O/N H-858236

AMP LIMITED 2017 FULL YEAR RESULTS

MEDIA BRIEFING

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DATE:	**9.17 AM, THURSDAY, 8 FEBRUARY 2018**

MR L. JOHNSTON: Good morning everyone. Welcome to AMPs 2017 Full Year Results. I'm Lachlan Johnston, Director of Communications at AMP. And I'm joined this morning by Craig Meller, our Chief Executive Officer, and Gordon Lefevre, our Chief Financial Officer. Craig will provide a summary of the 2017 Full Year Results and both Craig and Gordon will be available for questions. If we can ask you all to please register for questions as per the moderator's instructions. You can register to ask a question at any time during the conference. The moderator will let you know when it's your turn. We would also ask that you avoid using a speakerphone so your question can be heard clearly. Thank you very much. Now, over to Craig.

MR C. MELLER: Thank you, Lachlan, and good morning everyone and thank you for joining us. Let me take you through the main points of today's results announcement and then we will go to Q and A. I would describe today's results as a strong recovery driven by the stabilisation of the wealth protection business and a solid performance more broadly across the business. Let's start at the group level where we saw the recovery in our underlying profit of $1.04 billion driven by growth and momentum in our core businesses and a stabilisation in wealth protection. We've increased our full year dividend by one cent to 29 cents which is within our target payout range.

We've driven hard on costs, meeting our target for a three per cent cost reduction in controllable costs in full year '17 excluding AMP Capital and we've reaffirmed our commitment to keep costs flat this year. Return on equity was 14.3 per cent, well on track towards our target of 15 per cent in 2018. We're also making strong progress executing on the strategy we set out last year and driving growth across the business. We've announced this morning that we're well progressed with a portfolio review of the manage for value businesses with all alternatives being considered. As a result, we're in discussions with a number of interested parties and we expect to provide a further update at or before the AGM.

The review builds on the actions we've taken over the past 18 months to stabilise the wealth protection business, namely, strengthening our best estimate assumptions and completing comprehensive reinsurance programs that have together released approximately $1 billion of capital to the group. The reinsurance capital has strengthened our capital position. We now have a surplus of $2.3 billion over our minimum regulatory requirements and we've decided to retain that surplus at this time pending the completion of the portfolio review. And as I mentioned we will provide an update on the portfolio review at or before the AGM in May.

So let me take you through the key points from our business units starting with Australian Wealth Management, which is our superannuation investment platform and advice business. Overall, our wealth management business held its own and showed its resilience amid challenging headwinds. You can see this in our strong platform cash flows, the additional growth we've driven and our advice and SMSF businesses and our continued focus on managing costs. There were exceptionally high levels of activity in the industry this year ahead of the superannuation changes that took effect on 1 July.

There was also strong pressure on margins – we call that margin compression – in the final year of transitions to MySuper. Rising margin compression has been a feature across the wealth management industry over the last five years but with the MySuper transitions now complete we expect margin compression to trend back to its long-term average of three per cent. This challenging environment contributed to a two and a half per cent decline in our operating earnings in wealth management. Cash flows rose significantly to $931 million and this included another strong performance on our North platform where we maintained our position as the market leader in this space.

And our corporate super flows were bolstered by several mandate wins with a healthy pipeline for this year. To broaden our revenue base in wealth management we have been driving additional grown and advice in SMSFs that we report in the other revenue line. We’ve gathered real momentum and achieved our target to drive 10 per cent growth in this area and we’re starting to see an underlying growth trajectory emerge here. To support our growth ambitions in advice we’ve invested $40 million in practice equity and client registers in the second half of 2017 and we expect to see the benefits of this flow through this year.

Across our core licensing network – AMP Advice, AMP FP, Hillross and Charter – we’ve focused on retaining and improving the productivity of our advisers. We’ve maintained a 99 per cent retention rate for practices in our core licensees and the average AUM for adviser in this group is up to $41 million. For the past few years we’ve been transforming the way we provide advice, aiming to improve the customer experience and adviser productivity. We’re systemising the advice process through, firstly, developing an end-to-end goals-based advice system that we’ve badged Goals 360 and, secondly, building a practice management and CRM solution for our advisers with Salesforce.

By investing in these advice platforms we’re positioning our business to win from the technology disruption under way across the wealth management industry. Goals 360 enhances the advice experience for customers, utilising interactive technology to explore and prioritise their goals. For advisers it delivers a more efficient way to provide advice allowing them to service more customers. The technology is already operating in our AMP Advice practices and the feedback has been very positive. We intend to roll Goals 360 out at scale across the advice network in 2019.

Our Salesforce platform will also improve adviser productivity and we’re introducing this to our networks in the first half of this year. We see real potential in our goals-based advice platform and it has been gaining significant interest overseas as well. This year we announced a partnership with United Capital and we’ve been working with them on a model through which we could export our wealth operating system under licence to other wealth managers. So all up we see a significant growth opportunity in wealth management and we're pretty excited about the future of this business.

Moving on to AMP Capital, our investment management business, which has delivered another strong performance with operating earnings up eight per cent to 156 million. The result was driven by continued fee growth and the strong demand for our real assets capability. That's real estate and infrastructure. We grew our international client base by 46 per cent to 291 clients for whom we now manage $12 billion and that's a really a strong performance. AMP Capital's external net cash flows were $5.5 billion, the highest since AMP Capital was first set up and there was strong demand for real assets and fixed income strategies from both international and domestic clients, including through our Chinese joint ventures.

We're also delighted with the success of the infrastructure DET13 which raised $2.5 billion at final close with a further $1.6 billion in co-investments and other commitments. We've made $5.6 billion of investments including Leeds Bradford Airport in the UK, Indooroopilly Shopping Centre and Endeavour Energy here in Australia. And looking forward we have $4.2 billion in funds committed for investment. In China our joint ventures continue to grow rapidly increasing both cash flows and market share. China Life Pension Company passed the A$100 billion mark in AUM in 2017 and in only its fourth year of operation our investment management joint venture, CLAMP, has reached $36 billion in AUM and launched 25 products last year.

At the end of last year we also announced a partnership with US real estate investor, PCCP, that included taking a minority stake in the business. The partnership will further diversify and accelerate AMP Capital's real assets business. AMP Capital has got a really strong distribution network, particularly in Asia and that will be complemented by PCCPs real estate investment expertise.

Turning to AMP Bank which delivered another very strong performance with operating earnings up 17 per cent. The loan book grew by 14 per cent, well above market, driven by residential mortgages. As expected, the second half was quieter than the first as the industry responded to changes in regulatory settings but all up a very strong year and we're on track to meet our target to double the value of the bank by 2021. And on to wealth protection, our life insurance business. Looking back over the last year it has been a strong recovery and the wealth protection business has now stabilised. We recorded operating earnings of $110 million and profit margins were slightly ahead of guidance and experience was largely in line with expectations. Similarly, our mature business continues to perform in line with expectations.

In New Zealand our manage for value strategy has again delivered a strong result. There was a small impact on earnings from a stronger Australian dollar but, again, the business produced a first-rate performance on costs. So in summary we've delivered a solid set of operating results. AMP Bank and Capital maintained their growth momentum. Wealth management held its own and effectively navigated an intense period of margin compression. Wealth protection has stabilised. New Zealand and mature are performing in line with expectations.

We've announced two new partnerships with major overseas players, costs tightly managed and on target. We've managed a strong capital position and we've increased the full year dividend to 29 cents. So a solid performance while we've been implementing our strategy and driving growth right across the business and that focus on delivery continues in 2018. So with that, back to you, Lachlan, and over to all for questions.

OPERATOR: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speaker phone, please pick up the handset to ask a question. There are currently no questions at this time. Your first question comes from Alice Nuraby from Fairfax Media. Please go ahead.

MS A. NURABY: Hi, Craig. I was just wondering in regards to wealth management, obviously, in other words, there was a bit of a dip in cash flow. I'm just wondering – I mean, if you'd give me more detail on how – you know, you're seeing it as a growth area, but I'm just wondering if you'd give me a bit more detail on where specifically and how.

MR MELLER: Yes. Certainly, Alice. I mean, if you look at the wealth-management industry and ours in particular, if I go a long way back in time, in a model like AMPs we've had a business where the margins in the products of the business have supported the advice side of the business. Now clearly with the changes in regulation that we've had over recent years, that's no longer a tenable strategy going forwards. So what we've been doing is making sure that the products are very competitive, and you've seen that in the very strong growth in the north platform, $5.7 billion of net flows in 2017.

We expect that'll be the highest in the whole of the marketplace. But also we've been looking to invest much more into our advice business and grow our advice revenues much more strongly, and in today's result you can see that from the 10 per cent other of revenue growth that we've had in wealth management in 2017. So all up, we've set ourselves a target of growing revenues in wealth management at five per cent a year in ordinary markets and we're confident with the moves that we're making in growing our advice revenues that we can deliver that.

MS NURABY: Great, thank you.

OPERATOR: Thank you. Your next question comes from Nadia Cameron from CMO. Please go ahead.

MS N. CAMERON: Hi. Thank you and good morning, Craig. Just wanted to ask you a little bit more about the Goals 360 platform. Just to understand the extent of utilisation of that platform to date, any results in terms of custody improvement, and also how the Salesforce platform that you're now rolling out is going to further either scale that or add new capabilities to it.

MR MELLER: Yes. So if I look at the Salesforce solution and Goals 360 together, we think it's a really new paradigm in providing advice. If you look at financial advice historically around the world, you could characterise advices – the proposal of one outcome to a customer, and then we provide them with a statement of advice of usually 40 or 50 pages which is essentially, if the world doesn't work out the way our one proposal suggests, then we've documented all the reasons for it. The Goals 360 capability actually runs a model that looks at the client's financial position and models that against a thousand different economic scenarios and assesses under each of those scenarios the likelihood of the client achieving their goals.

So that's called a stochastic model. That means we can give the client a much greater position on the likelihood of them achieving their goals, and we're presenting that in a very simple and easy-to-understand way. So we think it's a far higher quality type of advice, firstly. But secondly, because of the automation that we've put into this system, much more efficient for the advisor. As I say, we've just about rolled it out to 200 advisors operating under the AMP advice brand, and the initial feedback that we're getting from customers is very positive. The net promoter scores of the experience from the customers who've been through is plus 60, which would be way above what we're seeing generally across AMP more broadly.

In addition to that, because of the automation in the system, we think it's going to significantly reduce the advisor's time to provide advice. And finally, because of the automation in the system, its compliance completely built in, so it reduces compliance costs significantly, as well. The Salesforce platform essentially is a CRM system for the advisor. It integrates completely into AMP. When it's completed, it'll integrate into all of the product solutions, as well. A workflow system for our advisors. So again, provides very significant efficiency benefits for our advisor network and, again, that's something that we'll make available as an option to all of the advisors across the AMP franchise.

MS CAMERON: Okay. Thank you.

OPERATOR: Thank you. Your next question comes from Michael Rodden of The Australian. Please go ahead. Michael Rodden from The Australian, please go ahead.

MR M. RODDEN: Sorry. Sorry, sorry. I was on mute. I – can I just quickly run through three questions. Thanks, Craig. With the Goals 360, is there a breakdown of, you know, how much profit per advisor that's getting compared to advisors that don't have the platform? With the life insurance review, so you're looking at ..... or is it sort of - - -

MR MELLER: Sorry. Sorry, Michael. We can't hear you, I'm afraid. It sounds like the wind's blowing.

MR RODDEN: Yeah. No, the wind is blowing. I'm after a breakdown between the advisors that have the Goals 360 and those that don't. Is there a difference in the earnings or profits they're making? The second one would be, with the life insurance review, is it more of a portfolio sale or are you looking to ..... again? I'm not sure what the actual strategy is there. And generally I just want to know what AMP is these days. Like, is it – are you looking at, you know, having a bank that you then ..... or – you know, what's the main strategy for the company going forward if it's not – if you're getting rid of wealth protection.

MR MELLER: Yeah, okay. Well, thanks for that, Michael. So on the Goals 360 piece, it's too early to give you an absolute quantum. But we're very confident that the Goals 360 capability combined with the Salesforce capability ultimately will be able to significantly improve the financial performance of all of the advisor businesses that choose to take up some or all of the components of the solution. And, you know, in a self-employed advisor franchise like AMPs, that's obviously at the discretion of the individual advisors working within the business. But we see the investments that we've made in technology as AMP providing the solutions to the technology disruption that we're seeing more broadly across the world's management industry for all of our advisors.

Secondly, with regards to the portfolio review of the management value businesses, it's just too early to give any guidance on what the outcome of that review might be. As we've said in the announcement this morning, we'll be providing a further update at or near the AGM. And then thirdly, what business is AMP in? Well, if I look at AMP throughout its history, we've been providing Australians and Kiwis advice on how to manage their financial affairs, how to protect themselves from financial tragedy, and advice has been absolutely at the core of what we've done.

And then we've provided solutions to those Australians and Kiwis to ensure that they're adequately protected, adequately safe for their retirements, and so on and so forth. And the provision of that advice and the provision of appropriate solutions is absolutely at the core of what AMP does now and what it'll be going forwards. How we deliver those solutions and which of those we choose to keep on our own balance sheet and P&L and which of those we choose to outsource, if you like, will always be a matter for us running our portfolio to maximise value for shareholders.

OPERATOR: Thank you. Your next question comes from James Thomson from The Financial Review. Please go ahead.

MR J. THOMSON: Good morning. I just – I guess a little bit of a follow up from that. But firstly why does the share buyback remain on pause? And is there any clarity around whether that will – whether that's sort of a study memory or whether we can expect that to actually happen. And then I guess, secondly, it does feel like, you know, another sort of year where you've pedalled furiously below the water to sort of, you know, stay in the same spot – the buyback is not happening, the wealth protection issue isn't solved yet. If I'm a shareholder, what am I waiting for? What's the light at the end of the tunnel?

MR MELLER: Thank you, James. So the capital position of the group at the end of the last year, clearly very strong – $2.3 billion above minimum regulatory requirements. It's actually the same as it was at the beginning of 2016. As we announced this morning, we're progressing a portfolio review of the management of valued businesses and we will be providing a further update at the – at or before the AGM. In considering any capital management initiatives, we've made the decision that we would defer any decisions around capital management initiatives until we know the outcome of those – of the portfolio review.

In terms of the underlying performance of the business, I will start with the work protection business – very clear focus there. Virtually stabilised the business. That has been achieved. Secondly, I deliver the reinsurance program, so that now, essentially, we've removed two-thirds of the underwriting risk from the AMP balance sheets, so not only have we stabilised the business, but we've also significantly reduced the risk profile for the AMP shareholder. And we will work what are the best ways to manage and maximise value out of that business going forwards, although with the prospective guidance we've given today, it would only account for seven per cent or less of group earnings.

More broadly, we've seen strong growth across our banking business, across AMP Capital, our investment management business and in the wealth management business, a very resilient performance. If I look at the performance of the business, 2017 was always going to be the year of greatest margin compression in that business and we've weathered that. The costs in the business only increased by $5 million. A lot of the increase in the costs was really due to the fact that in 2016, variable remuneration or bonuses were significantly lower because of the group level result.

If I take that item out, the underlying performance of the wealth management business would have been four per cent growth in a year where we've seen the highest level of margin contraction that you could reasonably expect. So I think we're seeing good signs of returning to growth in the wealth management business as well, particularly as we grow revenues in the advice business.

MR THOMSON: At the risk of asking you to pick your favourite child, though, is there someone – is there some part of the business that you can point to at these results and say, you know, "Here's a future shining star." Is it the work in China or Goals 360? What would you, sort of, point to and say, you know, "Here's a little bit of gold"?

MR MELLER: Yes. So if I look at the investor grow businesses, AMP Capital had a great year. Our performance in real assets is very strong. It's internationalising. We're doing that organically and organically through the partnership with PCCP. AMP Bank – 17 per cent growth – very strong. We think the opportunity for AMP Bank to continue to grow strongly as a great small bank is still there. And I really think the opportunity that AMP has in the advice space as a result of the investments that we've been making over the last years is unparalleled in Australia and also gives us opportunity on a global scale that just hasn't been available in the advice space before.

MR THOMSON: Thank you.

OPERATOR: Thank you. Your next question comes from Sean Drummond from Info Asia. Please go ahead.

MR S. DRUMMOND: Hi. Hi Craig. You just focused on AMP Capital questions here, but that seems to have been the one wealth performing part of your business over the, sort of, last few years. You've had, sort of, record net cash flows there. What would you put that down to? Is there something that you're doing or – being within the business or is it primarily because of just the market conditions? Obviously, you've got the extreme level of interest in infrastructure, real assets and global investors. And do you see any change on the horizon in that area, obviously we've got interest rates beginning to rise again? Is that going to – that sort of performance going to continue for the foreseeable future?

MR MELLER: Yes. Well, thank you for the question. I mean, we're seeing very strong growth in our property and our infrastructure businesses and that has been very much driven by a focus within our strategy to generate growth where we think the biggest opportunities are, both locally and internationally. And you're seeing those outcomes appear in the financial results. Yes, markets are very strong. In the infrastructure market, we think the great thing about infrastructure is that in the developed world, there's a lot of brown field infrastructure, the development that's needed, I think President Trump has quoted a trillion dollars of investment, I haven't quite seen that yet, but we're looking forward to it.

So the demand for capital to be invested in infrastructure in the developed world is very strong. The demand for new infrastructure in the developing world is very strong. And then if you look at the other side of the equation, you're seeing in pension companies around the world, generally the baby boomers who are the clients of those pension companies moving from the accumulation phase to the retirement phase. And that means that the liability profile, the assets that they're looking for, need to have a much greater yield component because the boomers are looking for an income out of their pensions.

And so we're seeing pension company after pension company looking for better yielding investments. And so we think there's a structural shift to the infrastructure and property style investments that have a characteristic that suits the liability profile of pension companies and retiring boomers. Yes, there may be valuation impacts as we see changes in the interest rate environment and, you know, being a business that have got a fair amount of performance fees in it. That doesn't mean we can see some volatility in profitability year on year. But that structural shift is, in my mind, only just beginning and it places AMP, I think, in a very strong position to exploit that opportunity going forwards.

OPERATOR: Thank you. Your next question is a follow-up from Alice Nuraby, Fairfax Media. Please go ahead.

MS NURABY: Hi Craig. I just have a follow-up questions. One was about the reinsurance deals. Now, I just ..... comment that that the profit margins in the division fell by 43 per cent as a result of the deal. I was just wondering if you could give a comment on that. And also, Goals 360, just overseas ambitions for that. I was just wondering if you might be able to give me a little bit more on that.

MR MELLER: Yes. Okay. So firstly on the reinsurance, the transaction that we carried out last year released just over $500 million of capital and as we announced at the time of the announcement of the reinsurance deal, that will reduce operating profit margins for the wealth protection business by around about $30 million year on year. The other reduction in the profit margins was as a result of the reset of the best estimate assumptions which we announced way back in October 2016. And, of course, the differences is in 2017, you will have seen the positive experience come through, whereas that was a very large and negative number in the previous year. So that's the reinsurance – the consequence of the second tranche of reinsurance – $30 million – and we've given guidance today that we expect the profit margin of the wealth protection business to be around about $70 million this year.

On the international opportunity with Goals 360, if you look globally, advice is still a very local industry. There are very few players globally that are providing across country boarders. And that's partly because it has been frankly a cottage industry world-wide. What we've been doing over the last two or three years is looking for organisations that have a philosophy similar to ours, the goals-based advice philosophy, and the best example of that we could find was United Capital in the US. That has, essentially, been a very rapidly growing start up that's disrupting the IFA market in the US and doing that very successfully. They've grown to – from nothing to over $20 billion of assets under advice over the last three or four years.

We're working with United Capital to say can the technology investments that they've made, and they have a sales force platform as well – as well as the technology investments we've made – be almost, if you like, a white label solution that we can provide to other wealth managers. Now, it's a concept at the moment. We're building the proof of concept, but we see it as a very exciting opportunity because I said earlier, the Goals 360 capability, we think, is a new paradigm of advice and has the opportunity to automate and improve very significantly advice process not just here in Australia, but internationally as well.

MS NURABY: Thank you.

OPERATOR: Thank you. There are no further questions at this time.

MR JOHNSTON: Okay. Thank you very much. If there's no further questions, then we thank you very much everyone for joining us this morning. Please contact our media team if you have any further questions or issues. Thank you very much and good morning.

SESSION CONCLUDED **[9.48 am]**