas where we have had some success. Firstly, we have talked historically about actions that we have taken to prevent certain advisers that have had high lapse rates writing business with AMP and that means we have seen an improvement in lapse rates after a couple of years of dealing with AMP. So that is a good outcome.

Secondly, we are getting much more focussed in our approach to customers particularly when they are calling to query increases in their premiums to emphasise to them the benefits of staying with AMP and finding solutions that are affordable for them.

Julia Quinn: Last call for questions. As I mentioned earlier, Rob Caprioli is in the room here if anyone would like to stay on the phone or stay in the room to ask Rob their questions about the advice changes we announced today. Thank you everyone for coming.

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