TRANSCRIPTION

Company: **AMP Limited**

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[START OF TRANSCRIPT]

Julia Quinn: Welcome to the AMP full year 2014 results. We've got Craig Meller, Chief Executive of AMP, here to take you through the results and of course he'll be able to take your questions following. We've also got Gordon Lefevre, our Chief Financial Officer here.

We've a number of people who've dialled in, so when we turn to questions for those of you on the phone lines the moderator will let you know when it's your turn to ask questions. Could you please state your name ahead of asking your question? Please avoid using a speakerphone on it as it can be difficult for all of us to hear in the room. For those of you seated around the table can you please make sure your mobile phones are switched off or to silent.

Thanks very much and over to you Craig.

Craig Meller: Great, thanks Julia and good morning everyone. So today we've reported an underlying profit of $1.05 billion for the full 2014 financial year against $849 million for 2013. All our contemporary businesses have contributed to this 23% lift in profit and that's enabled us to increase our total dividend for the year by 13%.

The recovery in our Wealth Protection business has continued and our focus is now on ensuring the impact of the changes we've made are sustainable and long-lasting. We've generated very good growth in our AUM based businesses through our strong domestic franchise, and from our target offshore expansion particularly in China and Japan.

We successfully bedded down significant regulatory changes in superannuation and advice. We've also made considerable progress on the strategy we set out 18 months ago. It's establishing solid foundations for the customer-focused transformation of our core Australian business, and we've continued to deliver on our business efficiency program on time and on budget, while keeping underlying costs well controlled and our capital position strong.

So consequently our business growth has continued to shift our underlying return on equity in the right direction, moving it up to 12.7% for the full year. The Board's declared a final dividend of $0.135 a share, increased franking at 80%. This takes the total dividend for the year to $0.26 a share which represents a payout ratio of 74% of underlying profit. 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 year and I'll go through the top half of this in a bit more detail shortly as we talk through our business results.

Chart 4 shows very clearly that a lift in our underlying profit has being driven by continued growth momentum across all of our contemporary businesses. So let's look at these business results in a bit more detail starting with wealth management on chart number 6.

The operational leverage of our AUM based businesses comes through strongly there. We're driving growth with cash flows in AUM while tightly managing our costs with a cost to income ratio below 50%, and you can see that business growth is dropping straight through to the bottom line with a 13% increase in operating earnings.

AUM is up 9% over the year to $110 billion against a pretty flat Australian market, and even more pleasingly AUM on AMP platforms is up 11% on the year.

Taking a closer look at cash flows on chart 7 and you can see that net cash flows on AMP platforms are up 35% on 2013, continuing the trends we've seen driving for these last 18 months or so now.

North has almost $16 billion in assets under management following its seventh consecutive quarter of net flows exceeding $1 billion, with the fourth quarter last year North's biggest yet.

AMP Flexible Super now has just over $13 billion in AUM up 31% on 2013, with more than two-thirds of this growth driven by strong net cash flow. Our contemporary corporate super products also had a stronger year, with a 16% lift in net cash flow reflecting both new mandate win and ongoing recovery and discretionary contribution. Momentum is building in this part of the business with a strong pipeline of new mandate wins to transition during 2015.

Net cash flows across AMP's retail and corporate super platforms have now reached just over 4% of opening AUM. We've been driving a steady lift in this measure over the past couple of years and it's one that we target to shift higher still.

Turning to AMP Capital on chart 8, the 16% lift in operating earnings here was driven by an 8% increase in fee income and good investment return, more than offsetting 4% growth in controllable costs. The substantial improvement in an external net cash flow was generated by strong performances from our partnerships in China and Japan as well as broader international growth, and as with our wealth management business, that growth is flowing through to the bottom line.

On chart 9 there is some more details on AMP Capital cash flows investment performance for the year. We've been very active in both China and Japan with new fund launches and this has underpinned the $2.2 billion net cash flow from those two countries, but we've also been generating strong international cash flows outside of these countries as demand grows for our core investment capabilities in property and infrastructure.

Underpinning these flows is strong investment performance across key asset classes. 86% of funds under management met or exceeded client goals over the three years to December 2014 and that's against an internal target of 60%. And indeed our flagship Future Directions Balance Fund has delivered top quartile investment performance over the past one and three years, and pleasingly was one of the top three performing superannuation growth funds in Australia in the last year.

So onto Wealth Protection on chart 10. This business is continuing to recover as our actions to improve claims and lapses get more traction. Our new approach to claims management along with our strength and assumptions delivered positive experience in income protection, and our lapse experience was a little bit better than we expected.

We're still seeing volatility in lump sum experience from some large life claims in both AMP Life and NMLA, and whilst it's well within expected bounds of the portfolio level, we're monitoring that closely.

As encouraging as these results are, there's no doubt we have much more work to do in this business to make the changes we introduced last year sustainable and to develop insurance solutions that are more compelling for consumers.

So that's the work for 2015 and we set that out on chart 11. It involves taking both our new claims management approach and the new claims platform to scale across all our claims team, and it means continuing to develop, test and refine new insurance offers for consumers that meet contemporary needs.

With this work in investment still in front of us, and market condition's largely unchanged, our best estimate assumptions remain in line with previous guidance. Whilst lapse experience last year was a little better than our assumptions, there are no quick fixes for this issue. So overall we're encouraged with the progress we've made in stabilising this business and setting it on the road to recovery, but we still know we have more work to do.

Now onto AMP Bank on chart 12 and it continues to be an important contributor to Group profit and to Group strategy. Operating earnings were up 9% - 10% sorry - and a 9% lift in residential mortgages was above systems growth. We're continuing to see more of this growth being generated by our aligned advisors. They delivered a quarter of new mortgage business in 2014 compared with 19% in 2013.

It is an important plank of our strategy to be more customer focused as debt management and mortgages are a core part of most customer's financial needs and we're keen to meet more of these needs as part of our holistic offer.

The next chart 13 sets out the results of both our New Zealand and Mature businesses. In New Zealand we're working hard to mitigate profit impacts with the changes to life insurance packs which come into effect on 1 July this year, and the cash flow in KiwiSaver has been a highlight for the business over the past 12 months, but New Zealand remains a tough market for us. The Mature business continues to generate good profits and a good return on capital, although lower bond yields did reduce operating earnings by 2%.

So stepping back, you can see that all our contemporary business lines made significant contributions to this set of results, with the momentum we saw at the half being sustained through the year.

Now the next few charts go into detail on the financials behind our results, so in the interests of time we'll move to slide 22 for an update on our strategy. Our strategic intent and direction remain unchanged.

In a nutshell we're capitalising on the already strong position we have in a very attractive market. We're investing more than $100 million a year to develop products, services and advice solutions to meet the contemporary needs of customers, and we're also intent on remaining the most efficient wealth manager in the market with a program to drive a step change in our cost base.

Combined with our expanding offshore business, we believe this mix of growth and efficiency will deliver superior returns to shareholders, and as we've moved deeper into the execution of our strategy, our level of conviction about this strategy has only been strengthened.

As set out on chart 23 the transformation of our core Australian business is essentially about creating stronger capabilities right across the value chain and aligning them by design behind the customer, so our customers get the full benefit of our integrated model.

We're building new capabilities in four areas. First, in designing the face-to-face advice model of the future so it's more efficient, more productive and more accessible and so we can reach more people with more advice more often. Second, in building out our channel capabilities so that customers have broader choices in how and when they interact with us, and we can meet some of their simpler more transactional needs more cost-effectively. I stress this is not instead of face-to-face advice, it's about complimenting our current advice capability, we're calling it an "and" strategy, not an "or" strategy. Third, in building better solutions to meet the contemporary needs of our customers, and fourth, radically improving our service quality in all areas of our business.

The detail of what we've built and developed so far is set out on this chart and our next steps for 2015 are outlined on chart 24. Overall we're very pleased with the progress we've made in all four areas over the last 12 months, while being well aware of the work still ahead of us in order to reach all of our customers with better solutions.

An update on the progress we're making in our business efficiency program, the third leg of our strategy, is in the financial overview section of the presentation. The program is on track reducing costs to maintain market leading efficiency and reinvest in new customer solutions.

So chart 25 is an update on the steps we've taken to execute the fourth leg, expanding our business offshore. After spending considerable time and investment building a trusted relationship with China Life, we were able to move very quickly last year to launch five new funds through our asset management joint venture at the beginning of the year [and grew] our Pension Company partnership towards the end of the year. We see both these ventures as having very significant long term potential.

Our partnership with MUTB in Japan is also proving very rewarding. It's helped us increase the value of the assets we're managing for Japanese clients by 34% last year to more than $7 billion. Our strategy of targeting global pension funds using the skills and capabilities developed in Australia is also delivering results. We now have 119 global pension fund clients with over $4.7 billion in funds under management as the demand for property and infrastructure investment in particular increases around the world.

So let's sum up just before we move to questions. We've grown our contemporary businesses strongly in 2014 underpinned by significant traction in the execution of our strategy. The Wealth Protection business is recovering well and we know what we need to do to make that recovery sustainable and move back into profitable growth. Our business efficiency in customer transformation programs are going well, and our offshore expansion made real progress in 2014. At the same time we're controlling costs tightly and maintaining a strong balance sheet, so we continue to maintain this focus on improved financial performance and successful strategy execution in 2015 and beyond.

So that's all from me, thanks very much, and back to you Julia.

Julia Quinn: Thank you, thanks Craig. Could those on the phones just nominate through the system whether or not you'd like to ask a question, but we might kick off with someone in the room. Would anyone like to ask a question?

Question: (Ruth May, Australian Financial Review) I'll ask one. Sorry [unclear] late Craig…

Craig Meller: That's alright [unclear].

Question: (Ruth May, Australian Financial Review) …and I apologise if you've already mentioned it, but I just really wanted your thoughts on the issues in the life industry and looking at your results it looks incredibly [unclear] compared to 2013. Is the worst behind us when it comes to issues like lapse rates, claims experiences et cetera?

Craig Meller: Well clearly you can see in our results that we've achieved an improvement in both the lapse rates and the claims performance, but I think in the industry more broadly we've seen continuing high levels of claims rates with general improvement in lapse rates across the industry. So I think it's too early to call.

The issues in this industry are over, but the focus that we've applied, particularly on the claims management side, is delivering real benefits and we're very optimistic that we can sustain the improvements that we've delivered over the last 12 months.

Julia Quinn: Our next question is from John Durie on the phone.

Question: (John Durie, The Australian) Hi there Craig. Craig, a couple of things; firstly, it be possible to say how much - what percentage of your assets under management are in Asia and what your earnings are from Asia please?

Craig Meller: I would but I haven't got those numbers at the front of my mind John, but we can certainly get back to you on them.

Question: (John Durie, The Australian) Okay, great, thank you. Also I was just interested in your thoughts on the financial planning industry, and do you think it's recovered its reputation?

Craig Meller: Well, clearly the noise around the industry that we've had around the last 12 to 15 months or so has undoubtedly had an impact on consumer confidence. When we speak to our advisors the very clear message we get is that the customers that they deal with on a day-to-day basis are very happy with the service they're getting from our advisors and they're very confident in the quality of the services provided.

I think the broader issue is how do we give the 80% of Australians who currently don't use a financial advisor the confidence that they know that they can go to see an advisor and know that they'll receive quality advice. That's why we made the decision around about six months ago that we would be raising the standards of advice, standard of qualification and the training around ethics in our business to help improve confidence and we're very pleased to see that there's a broad consensus across the industry moving in that direction.

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

Julia Quinn: Any other questions in the room?

Question: (Marion Williams, Australian Banking & Finance) On AMP Bank, I think you've got big ambitions to grow that, do you think it's of an economic scale?

Craig Meller: Well, the bank produced profits over $90 million last year with a return on capital above 15%, so we're very pleased with the performance of the bank. Its cost-to-income ratio is just over 30% which is almost world-leading, and that's because it's able to leverage off the broader resources of the broader AMP Group.

We think that management of mortgages is an integral part of optimising the management of our customers' finances and so we see a real need in our client base for banking services and we see the opportunity to generate returns for our shareholders by satisfying that customer need.

I did call out earlier a significant focus for us in banking is increasing the level of mortgages provided through our financial advisors and we're very pleased that that grew from 19% in 2013 to 25% in 2014 and actually grew during the year, so they ended the year at a higher percentage than that.

Question: (James Eyers, Australian Financial Review) Another question on the bank, Craig. We've seen some of the large banks report contractions in net interest margins during their quarterlies and recent results, but you've held that steady and actually expanded that a little bit. Just in light of that, I wondered if you could talk a little bit more about the costs of funding and also especially levels of competition in the mortgage market.

Craig Meller: Undoubtedly there's strong completion in mortgage pricing. What we saw in the second half of the year was a general lowering of the cost of wholesale funds and I think AMP Bank, relative to the majors in Australia, probably has a greater percentage of funds sourced from the wholesale markets relative to the big four who generate a greater percentage out of their deposit base.

In a declining interest environment where you have a big pool of interest-free balances there is a tendency to see margin squeeze because we don't have that pool of interest-free balance on current accounts. We haven't seen this sort of margin squeeze that others have been reporting.

Julia Quinn: I don't think we've got any more questions on the phone but please let us know if you do have a question. In the meantime, any other questions in the room? That looks like it. Thank you very much. If there is anything you'd like to follow up with the AMP media relations team please contact us. Otherwise we'll speak to you in due course.

Unidentified female: One's just come up.

Julia Quinn: Oh, one's just come up. We've got a question from Julie May at the *Financial Observer*.

Question: (Julie May, Financial Observer) Hi. I just was wondering, I know you guys talked about the wind-up of the Genesys dealer group last year, and I was just wondering if we could get any update on that regarding how many firms were going to transition to other AMP-aligned dealer groups or potentially move out of the wider AMP parent company altogether, if you had any numbers around that as yet?

Craig Meller: We haven't finalised our discussions with the individual licensed - planner businesses in Genesys so there's no update I can give at this stage.

Question: (Julie May, Financial Observer) Okay. Thank you very much.

Julia Quinn: Thank you very much everybody. Bye.

[END OF TRANSCRIPT]