Media Release

27 July 2018

AMP takes action to reset business and provides an update on 1H 18 results

AMP Limited today provided an update on its expected 2018 interim results and announced a series of actions being taken to reset the business, prioritise customers and strengthen risk management systems and controls.

Summary:

Actions to reset the business:

- **Accelerating advice remediation**: to ensure impacted advice customers are appropriately compensated. 1H 18 results are expected to include a provision of A$290 million (post-tax) for potential advice remediation in relation to ASIC reports 499 and 515, which require an industry-wide 'look back' of advice provided from 1 July 2008 and 1 January 2009, respectively.

- **Delivering improved value for around 700,000 super customers**: through fee reductions to AMP's flagship MySuper products in 3Q 18.

- **Investing to strengthen risk management systems and controls**: increased investment of approximately A$35 million (post-tax) per annum to upgrade risk management controls and strengthen compliance systems across the business over the next two years.

- **Reprioritising the portfolio review**: to realise capital from the manage for value businesses. AMP remains in active discussions with a number of interested parties.

1H 18 results expectations:

- **AMP 1H 18 underlying profit**: estimated to be in the range of A$490–500 million. Result to benefit from growth across AMP's core growth businesses, offset by recent deterioration in experience and capitalised losses in Australian wealth protection. As outlined above, 1H 18 net profit attributable to shareholders is expected to include a provision of A$290 million (post-tax) for potential advice remediation.

- **Strong capital position**: AMP remains well capitalised with an expected capital surplus above minimum regulatory requirements (MRR) in the order of A$1.8 billion at 1H 18, including the impacts of the advice remediation provision.

- **Dividend expectations**: AMP is targeting a total FY 18 dividend payout at the lower end of the 70-90% guidance range. To retain capital and strategic flexibility over the coming period, it is expected that the interim dividend may be outside this range.

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Commenting, Acting CEO Mike Wilkins said:

"Today's announcement reflects our commitment to take decisive action to reset AMP and establish a platform from which the business can recover rapidly. We're facing squarely into the issues that have impacted our reputation and the community's confidence in AMP.

"Our remediation provision responds to industry-wide issues raised by ASIC in its reports 499 and 515 and reflects a conscious business response to increased community expectations. This remediation program is complex as it will address both employed and aligned advisers, and we understand it is one of the first programs to do so. We are working on the program with our advisers, the vast majority of whom are dedicated, professional and committed to meeting the advice needs of their clients.

"Customer needs are our immediate priority as we firmly believe this will also best serve the long-term interests of shareholders. We know it will take time to earn back trust, however today is an important milestone in that process."

Action taken to reset the business

AMP today outlined a series of actions being taken to reset the business, prioritise customers and strengthen risk management systems and controls.

These actions include:

Accelerating advice remediation
ASIC reports 499 and 515 require an industry-wide review of the delivery of ongoing service arrangements and the appropriateness of advice recommendations going back ten years to 1 July 2008 and 1 January 2009, respectively.

ASIC has also publicly outlined its expectations of the industry with regard to the review and remediation approach to be applied through this 'look back' period.

As flagged at the 1Q 18 update and at the AGM in May, AMP has been undertaking a detailed review of advice delivered and fees charged across its entire advice network including its aligned adviser base. The company is moving to accelerate its remediation program to ensure all impacted customers are appropriately compensated.

1H 18 net profit attributable to shareholders is expected to include a provision of A$290 million (post-tax) for potential advice remediation. A significant portion of the provision relates to compensation for potential lost earnings. As one of the first instances of applying the 'look back' to an aligned adviser network, discussions with ASIC remain ongoing in relation to the detailed scope and methodology.

The program is estimated to cost approximately A$50 million (post-tax) per annum over the next three years and this cost will be expensed as incurred.

AMP has a number of potential recovery options to partially offset these remediation costs in the medium term. These options will be actively pursued. Updates on the delivery and cost of the program will be provided in future financial reporting periods.

Delivering better value for super customers through fee reductions
As part of its continuing commitment to customers and reflecting plans for the simplification of its superannuation product offering, AMP has today announced fee reductions to its flagship MySuper products. These reductions will improve member outcomes, reducing fees for around 700,000 existing customers, and enhance the competitiveness of AMP's MySuper product suite.

Pricing reductions will be implemented in 3Q 18. AMP continues to work towards rationalising the number of products offered, reducing operational complexity and enabling greater product scale to compete more effectively.

The customer-focused fee reductions announced today will have no impact on the 1H 18 result but are expected to lower Australian wealth management investment related revenue (IRR) by an annualised A$50 million from FY 19. 2H 18 Australian wealth management IRR is expected to be reduced by A$12 million.

Excluding these pricing reductions, and subject to any further management initiatives, guidance for underlying margin compression is expected to average 3-4% over the long term but may be volatile from period to period.

Strengthening risk management and controls
AMP will also invest in significant enhancements to the company's risk management controls and compliance systems. This is expected to result in approximately A$35 million (post-tax) per annum of one-off costs over the next two years. These costs will be reported below underlying profit.

Reprioritising the portfolio review
Following stabilisation of the business, the portfolio review of the manage for value businesses has been reprioritised. AMP is committed to releasing further value from these business lines and remains in active discussions with a number of interested parties.

1H 18 results expectations

AMP expects to deliver a 1H 18 underlying profit in the range of A$490–500 million. The results demonstrate growth across AMP's core growth businesses, Australian wealth management, AMP Capital and AMP Bank, offset by a recent deterioration in experience and one-off capitalised losses in Australian wealth protection.

Australian wealth protection 1H 18 profit margins were higher than anticipated, but offset by negative experience and capitalised losses. This will result in negligible operating earnings during the period. The largest impact was a A$20 million one-off negative experience loss associated with reserve strengthening on a large Group plan, terminated on 1 July 2018. The loss of this plan was disclosed at AMP's FY 17 results.

AMP also expects changes to best estimate assumptions at the half year, mainly for Total & Permanent Disability. These changes are not expected to have a material impact on previous profit margin guidance for Australian wealth protection.

Reported profit attributable to shareholders is expected to be impacted by the A$290 million (post-tax) provision for advice remediation and an additional A$55 million (post-tax) of other one-off costs incurred in 1H 18, relating to the Royal Commission, portfolio review and costs of accelerating the advice remediation program in the first half. These items will be booked below underlying profit.

Capital and dividend expectations
AMP remains well capitalised and expects to report Level 3 eligible capital surplus above MRR in the order of A$1.8 billion at 30 June 2018. This includes impacts from the anticipated advice remediation provision, changes to best estimate assumptions in Australian wealth protection and other one-off costs.

AMP is targeting a total FY 18 dividend payout at the lower end of its 70-90% guidance range. To retain capital and strategic flexibility over the coming period, it is expected that the interim dividend may be outside this range. Additionally, the 1H 18 dividend reinvestment plan is not expected to be neutralised.

AMP Limited will host a conference call for investors, analysts and media at 9.30am AEST this morning. Investors and analysts should call:

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