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AMP reports A\$382 million net profit for 1H 14

AMP Limited has reported a net profit of A\$382 million for the half year to 30 June 2014¹, down 3 per cent on A\$393 million reported for 1H 13.

Underlying profit² was A\$510 million compared with A\$440 million for 1H 13, up 16 per cent half on half, with double digit growth in operating earnings for all contemporary businesses.

The Board has declared a 9 per cent increase to the interim dividend to 12.5 cents per share compared with 11.5 cents per share for the 2013 interim dividend. This represents a payout ratio of 73 per cent of underlying profit and is within AMP's target range of paying 70-80 per cent of underlying profit.

Chief Executive Craig Meller said: "This is a solid result with 16 per cent underlying profit growth. We have made good progress on our strategy to be a leaner, more efficient and increasingly customer-driven organisation.

"We are continuing to transform our core Australian business with a market leading mobile platform launched³ and a new operating model in place to focus on the customer and to drive sustained growth as the Australian wealth industry doubles in size⁴ by 2022.

"It is particularly pleasing to see AMP's offshore strategy already delivering good cashflows while building strong growth potential in the long term from partnerships with national champions in China and Japan.

"The wealth protection business is stabilising, with the improvement plan delivering encouraging results however, we have more work to do," Mr Meller said.

Key performance measures

- **Underlying profit:** A\$510 million in 1H 14, up 16 per cent on 1H 13.

¹ AMP's profit measures exclude MUTB's 15 per cent share of AMP Capital's earnings.

² 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, the impact of some investment market volatility and accounting mismatches.

³ This platform has released two mobile and one tablet app since December 2013.

⁴ DEXX&R projections May 2013.

- **Cost to income:** Controllable costs have been managed tightly with the rise in income more than offsetting a A\$4 million increase in costs from 1H 13 to A\$650 million. The cost to income ratio was 45.0 per cent for 1H 14, an improvement of 3.4 percentage points on 1H 13.
- **Cashflows:**
 - AMP Australian wealth management net cashflows were A\$1.1 billion in 1H 14, down A\$267 million on net cash flows of A\$1.4 billion in 1H 13. Total retail net cashflows on AMP platforms continue to perform strongly, growing 39 per cent to A\$1.6 billion in 1H 14. These flows were partially offset by higher net cash outflows on external platforms of A\$615 million.
 - AMP Capital external net cashflows were A\$1.6 billion, a A\$3.7 billion turnaround from net cash outflows of A\$2.1 billion for 1H 13. This was driven by the new inflows generated by the China Life AMP Asset Management joint venture and improved flows from the MUTB alliance.
- **Underlying return on equity:** Increased 1.3 percentage points to 12.5 per cent in 1H 14, reflecting the 16 per cent increase in underlying profit, partially offset by higher average capital.

“These results demonstrate the real strength of AMP’s business franchise, scale and operating leverage, when both investment markets and investor confidence are more positive,” Mr Meller said.

In wealth management, operating earnings for 1H 14 were up 16 per cent compared with 1H 13, reflecting increased investment related income from higher customer account balances, a strong rebound in net cashflows and good cost control in a growing business.

In wealth protection, operating earnings were A\$91 million compared with A\$64 million half on half reflecting the impact of management actions. The volatile environment, claims and lapse experience were broadly in line with best estimate assumptions.

The life insurance sector continues to face both structural and cyclical change and a range of initiatives are underway to address these factors. These include improved customer retention campaigns and additional resources to handle customer claims more effectively and to help income protection customers get back to work more quickly.

“Improving the performance of the insurance business remains a key area of focus as we introduce a series of actions to improve the management of claims and customer retention in order to deliver benefits to both our customers and shareholders,” Mr Meller said.

Other key highlights

- **AMP Capital performed well:** Operating earnings increased 12 per cent reflecting good fee growth, and a A\$3.7 billion turnaround in external net cashflows⁵ from strong offshore partnerships. The cost to income ratio of 62.4 per cent was well within the target range of 60-65 per cent.
- **Fifth quarter of more than A\$1 billion net cashflows on North platform:** With net cashflows improving 27 per cent to A\$2.4 billion for 1H 14, compared with A\$1.9 billion for 1H 13. North AUM increased A\$2.6 billion to A\$12.2 billion, up 27 per cent since December 2013. Almost 20,000 new customers as a result of more AMP advisers choosing to recommend the North platform to their customers.

⁵ Represents AMP Capital’s 15 per cent share in cashflows of China Life AMP Asset Management joint venture.

- **AMP a market leading provider in wealth management:** Number one market share in retail superannuation and pensions with 20 per cent, individual risk insurance with 18 per cent and in financial advice with 22 per cent of the market.
- **Robust AMP Bank performance:** The bank delivered A\$42 million operating earnings, up 11 per cent compared with 1H 13, reflecting an increase in residential mortgages with AMP aligned advisers contributing almost a quarter of new business in a period of intense competition. Lending growth was supported by continued deposit inflows which were up 6 per cent on 1H 13.
- **New Zealand achieved strong growth in profit margins:** Operating earnings of A\$55 million, up 20 per cent compared with 1H 13, reflects solid business growth, a currency benefit and good cost control. Cashflows reflect the continued success of KiwiSaver, driving KiwiSaver AUM up 9 per cent to A\$2.9 billion.
- **Corporate Super wins:** 16 new SME and large corporate mandates in 1H 14 to transition over the next 6-12 months
- **Adviser numbers stable in a changing regulatory environment:** AMP's adviser network remains the largest adviser network in Australia with 3,860 financial advisers, up 2 per cent on FY 13.

Capital management

AMP continues to hold an appropriate capital surplus, with A\$1.9 billion capital above minimum regulatory requirements at 30 June 2014, down from A\$2.1 billion at 31 December 2013. The decrease was largely driven by the redemption of AMP Notes.

AMP maintains a strong balance sheet, with little change to gearing and interest cover, and has access to significant liquidity.

AMP continues to offer a DRP to eligible shareholders, no discount will apply to the allocation price. Shares will again be bought on market and the dividend will be 70 per cent franked with the unfranked amount being declared as conduit foreign income. ✓

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Financial summary

A\$m	1H 14	1H 13
Profit and loss		
Australian wealth management	183	158
AMP Bank	42	38
Australian wealth protection	91	64
Australian mature	87	85
New Zealand financial services	55	46
AMP Capital	57	51
BU operating earnings	515	442
Group Office costs	(32)	(32)
Total operating earnings	483	410
Underlying investment income	69	66
Interest expense on corporate debt	(42)	(36)
Underlying profit	510	440
Other items	(3)	(5)
AXA integration costs	(11)	(31)
Business efficiency program costs	(49)	-
Amortisation of AXA acquired intangible assets	(44)	(47)
Profit before market adjustments and accounting mismatches	403	357
Market adjustment – investment income	8	3
Market adjustment – annuity fair value	6	10
Market adjustment – risk products	(4)	5
Accounting mismatches	(31)	18
Profit attributable to shareholders of AMP Limited	382	393

Australian wealth management

Australian wealth management Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q2 14	Q2 13	Q2 14	Q2 13	Q2 14	Q2 13
AMP Flexible Super ¹	1,733	1,392	(1,175)	(840)	558	552
North ²	2,537	1,819	(1,178)	(734)	1,359	1,085
Summit, Generations and iAccess ³	709	689	(1,056)	(977)	(347)	(288)
Flexible Lifetime (superannuation and pension) ⁴	689	681	(1,156)	(1,125)	(467)	(444)
Other retail investment and platforms ⁵	102	100	(180)	(177)	(78)	(77)
Total retail on AMP platforms	5,770	4,681	(4,745)	(3,853)	1,025	828
SignatureSuper and AMP Flexible Super - Employer	683	577	(466)	(370)	217	207
Other corporate superannuation ⁶	455	446	(571)	(524)	(116)	(78)
Total corporate superannuation	1,138	1,023	(1,037)	(894)	101	129
Total retail and corporate super on AMP Platforms	6,908	5,704	(5,782)	(4,747)	1,126	957
External platforms ⁷	645	1,217	(1,018)	(1,002)	(373)	215
Total Australian wealth management	7,553	6,921	(6,800)	(5,749)	753	1,172

¹ AMP Flexible Super is a flexible all in one superannuation and retirement account for individual retail 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 is ipac badge on Summit.

⁴ Flexible Lifetime (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 Other corporate superannuation comprises CustomSuper, SuperLeader and Business Super.

⁷ External platforms comprise Asgard, Macquarie and BT Wrap platforms.

Australian wealth management AUM (A\$m)	Q1 14		Q2 14 Net cashflows				Total net cashflows	Other Movements ¹	Q2 14 AUM
	AUM	Superannuation	Pension	Investment	Other				
AMP Flexible Super	10,465	258	300	-	-	558	151	11,174	
North	10,679	484	621	254	-	1,359	157	12,195	
Summit, Generations and iAccess	14,266	(108)	(169)	(70)	-	(347)	379	14,298	
Flexible Lifetime (superannuation and pension)	24,768	(236)	(231)	-	-	(467)	440	24,741	
Other retail investment and platforms	3,273	(28)	(29)	(21)	-	(78)	50	3,245	
Total retail on AMP platforms	63,451	370	492	163	-	1,025	1,177	65,653	
SignatureSuper and AMP Flexible Super - Employer	11,539	208	9	-	-	217	187	11,943	
Other corporate superannuation	12,899	(116)	-	-	-	(116)	173	12,956	
Total corporate superannuation	24,438	92	9	-	-	101	360	24,899	
Total retail and corporate super on AMP platforms	87,889	462	501	163	-	1,126	1,537	90,552	
External platforms	13,213	(151)	(169)	(53)	-	(373)	399	13,239	
Total Australian wealth management	101,102	311	332	110	-	753	1,936	103,791	
Australian wealth management - AMP SMSF²									
Assets under administration	17,257						665	17,922	

¹ Other movements include fees, investment returns and taxes.

² AMP SMSF includes Multiport, Cavendish, SuperIQ, Your SMSF and Ascend administration platforms. SuperIQ is 49% owned by AMP, however 100% of assets under administration are included.

Australian wealth management AUM (A\$m)	Q1 14 AUM	Q2 14 AUM
AUM by product		
Superannuation	61,012	62,783
Pension	28,055	28,570
Investment	12,035	12,438
Total	101,102	103,791
AUM by asset class		
Cash and fixed interest	30%	31%
Australian equities	35%	35%
International equities	23%	22%
Property	6%	6%
Other	6%	6%
Total	100%	100%
AUM summary (A\$b)		
Australian wealth management		
Closing AUM	101.1	103.8
Average AUM	100.6	102.7

AMP Capital

AMP Capital AUM (A\$m)	Q1 14	Q2 14 Net cashflows			Total	Other movements	Q2 14
	AUM	Cash inflows	Cash outflows	net cashflows	AUM		
External	41,601	2,988	(2,149)	839	1,195	43,635	
Internal	100,596	4,467	(5,601)	(1,134)	1,337	100,799	
Total	142,197	7,455	(7,750)	(295)	2,532	144,434	

AMP Capital AUM summary (A\$b)	Q1 14 AUM	Q2 14 AUM
Closing AUM	142.2	144.4
Average AUM	141.4	143.5

New Zealand financial services

New Zealand Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q2 14	Q2 13	Q2 14	Q2 13	Q2 14	Q2 13
KiwiSaver	137	98	(70)	(74)	67	24
Other ¹	307	187	(245)	(228)	62	(41)
Total New Zealand	444	285	(315)	(302)	129	(17)

New Zealand AUM (A\$m) ¹	Q1 14	Q2 14 Net cashflows				Total	Other movements ²	Q2 14
	AUM	Superannuation	Pension	Investment	Other	net cashflows		AUM
KiwiSaver	2,789	67	-	-	-	67	23	2,879
Other ¹	9,839	(11)	(1)	66	8	62	(227)	9,674
Total New Zealand	12,628	56	(1)	66	8	129	(204)	12,553

New Zealand wealth protection Risk Insurance Annual Premium Inforce – API (A\$m)	Q1 14	Q2 14
	API	API
Individual lump sum	233	231
Individual income protection	49	48
Group Risk	37	37
Total	319	316

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

² Other New Zealand cashflows and AUM include New Zealand wealth protection, mature and non – KiwiSaver wealth management.

Australian mature

Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q2 14	Q2 13	Q2 14	Q2 13	Q2 14	Q2 13
Australian mature	198	178	(633)	(685)	(435)	(507)

AUM (A\$m)	Q1 14	Q2 14 Net cashflows				Total	Other Movements ¹	Q2 14
	AUM	Superannuation	Pension	Investment	Other	net cashflows		AUM
Australian mature	22,501	(205)	(59)	(26)	(145)	(435)	402	22,468

¹ Other movements include fees, investment returns and taxes.

Australian wealth protection

Australian wealth protection Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q2 14	Q2 13	Q2 14	Q2 13	Q2 14	Q2 13
Individual risk	358	334	(140)	(154)	218	180
Group risk	108	96	(64)	(60)	44	36
Total Australian wealth protection	466	430	(204)	(214)	262	216

Australian wealth protection Risk Insurance Annual Premium Inforce – API (A\$m)	Q1 14	Q2 14
	API	API
Individual lump sum	1,023	1,035
Individual income protection	417	418
Group Risk	367	368
Total	1,807	1,821