

**ADDRESS BY AMP CEO CRAIG MELLER  
TO THE AMP ANNUAL GENERAL MEETING  
11 MAY 2017**

Thank you Catherine – and good morning ladies and gentlemen.

Today, I'd like to talk about our 2016 business performance and to share with you our thinking on strategy as well the actions we are taking to drive growth and deliver much stronger outcomes for shareholders in 2017 and beyond.

### **2016 business performance**

2016 was undoubtedly a challenging year for AMP.

The bottom-line result, a fall in underlying profit to \$486 million and in net profit to negative \$344 million, was very disappointing and was largely attributable to challenges faced in our insurance business.

So, let's look at each of our businesses starting with Insurance.

Through the course of 2016, we saw significant deterioration in the insurance market driven by increased international competition, pricing pressure and an unprecedented level of insurance claims.

After a significant review, we decided that the changes in the sector were structural, not cyclical. And so, at the end of the third quarter, we took decisive action to stabilise and reset the business, reducing the impact insurance would have on future group earnings.

Specifically:

- we strengthened our best estimate assumptions – which is our view of the future level of expected claims. Doing so, crystallised a significant, one-off, capitalised loss of \$484 million and a goodwill write-down in the order of \$668 million.

While these were largely non-cash losses, reflecting the accounting treatment applied to insurance, they still clearly impacted our financial results leading to the bottom-line loss.

- We also entered into a reinsurance agreement with a major global reinsurer Munich Re.

Reinsurance effectively acts as insurance for insurers, so the deal, while reducing future profit margins, also helped to reduce our exposure to future volatility and released \$500 million of capital that we were required to hold against future claims.

- We also consolidated our two insurance books, AMP Life and NMLA life which released a further \$145 million of capital.
- The capital released from these two initiatives gave us the capacity to return capital to shareholders via an on-market buy back.

These actions were taken to stabilise the insurance business and minimise future impact on group earnings from the division. Importantly, the Q1 results announced this morning demonstrate that the actions are working and that the insurance business is now performing in line with our revised assumptions.

Now to wealth management.

And in our wealth management business, we retained our position as Australia's leading, specialist wealth manager.

However, this business was also buffeted by a range of challenges in 2016.

Volatile share markets, as well as uncertainty created by the changes to Australia's superannuation legislation announced in the Federal Budget last year, meant customers took a far more cautious approach to topping up their super.

We saw the impacts most markedly in our cashflows, particularly in the second and third quarters. We were not alone - with the volatility and uncertainty reflected in subdued cashflows across the industry.

Despite the difficult operating environment, the business delivered broadly steady results, with earnings softening by 2% as we worked hard to offset the challenging conditions with tight cost control.

Nevertheless, our wealth management business is in a very strong position.

We are Australia's largest superannuation provider in a \$2.2<sup>1</sup> trillion market that is predicted to double by 2026<sup>2</sup>.

We are also Australia's leading provider of financial advice and the market leader in self managed super fund administration services.

And, over the past four years, the business has delivered strong compound average growth in profits of almost 9%.

Turning to our specialist investment manager. AMP Capital has been a strong and consistent performer with the business delivering compound growth in profits of 10% over the past five years.

In 2016, the business continued this positive growth trajectory with strong global demand for our investment expertise in property and infrastructure and good performance in these asset classes helping to drive a 4% increase in operating earnings.

And, as Catherine mentioned, our partnership with China Life, the world's largest listed life insurer, also continued to go from strength to strength, with our two joint ventures both growing rapidly and delivering ahead of expectations.

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<sup>1</sup> APRA Quarterly Superannuation Statistics December 2016.

<sup>2</sup> Dynamics of the Australian Superannuation System, The Next 20 Years: 2015 – 2035, Deloitte, November 2015; AMP modelling.

All up, we're happy with how AMP Capital is performing and very excited about the international growth potential the business offers.

AMP Bank is also a great growth story.

It has almost doubled its operating earnings and delivered a compound growth rate in profits of almost 18% over the past five years.

In 2016, the bank's profits were up, net interest margin was wider and we drove above system growth in both residential home loans and deposits while tightening credit criteria.

In short, we continued to grow the business while maintaining a falling cost to income ratio and delivering a high return on capital.

With approximately 1% market share in an expanding market, we see significant further growth potential for the bank.

Our New Zealand business also had a pretty good year.

It delivered good growth in profit margins, off the back of a stronger wealth management business and strong cost management.

And it did so while offsetting the full impact of the loss of transitional tax relief.

## **Costs and capital**

Throughout the year, we also managed costs tightly right across the business, completing our business efficiency program and delivering \$200m recurring savings.

Our capital position also remained strong and well above minimum regulatory requirements.

This capital strength meant that, despite the challenges faced in 2016, we were able to hold the dividend steady at 28 cents and return capital to shareholders through the on-market buy back which we launched in March this year.

This is a strong indication of the deep financial strength of this business and our ability to continue rewarding shareholders even during what we acknowledge was one of our most difficult years.

So, that's the summary of 2016, let me now spend some time looking forward.

## **Strategy**

As the Chairman outlined, the world is changing – and changing rapidly.

The many areas of change that Catherine shared this morning create both challenges and great opportunities for AMP.

They are influencing our strategic choices, impacting not only 'where we will play' - in terms of the geographies and segments we choose to operate in - but also 'how we will compete' and win in our chosen markets.

We have already been investing heavily for a disrupted world.

So, let me share with you our thinking - looking first at 'where we will play'.

We look to operate in:

- large and growing markets;
- where competition is rational;
- and most crucially, where AMP has a distinctive competitive advantage. We see these distinctive strengths in advice and superannuation (known collectively as wealth management) and in investment management – particularly the management of infrastructure and property assets.
- We have been, and continue to, tilt investment to our higher growth businesses, releasing and recycling capital from our lower growth, more capital intensive businesses to accelerate growth.

From a geographic perspective, this means Australian wealth management with its attractive, mandated market growth will remain the core engine of AMP's near-term growth. But we will increasingly leverage our strengths into new geographies - including China, Japan, Europe and America - to drive medium to longer-term growth.

How we will compete and win will vary by market.

In Australia – the way we compete is changing.

Historically, we have operated in all aspects of the wealth management value chain – advice, product (with super, insurance) and investment management. We have run our advice businesses broadly to break-even – viewing them as a distribution channel for product – where we have made our profits.

In short, in the past we were an advice and product-led business.

Our future strategy has evolved to be purpose-led – guided by our enduring promise of helping people own tomorrow.

It starts with the customer and more specifically the goals they want to achieve.

As we heard from Catherine earlier, our customers want everything easier, faster and cheaper.

Yet, every day, we see hundreds of people who need help sorting out their money. As we all know only too well, organising your finances – investments, tax, superannuation, housing – takes time, effort, technical knowledge, acumen and confidence.

Yet, talking about products – like superannuation and insurance - simply doesn't engage [many] people. In fact as an industry, we've not done a good enough job of creating a compelling proposition to help people better organise their finances.

This is borne out in research which shows that while four in 5 people need advice, only 1 in 5 seek it.

So, we've been re-thinking and re-designing the way we deliver help.

Our experience has shown that the best way to engage people in their finances is to focus on the broader goals they are trying to achieve.

We have found these goals are largely consistent from individual to individual with the emphasis changing throughout life – from simplifying your finances, to owning your own home, protecting those you love and retiring right.

So we've been building a new, goals based, technology-enabled operating system to underpin our Australian wealth management business.

It is a system that builds on our historic strength in face to face advice – recognising the very real need for human interaction – as we have found that humans still want (and need to talk) to other humans to make the larger, life-shaping financial decisions.

It is a unique operating system that blends technology and human interaction – making help and advice more accessible to more Australians, more often. Letting our customers choose how they interact with us – be it by phone, online or face to face – or all three depending on their needs and stage of life.

And behind the scenes, it is an operating system that will make the process of providing help and advice far more efficient, consistent, and productive – for AMP and for our advisers.

Given Australians love for property – the system wraps in our banking and debt solutions. In fact, our bank provides components to over half of our new goal based solutions. As does our investment manager, with most goals needing an investment solution to provide a tailored outcome with different degrees of risk.

It is an operating system, that allows us to better help those customers who come to us via their company's superannuation scheme – creating a real relationship with them early in their financial life - based on their goals.

This new goals based operating system is not an ambition. It is operating today in around 24 AMP Advice practices across the country.

By applying the system, we believe we can change the traditional economics of and the way we compete in wealth management. We will generate more margin from advice, which will offset the margin compression we are seeing in product and provide us with greater flexibility to compete on price to continue to drive volume without impacting overall profitability.

The final piece of our wealth management solution is our self managed superannuation fund business, SuperConcepts, which is capturing growth from the increasing popularity of SMSFs.

We entered the SMSF business five years ago and have built quickly to managing just under 10% of the software and administration market. Our assets under administration have reached \$22.5 billion.

We have grown via acquisition in this business and are now moving all the businesses we've acquired onto one platform to capture the benefits of our scale in this market. Increasingly, we are seeing SuperConcepts generate revenue not just via the provision of admin services but as a platform, creating new revenue generating capacity for our Australian wealth business.

Looking at the drivers of medium-term growth, we will take our core capabilities in wealth and investment management offshore.

AMP Capital has provided a model for this type of growth to date – using our globally renowned expertise in infrastructure and property management to build an increasing presence, profile and income stream from both Europe and North America.

In China, the focus of growth is via partnership with our market-leading Chinese partner – China Life.

- here, our pensions expertise is offering exciting growth potential as the Chinese government move to adopt a pensions approach modelled on Australia's system;
- our investment management expertise is also driving growth; and
- as we opened our first goals store in China earlier this year, China Life has proven the interest and potential to drive international growth by licencing our new Australian, goals-based operating system to other organisations in different geographies.

### **Managing for value and capital efficiency**

In those businesses, with slower growth or where we do not have distinct competitive advantages – including insurance, New Zealand and the Mature portfolio – we will manage for value and capital efficiency, continuing to extract strong returns for investors.

These businesses have a strong embedded value, built from running them successfully for many years.

Managing for value means realising as much of this embedded value as soon as possible, whilst continuing to ensure we provide a high quality customer experience.

In the case of our insurance business, we are currently achieving this through reinsurance – with a major deal signed last October and a second tranche progressing well.

## **Costs**

Our strategy in all business lines across all geographies will be underpinned by a continuing focus on costs and efficiency.

This will be ever more critical in our business – with an ongoing mindset of actively seeking every opportunity to drive efficiency and reduce costs.

So, the AMP of tomorrow will be fundamentally different from today.

Looking five years out:

AMP will be a unique financial services company – focused on delivering outstanding customer experiences and superior total shareholder returns.

We will have clear focus on customers, with a differentiated goals based approach in our core Australian wealth management business;

We will leverage our strengths in advice, pensions, wealth operating systems and our expertise in real asset investment management to drive medium-term growth offshore.

And, we'll have a streamlined portfolio focused on growth, releasing and recycling capital from our lower growth business lines and, in doing so, will create the capacity to invest for growth.

## **Conclusion**

In conclusion then, 2016 was a particularly challenging year, but despite the headwinds faced, the underlying financial strength of AMP was clear:

- We maintained the dividend, funded out of free cashflow, and we launched a share buyback
- We took action to reduce volatility of returns arising at a group level from insurance and to reduce our capital exposure to this business,

Moreover,

- We maintained our leading positions in the Australian and New Zealand wealth management markets and continued to grow our position in banking;
- We delivered increased international expansion in Asia through our strong partnerships with China Life and MUTB, and in Europe and North America through our in-house capability and expertise in real asset management; and
- We have taken decisive action to drive AMP towards a stronger future, setting a clear strategy for growth.

As a board and leadership team, we are absolutely determined to improve performance, to drive returns and to realise the true potential of AMP.

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Thank you for your ongoing support and your continued interest and investment in AMP.