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AMP delivers A\$704 million net profit for FY 12

AMP Limited has reported a net profit of A\$704 million for the financial year to 31 December 2012¹, compared with A\$688 million for FY 11².

Underlying profit³ was A\$955 million compared with A\$909 million for FY 11.

The Board has declared a final dividend of 12.5 cents per share, the same rate as the 1H 12 interim dividend. This represents a payout ratio of 76 per cent for FY 12 of underlying profit and is within AMP's target range of 70-80 per cent of underlying profit. The dividend will be 65 per cent franked, with the unfranked amount being declared as conduit foreign income.

Shareholders will be invited to participate in AMP's dividend reinvestment plan (DRP), however no discount will apply to the DRP allocation price.

Performance against key measures

- **Underlying profit:** A\$955 million in FY 12. This includes A\$464 million for 2H 12 up 3.1 per cent compared with 2H 11.
- **Cost to income ratio:** 47.3 per cent for FY 12 and 48.4 per cent for 2H 12, falling 2.2 percentage points from 2H 11. Group-wide controllable costs fell 3 per cent in 2H 12 compared with 2H 11 – in line with market guidance. Group-wide controllable costs are expected to be around 2 per cent lower in FY 13.
- **Growth measures:**
 - AMP Financial Services (AFS) net cash inflows were A\$1,152 million, up from net outflows of A\$581 million in FY 11 reflecting the ongoing success of Flexible Super, the North wrap platform and AMP's new SMSF business unit.

¹ AMP's FY 12 profit metrics exclude MUTB's 15% share of AMP Capital's earnings from 1 March 2012.

² The FY 11 results included only nine months' contribution from the former AXA business, so in some instances like for like comparisons are not always meaningful. Therefore where appropriate, results for 2H 12 are compared with 2H 11 to provide more useful comparisons.

³ Underlying profit is the basis on which the AMP Board determines the dividend payment and reflects the business performance of AMP. It is AMP's preferred measure of profitability as it removes one off costs and some of the impact of investment market volatility.

- AMP Capital external net cash outflows were A\$1,784 million compared with net cash outflows of A\$1,166 million in FY 11. Improving cash inflows were offset by the internalisation of the management of DUET (A\$1.2 billion) and net outflows from retail Japanese clients (A\$1.2 billion) following regulatory change in Japan and reflecting the strong Australian dollar.
- AMP Financial Services value of risk new business was A\$203 million, down from A\$215 million for FY 11.
- **Underlying return on equity:** 12.8 per cent for FY 12 compared with 15.1 per cent for FY 11. This reflects an expanded capital base following the merger with AXA, proceeds from the sale of a 15 per cent interest in AMP Capital to MUTB and use of the dividend reinvestment plan to build a buffer ahead of changes in regulatory capital requirements.

AMP Chief Executive Officer Craig Dunn said the company's result demonstrates good momentum in earnings, particularly in AMP's AUM driven businesses.

In Wealth Management and AMP Capital, operating earnings in 2H 12 were up on 2H 11 by 21 and 42 per cent respectively. This demonstrates the operating leverage of both these businesses to improving market conditions while maintaining disciplined cost control.

"The strong performance of our Wealth Management business reinforces the benefits of the merger with AXA, with a suite of contemporary products and services that cater for all key market segments, supported by Australia's leading financial advice network," Mr Dunn said.

Following the merger with AXA, planner and adviser numbers have continued to grow strongly in Australia, while the success of the North platform has helped to grow market share in superannuation and retail managed funds strongly over the past 12 months⁴.

"The ongoing strengthening of our core Australian business, along with our expansion into the self-managed fund sector and selected offshore markets through AMP Capital, continue to provide further opportunities for growth," Mr Dunn said.

AMP has strengthened its claims and lapse assumptions in response to the challenging risk environment which has seen insurance lapses rise to their highest levels in more than a decade. This has reduced AMP's value metrics in its life insurance business. Operating earnings in the Wealth Protection business for 2H 12 of A\$56 million were down A\$51 million from the same period in 2011, because of poorer claims and lapse experience.

With substantial falls in short-term interest rates over the past year, the assumed after tax return for underlying investment income on shareholder funds has been lowered for FY 13. Further details are set out on page 35 of the Investor Report.

Other key highlights

- **Strengthened capital position** – A\$2,420 million capital in excess of minimum regulatory requirements at 31 December 2012, up A\$877 million on 31 December 2011 and A\$374 million on 30 June 2012⁵.
- **AXA integration on track** – over 77 per cent of integration projects will be completed by March 2013 with the merger on track to be completed by June 2014, six months ahead of schedule. The total targeted integration synergies of A\$150 million (post tax) remain unchanged from previous market guidance and continue to be delivered faster than expected, contributing to the good cost outcome.

⁴ Source: Plan for Life 30 September 2012 – QDS Retail & Wholesale.

⁵ These excess capital amounts are before allowing for the impact of the new Life and General Insurance Capital standards (LAGIC) which took effect from 1 January 2013.

- **Largest professional financial adviser network in Australia** – AMP’s planner and adviser network grew at a faster rate than the market with an increase of 209 advisers to 3,636, maintaining AMP’s market-leading position and demonstrating AMP’s continued appeal to financial planning professionals.
- **North platform growing strongly** – the award winning and market leading North platform’s cashflows tripled to A\$2.2 billion in FY 12 following its rollout across the broader AMP advice network. North had A\$4.7 billion of assets under management at 31 December 2012.
- **Flexible Super reaches A\$7.3 billion in assets under management** – AMP’s low cost flagship retail superannuation and retirement product attracted A\$2.6 billion in net cashflows in FY 12. Launched in 2010, the product is one of the fastest growing products of its type in the market.
- **AMP now the market leader in SMSF administration** – following the establishment of its separate AMP SMSF business unit, reporting directly to the CEO, AMP is successfully positioning itself to capitalise on the fastest growing sector of the Australian superannuation market. The number of SMSF accounts under administration tripled during the year through organic client growth along with the acquisition of administration services provider Cavendish.
- **Growth in assets under management to A\$172 billion driving earnings momentum** – stronger net cashflows in Wealth Management, along with improving markets and investment returns in both Wealth Management and AMP Capital, underpinned strong growth in AUM, including A\$10.5 billion now administered in SMSFs.
- **Challenging risk insurance market** – sales of individual risk insurance saw annual premium income (API) in Australia up 6 per cent in FY 12. This was impacted by an increase in policy lapse rates, which along with higher claims costs, saw declining insurance profits in both Australia and New Zealand, consistent with the broader industry.
- **AMP Financial Services New Zealand** – reported operating earnings of A\$73 million for the year ending 31 December 2012, compared with A\$76 million for FY 11. Solid revenue growth and disciplined cost control were offset by claims experience losses.
- **Expanded international reach** – AMP Capital continued to expand its international client base while building out its alliance with MUTB – where it attracted A\$530 million in retail net cashflows. Significant new funds were also invested with AMP Capital by some of the world’s largest and most sophisticated institutional investors, including the UAE’s Abu Dhabi Investment Authority, Canada’s CPP Investment Board, and China’s National Council for Social Security Fund.
- **Strong investment performance** – 81 per cent of client funds managed by AMP Capital met or exceeded benchmark over the last 12 months and 71 per cent over the last three years against a target of 75 per cent.
- **Strong contribution from AMP Bank** – with operating earnings of A\$33 million in 2H 12, up 10 per cent compared with 2H 11.

Capital management

AMP held A\$2,420 million capital in excess of minimum regulatory requirements (MRR) under capital standards existing at 31 December 2012. This was an increase of A\$877 million on 31 December 2011, and included an increase in the shareholder surplus above MRR of A\$654 million to A\$1,644 million.


New Life and General Insurance Capital (LAGIC) standards applied from 1 January 2013. AMP is well prepared for the introduction of these more stringent standards, which require an additional A\$272 million of shareholder regulatory capital. After the application of LAGIC, the shareholder surplus above regulatory requirements increased by A\$382 million on FY 11. For more detail please refer to page 34 of the Investor Report.

AMP continues to hold a significant capital surplus in the lead up to APRA’s finalisation of its new capital standards for Conglomerates, which are expected to come into effect from 1 January 2014.

AMP maintains a strong balance sheet with gearing on an S&P basis steady at 11 per cent and significant access to liquidity.

Outlook

AMP expects the business environment in Australia to remain challenging in 2013, although improving investor sentiment both domestically and internationally is welcome given AMP's significant operational leverage to stronger investment markets.

"We remain focused on driving better outcomes for our customers and clients, investing in the right opportunities and continuing to drive efficiencies across the business, so that AMP is well positioned for the challenges of today and in the future," Mr Dunn said. 

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Financial summary FY 12

A\$m	FY 12
Profit and loss	
Australian wealth management	347
Australian wealth protection	190
Australian mature	167
New Zealand	73
AMP Financial Services	777
AMP Capital	99
BU operating earnings	876
Group Office costs	(61)
Total operating earnings	815
Underlying investment income	226
Interest expense on corporate debt	(86)
AMP Limited tax loss recognition	-
Underlying profit	955
Market adjustment – investment income	(12)
Market adjustment – annuity fair value	(9)
Market adjustment – risk products	(4)
Other items	34
Profit after income tax before AXA merger adjustments and accounting mismatches	964
M&A transaction costs	(4)
AXA integration costs	(128)
Amortisation of AXA acquired intangible assets	(99)
Accounting mismatches	(29)
Profit attributable to shareholders of AMP Limited	704

Q4 12 Cashflows

Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q4 12	Q4 11	Q4 12	Q4 11	Q4 12	Q4 11
Australian wealth management						
AMP Flexible Super ¹	1,399	1,289	776	552	623	737
North ²	1,386	481	478	217	908	264
Summit, Generations and iAccess (including Assure) ³	510	611	894	899	(384)	(288)
Flexible Lifetime Super (superannuation and pension) ⁴	529	539	1,190	1,130	(661)	(591)
Other retail investment and platforms ⁵	81	99	164	178	(83)	(79)
Total retail on AMP platforms	3,905	3,019	3,502	2,976	403	43
Corporate superannuation and pensions ⁶	839	1,216	780	1,139	59	77
Corporate superannuation mandate wins	127	0	0	0	127	0
Total corporate superannuation	966	1,216	780	1,139	186	77
Total retail and corporate super on AMP Platforms	4,871	4,235	4,282	4,115	589	120
External platforms ⁷	600	696	908	978	(308)	(282)
Total Australian wealth management	5,471	4,931	5,190	5,093	281	(162)
SMSF ⁸	296	142	75	61	221	81
Total Australian wealth protection						
Individual risk	343	313	153	129	190	184
Group risk	79	58	56	53	23	5
Total Australian wealth protection	422	371	209	182	213	189
Australian mature	151	174	598	642	(447)	(468)
Total Australia	6,340	5,618	6,072	5,978	268	(360)
New Zealand						
KiwiSaver	88	81	53	25	35	56
Other	190	190	247	217	(57)	(27)
New Zealand	278	271	300	242	(22)	29
Total AFS cashflows	6,618	5,889	6,372	6,220	246	(331)
Australian wealth management - AMP Bank by product⁹						
Deposits (Supercash, Super TDs & Platform TDs)					(99)	473
Deposits (Retail)					(140)	262
Mortgages					140	81
Cashflows by distribution channel (A\$m)						
AMP Financial Planning	2,609	2,190	2,458	2,118	151	72
Hillross	515	425	500	547	15	(122)
Charter Financial Planning	936	795	793	797	143	(2)
Jigsaw advisers	84	81	101	87	(17)	(6)
ipac group advisers and Tynan Mackenzie	457	374	483	444	(26)	(70)
Genesys group advisers	366	234	360	343	6	(109)
Direct (including corporate superannuation)	466	764	338	675	128	89
Centrally managed clients and other	287	201	321	270	(34)	(69)
3rd party distributors	620	554	718	697	(98)	(143)
Total Australia	6,340	5,618	6,072	5,978	268	(360)
New Zealand	278	271	300	242	(22)	29
Total AFS cashflows	6,618	5,889	6,372	6,220	246	(331)

1 AMP Flexible Super is a flexible all in one superannuation and retirement account for individual retail and SME business.

2 North is a market leading fully functioning wrap platform which includes guaranteed and non-guaranteed options.

3 Summit and Generations are owned and developed platforms. iAccess and Assure are ipac badges on Summit.

4 Flexible Lifetime Super (superannuation and pension) was closed to new business from 1 July 2010. A small component of corporate superannuation schemes is included.

5 Other retail investment and platforms include Flexible Lifetime - Investments, AMP Personal Portfolio and Synergy.

6 Corporate superannuation and pensions comprise SignatureSuper, CustomSuper, SuperLeader and AXA Business Super.

7 External platforms comprise Asgard, BT Wrap, Macquarie Wrap, Solar and other margin earning platforms used by Genesys.

8 SMSF includes Multiport, SuperIQ, and Ascend administration platforms. SuperIQ is 49% owned by AMP, however 100% of cashflows are included. As the Cavendish business primarily operates an annual administration service, cashflows are not captured in the same manner as for AMP's other businesses. All changes in Cavendish AUM have been reported as "other movements" in the AUM table. Whilst administered SMSF funds may invest in other AFS products there is currently no material overlap between SMSF cashflows and cashflows of other AFS products.

9 Represents movements in AMP Bank's deposits and mortgage books for the quarter.

Q4 12 AUM

AUM (A\$m)	Q3 12	Q4 12 Net cashflows					Total net cashflows	Other movements ¹	Q4 12 AUM
	AUM	Super-annuation	Pension	Investment	SMSF	Other			
Australian wealth management									
AMP Flexible Super	6,513	332	291	-	-	-	623	173	7,309
North	3,717	350	376	182	-	-	908	78	4,703
Summit, Generations and iAccess (including Assure)	13,697	(232)	(93)	(59)	-	-	(384)	551	13,864
Flexible Lifetime (superannuation and pension)	23,352	(401)	(260)	-	-	-	(661)	761	23,452
Other retail investment and platforms	3,139	(30)	(32)	(21)	-	-	(83)	105	3,161
Total retail on AMP platforms	50,418	19	282	102	-	-	403	1,668	52,489
Total corporate superannuation	20,428	172	14	-	-	-	186	548	21,162
Total retail and corporate superannuation on AMP platforms	70,846	191	296	102	-	-	589	2,216	73,651
External platforms	13,296	(88)	(85)	(135)	-	-	(308)	(980)	12,008
Total Australian wealth management	84,142	103	211	(33)	-	-	281	1,236	85,659
SMSF	10,031	86	-	52	83	-	221	260	10,512
Australian wealth protection							213	213	(213)
Australian mature	23,073	(198)	(64)	(11)	-	(174)	(447)	403	23,029
Total Australia	117,246	(9)	147	8	83	39	268	1,686	119,200
New Zealand									
KiwiSaver	1,845	35	-	-	-	-	35	28	1,908
Other	8,302	(3)	(1)	(56)	-	3	(57)	152	8,397
New Zealand	10,147	32	(1)	(56)	-	3	(22)	180	10,305
Total AUM	127,393	23	146	(48)	83	42	246	1,866	129,505
Australian wealth management - AMP Bank by product									
Deposits (Supercash, Super TDs & Platform TDs)	4,515							(99)	4,416
Deposits (retail)	4,026							(140)	3,886
Mortgages	12,244							140	12,384

1 Other movements includes fees, investment returns, taxes, as well as foreign currency movements on New Zealand AUM.

Q4 12 AUM and API summary

AUM (A\$m)	Q3 12 AUM	Q4 12 AUM
Australian wealth management - AUM by product		
Superannuation	51,663	53,252
Pension	21,585	22,523
Investment	10,894	9,884
Total	84,142	85,659
Australian wealth management - AUM by asset class		
Cash and fixed interest	33%	34%
Australian equities	34%	33%
International equities	23%	22%
Property	6%	6%
Other	4%	5%
Total	100%	100%
AUM summary (A\$b)		
Australian wealth management		
Closing AUM	84	86
Average AUM	82	85
Asset Management		
AMP Capital		
Closing AUM	126.9	128.6
Average AUM	125.3	127.8
Risk insurance Annual Premium Income - API (A\$m)		
Australia		
Individual lump sum	978	982
Individual income protection	404	407
Group risk	353	357
Total Australia	1,735	1,746
New Zealand		
Individual lump sum	200	201
Individual income protection	35	36
Group risk	31	31
Total New Zealand	266	268
Total API	2,001	2,014