Q3 16 wealth protection update

28 October 2016

Summary

Actions taken to stabilise group earnings and re-set wealth protection

Actions taken in wealth protection expected to make AMP group more capital efficient and earnings less volatile

- Reinsurance agreement accelerates AMP's capital efficiency objectives
- First tranche of reinsurance creates potential to release up to A$500m capital – subject to regulatory approvals
- Best estimate assumptions anticipated to be strengthened at year end, reflecting:
  - Poor claims experience with worsening trends in 2016
  - Structural changes to be reflected in go-forward assumptions

Capital position remains strong

- AMP maintains a strong balance sheet and is well capitalised.
- Impact of anticipated assumption changes will absorb approximately A$270m of regulatory capital – this will be covered from within existing capital surplus and the Part 9 capital release, expected to be in the order of A$100m
- The reinsurance agreement is anticipated to increase the existing surplus to AMP's Minimum Regulatory Requirements (MRR) by approximately A$500m. Surplus capital above MRR at 30 June 2016 was A$1.9b
- The Board will consider a range of capital management alternatives - including a potential return of capital to shareholders

Dividend impacts

- Due to the one-off, and largely non-cash nature of these changes the AMP Board intends to exclude the impacts on current profit and to consider both the enhanced capital strength of the group and future earnings sustainability when determining the 2016 final dividend
- AMP's dividend policy remains unchanged - with a payout ratio range of 70% to 90% of underlying profit

Reinsurance agreement

Delivers capital release and assists future group earnings stability

Deal structure – first tranche

- Open-ended agreement with Munich Re commences 1 November 2016
- Quota share agreement on AMP Life Australian retail book (including income protection and lump sum premiums) covers approximately 50% of A$750m of annual premium income
- AMP to receive upfront reinsurance commission payment of approximately A$530m in early November 2016

Indicative financial impacts	FY 17	Ongoing
Australian wealth protection profit margins	(A$25m)	(A$25m) p.a.
Capital release – subject to regulatory approvals	A$500m	

- AMP will pursue further tranches of reinsurance when timing and conditions suit

Important note: estimated financial implications are based on the preliminary year end experience investigations for product areas that have a material bearing on the result. Indicative financial implications are shown post anticipated best estimate assumption changes. These results are not audited and may differ once experience investigations are completed and the audited accounts for AMP Life and NMLA are finalised for the year ending 31 December 2016.

Q3 16 Australian wealth protection experience

Continued poor claims experience

Experience (A$m)	Q3 16	1H 16	2H 15	1H 15
Experience profits / (losses)	(44)	(42)	(13)	2
Income protection (IP) claims	(18)	(23)	(8)	3
Lump sum claims	(8)	(13)	2	(12)
Group claims	(12)	(5)	(1)	3
Lapses	(6)	(2)	(7)	7
Other	-	1	1	1

– Q3 experience continues to reflect challenging market conditions

– IP claims experience impacted by lower than expected terminations and continued investment in claims transformation

– Lump sum experience weaker – impacted by an increased incidence of TPD claims

– Group experience driven by larger volumes of TPD claims and lower volumes of terminations in salary continuance across major group plans

– Lapse experience impacted by business mix and seasonality

Best estimate assumptions to be strengthened and goodwill impaired

Anticipated assumption strengthening reflects current experience and changing industry dynamics

Rationale

- Poor experience reflects worsening trends in 2016
- Industry dynamics changing and expected to remain challenging

Anticipated changes to best estimate assumptions at 31 December 2016

- Claims assumptions anticipated to be strengthened in all classes of business across both AMP Life and NMLA
- Lapse assumptions anticipated to be strengthened to reflect changes in mix and overall level of lapses

Implications

- Anticipated changes to best estimate assumptions will give rise to capitalised losses and reduce future profit margins
  - Embedded value is expected to reduce by approximately A$1.0b at 5% discount margin
  - Goodwill attributable to Australian wealth protection to be impaired

Indicative financial implications (A$m)	**FY16**	**FY17**
Australian wealth protection profit margins	-	(65)
Australian wealth protection capitalised losses and other one-off experience	(500)	-
Australian wealth protection attributed goodwill impairment	(668)	-

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Australian wealth protection guidance

Guidance summary	
Claims & lapse experience	If year to date trends continue into Q4 16, 2H 16 experience losses for the Australian wealth protection business are likely to be in the order of A$75m. However, experience is by its nature volatile.
Capitalised losses & other one-off items	Capitalised losses and other one-off negative experience impacts in 2H 16 expected to be in the order of A$500m as a result of anticipated strengthening claims and lapse assumptions across both AMP Life and NMLA.
Embedded value (@5% discount margin)	Australian wealth protection embedded value expected to reduce by approximately A$1.0b (@5% discount margin) at FY 16 to recognise impacts from anticipated best estimate assumption changes. The reinsurance agreement results in a negligible change in embedded value prior to any capital release.
Profit margins	FY 17 profit margins expected to reduce by A$90m as a result of the assumption changes at 31 December 2016 and the signed reinsurance treaty. There is expected to be a reduction in 2H 16 profit margins of approximately A$5m.

Indicative financial impacts (A$m)	2H 16 impacts	FY 17 impacts
Australian wealth protection profit margins		
Anticipated best estimate assumption changes	-	(65)
Reinsurance agreement	(5)	(25)
Australian wealth protection capitalised losses & other one-off experience items	(500)	-
Australian wealth protection attributed goodwill impairment	(668)	-
Australian wealth protection claims & lapse experience	(75)	-

Important note: estimated financial implications are based on the preliminary year end experience investigations for product areas that have a material bearing on the result. Indicative financial impacts shown are post anticipated wealth protection best estimate assumption changes. These results are not audited and may differ once experience investigations are completed and the audited accounts for AMP Life and NMLA are finalised for the year ending 31 December 2016.

Capital position and dividend implications

Capital position remains strong

- AMP maintains a strong balance sheet and is well capitalised.
- Impact of anticipated assumption changes will absorb approximately A$270m of regulatory capital – this will be covered from within existing capital surplus and the Part 9 capital release, expected to be in the order of A$100m
- The reinsurance agreement is anticipated to increase the existing surplus to AMP's Minimum Regulatory Requirements (MRR) by approximately A$500m. Surplus capital above MRR at 30 June 2016 was A$1.9b
- The Board will consider a range of capital management alternatives - including a potential return of capital to shareholders
- Due to the one-off, and largely non-cash nature of these changes the AMP Board intends to exclude the impacts on current profit and to consider both the enhanced capital strength of the group and future earnings sustainability when determining the 2016 final dividend.
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Conclusion

Actions taken today to stabilise group earnings and re-set wealth protection business

- Executed first tranche of reinsurance - remain focused on improving capital efficiency through further reinsurance
- Moving to strengthen wealth protection best estimates at year end to reflect industry dynamics and worsening trends

Actions designed to improve group earnings stability, free-up capital and allow focus on growing AMP in line with strategy - tilting investment to higher-growth, less capital intensive businesses within portfolio

Capital position remains strong

- AMP maintains a strong balance sheet and is well capitalised.
- The reinsurance agreement is anticipated to increase the existing surplus to AMP's Minimum Regulatory Requirements (MRR) by approximately A$500m. Surplus capital above MRR at 30 June 2016 was A$1.9b

Dividend impacts

- Due to the one-off, and largely non-cash nature of these changes the AMP Board intends to exclude the impacts on current profit and to consider both the enhanced capital strength of the group and future earnings sustainability when determining the 2016 final dividend
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