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## Public Affairs

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## AMP reports A\$393 million net profit for 1H 13

AMP Limited has reported a net profit of A\$393 million for the half year to 30 June 2013<sup>1</sup>, up 5.4 per cent on A\$373 million reported for 1H 12.

Underlying profit<sup>2</sup> was A\$440 million compared with A\$488 million for 1H 12, reflecting strong growth in the earnings of all business units, except wealth protection which was affected by a challenging life insurance market, and lower underlying investment income.

The Board has declared an interim dividend of 11.5 cents per share compared with 12.5 cents per share for the 2012 interim dividend. This represents a payout ratio of 77 per cent of underlying profit and is within AMP's target range of paying 70-80 per cent of underlying profit in dividends. The dividend will be 70 per cent franked, with the unfranked amount being declared as conduit foreign income.

AMP also announced a new business efficiency program is underway that is expected to deliver A\$200 million pre-tax recurring, run-rate cost savings by the end of 2016.

The company will invest around A\$320 million (pre-tax) over the next three and a half years to deliver these business efficiencies, to further strengthen its competitive position in a market that continues to change. These one-off costs will be funded through a combination of future retained earnings, the capital surplus and new shares issued under the dividend reinvestment plan (DRP).

Chief Executive Officer Craig Dunn said with the AXA integration project almost complete, having met or exceeded all its objectives, AMP is now ready to capitalise further on the strengths of the merged business and take the company to the next level.

"We will continue to build on the success of the merger to create a leaner, more efficient and increasingly customer-driven organisation.

"We will increase the scale and pace of change in our core business, using our expertise and Australia's largest adviser footprint, to respond to consumers' demands for greater control, transparency, simplicity, convenience and value," Mr Dunn said.

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

<sup>2</sup> 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.

## Performance against key measures

- **Underlying profit:** A\$440 million in 1H 13, down 10 per cent on 1H 12, reflecting poor lapse and claims experience in wealth protection and lower underlying investment income – following a reduction in the assumed after tax investment return on shareholder funds flagged in February 2013, given falling interest rates.
- **Cost to income:** Controllable costs fell again, down 3 per cent from 1H 12 to A\$652 million. The cost to income ratio was 48.6 per cent for 1H 13, up 2.1 percentage points on 1H 12. All business units, excluding wealth protection, achieved substantial improvements in their cost ratios.
- **Growth measures:**
  - AMP Financial Services' net cashflows were A\$862 million, a significant improvement from net cash outflows of A\$113 million in 1H 12, reflecting the continued success of the North platform and AMP Flexible Super.
  - AMP Capital external net cash outflows were A\$2,070 million, an increase in net cash outflows from A\$1,345 million for 1H 12, impacted by the withdrawal of funds by Japanese retail clients driven by the effects of Japanese economic policy, including a weaker Yen.
  - AMP Financial Services' value of risk new business was A\$69 million, compared with A\$112 million for 1H 12, primarily as a result of lower sales volumes and strengthened lapse assumptions in FY 12.
- **Underlying return on equity:** Reduced 2.2 percentage points to 11.2 per cent in 1H 13 from 1H 12, reflecting higher capital held, poor insurance experience and lower underlying investment income.

Mr Dunn said AMP's wealth management and investment businesses performed strongly, offset by a challenging life insurance market.

"The combined earnings from all businesses, excluding our wealth protection business, were up 17 per cent, as net cashflows increased significantly in our wealth management business, investment markets continued to improve and we drove down costs.

"These results demonstrate the real potency of AMP's business franchise, scale and operating leverage, when both investment markets and investor confidence are more positive," Mr Dunn said.

In wealth management, AMP's largest business unit, operating earnings for 1H 13 were up 20 per cent compared with 1H 12, reflecting increased investment related income from higher customer account balances, a strong rebound in net cash flows, good cost control in a growing business and substantial growth in AMP Bank profits, up 31 per cent on 1H 12.

In wealth protection, operating earnings were A\$64 million, down 52 per cent on 1H 12, reflecting a higher level of claims and insurance policy lapses than expected, as reported in AMP's 24 June earnings update.

The life insurance sector is facing both structural and cyclical change, and a range of initiatives are in train to address these factors. These include improved customer retention campaigns, additional resources to handle customer claims more effectively, and helping income protection customers get back to work more quickly after illness or injury.

"Improving the performance of the insurance business is an area of critical focus as we introduce a series of actions to improve both customer retention and the management of claims, and which will deliver benefits to both customers and shareholders," Mr Dunn said.

While these actions should deliver some benefits in the short term, given the challenging industry conditions, sustained improvement is expected over the medium term with potentially uneven progress given the inherent volatility in an insurance book of this size.

## Other key highlights

- **AMP Capital performed well** – operating earnings increased 13 per cent reflecting strong AUM growth and tight cost control, reporting a cost to income ratio of 63.3 per cent, in advance of the 1H 14 target range of 60 to 65 per cent.
- **Strong investment performance** – three of the top 20 best performing Australian balanced funds are managed by AMP<sup>3</sup>, and AMP KiwiSaver is the top performing default KiwiSaver fund<sup>4</sup>.
- **New Zealand achieved strong growth in profit margins** – reported operating earnings of A\$46 million, up 21 per cent compared with 1H 12, reflecting growth in both AUM, particularly in KiwiSaver, and in individual risk annual premium income, along with tight cost control.
- **Robust AMP Bank performance** – delivered A\$38 million operating earnings, up 31 per cent compared with 1H 12, reflecting improved net interest margins following an increase in the use of wholesale funding and disciplined cost management.
- **Planner numbers continue to grow** – AMP’s planner network remains the largest planner and adviser network in Australia, demonstrating the continued attraction of AMP’s advice models, particularly as financial planner practices adapt to the new regulatory environment. AMP now has 3,680 financial advisers in Australia, up from 3,636 at FY 12.
- **Best net cashflows in wealth management for six years** – increasing nearly sixfold on 1H 12 to A\$1.4 billion. The combined AUM of North and AMP Flexible Super at 30 June 2013 was A\$15.5 billion, up 80 per cent on 12 months ago. All of AMP’s financial planner groups experienced good uplifts in net cashflows on 1H 12.
- **North platform continued to grow strongly** – with net cashflows nearly tripling to A\$1,864 million for 1H 13, compared with A\$636 million for 1H 12, and more AMP planners choosing to recommend the North platform to their customers.
- **AMP remains number one provider of SMSF administration services** – continuing to grow at twice the market rate with the number of accounts under administration increasing to 9,650 at 1H 13, from 3,000 at 1H 12, reflecting both acquisitions and organic growth.

## Capital management

AMP continues to hold a significant capital surplus, with A\$1,703 million capital above minimum regulatory requirements at 30 June 2013, up from A\$1,372 million at 31 December 2012. This reflects 1H 13 retained profits, additional capital issued under the DRP, capital efficiency initiatives and more favourable investment markets.

AMP has maintained 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. For the interim 2013 dividend, new shares will be issued and no discount will apply. ✓

<sup>3</sup> AMP RIL Balanced, AMP ipac Super Directions Balanced, AMP Future Directions Balanced; Chant West Top Balanced Superannuation Funds (61-80% allocations to growth assets) investment performance for one year to 30 June 2013.

<sup>4</sup> Morningstar KiwiSaver Survey; investment performance for one year to 30 June 2013.

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**Important note**

Forward-looking statements in this release are based on AMP's current views and assumptions and involve known and unknown risks and uncertainties, many of which are beyond AMP's control and could cause actual results to differ materially from those expressed or implied. They are not guarantees or representations of future performance, and should not be relied upon as such.

## Financial summary

A\$m	1H 13	1H 12
<b>Profit and loss</b>		
Australian wealth management	196	164
Australian wealth protection	64	134
Australian mature	85	76
New Zealand	46	38
AMP Financial Services	391	412
AMP Capital	51	45
<b>BU operating earnings</b>	<b>442</b>	<b>457</b>
Group Office costs	(32)	(34)
<b>Total operating earnings</b>	<b>410</b>	<b>423</b>
Underlying investment income	66	113
Interest expense on corporate debt	(36)	(48)
<b>Underlying profit</b>	<b>440</b>	<b>488</b>
Other items	(5)	4
AXA integration costs	(31)	(71)
Amortisation of AXA acquired intangible assets	(47)	(50)
<b>Profit before market adjustments and accounting mismatches</b>	<b>357</b>	<b>371</b>
Market adjustment – investment income	3	(1)
Market adjustment – annuity fair value	10	(10)
Market adjustment – risk products	5	23
Accounting mismatches	18	(10)
<b>Profit attributable to shareholders of AMP Limited</b>	<b>393</b>	<b>373</b>

## Q2 13 Cashflows

Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q2 13	Q2 12	Q2 13	Q2 12	Q2 13	Q2 12
<b>Australian wealth management</b>						
AMP Flexible Super <sup>1</sup>	1,478	1,381	849	673	629	708
North <sup>2</sup>	1,819	718	734	310	1,085	408
Summit, Generations and iAccess (including Assure) <sup>3</sup>	689	766	977	981	(288)	(215)
Flexible Lifetime Super (superannuation and pension) <sup>4</sup>	681	726	1,125	1,175	(444)	(449)
Other retail investment and platforms <sup>5</sup>	100	88	177	175	(77)	(87)
<b>Total retail on AMP platforms</b>	<b>4,767</b>	<b>3,679</b>	<b>3,862</b>	<b>3,314</b>	<b>905</b>	<b>365</b>
<b>Total corporate superannuation<sup>6</sup></b>	<b>937</b>	<b>913</b>	<b>885</b>	<b>738</b>	<b>52</b>	<b>175</b>
<b>Total retail and corporate super on AMP Platforms</b>	<b>5,704</b>	<b>4,592</b>	<b>4,747</b>	<b>4,052</b>	<b>957</b>	<b>540</b>
External platforms <sup>7</sup>	1,217	918	1,002	1,032	215	(114)
<b>Total Australian wealth management</b>	<b>6,921</b>	<b>5,510</b>	<b>5,749</b>	<b>5,084</b>	<b>1,172</b>	<b>426</b>
<b>Australian wealth protection</b>						
Individual risk	334	320	154	138	180	182
Group risk	96	92	60	58	36	34
<b>Total Australian wealth protection</b>	<b>430</b>	<b>412</b>	<b>214</b>	<b>196</b>	<b>216</b>	<b>216</b>
<b>Australian mature</b>	<b>178</b>	<b>184</b>	<b>685</b>	<b>596</b>	<b>(507)</b>	<b>(412)</b>
<b>Total Australia</b>	<b>7,529</b>	<b>6,106</b>	<b>6,648</b>	<b>5,876</b>	<b>881</b>	<b>230</b>
<b>New Zealand</b>						
KiwiSaver	98	86	74	33	24	53
Other	187	160	228	209	(41)	(49)
<b>Total New Zealand</b>	<b>285</b>	<b>246</b>	<b>302</b>	<b>242</b>	<b>(17)</b>	<b>4</b>
<b>Total AFS cashflows</b>	<b>7,814</b>	<b>6,352</b>	<b>6,950</b>	<b>6,118</b>	<b>864</b>	<b>234</b>
<b>Cashflows by channel (A\$m)<sup>8</sup></b>						
AMP Financial Planning	2,869	2,548	2,574	2,311	295	237
Hillross	1,151	568	595	484	556	84
Charter Financial Planning	1,061	860	894	774	167	86
Jigsaw advisers	85	66	85	80	-	(14)
ipac group advisers and Tynan Mackenzie	750	500	669	567	81	(67)
Genesys group advisers	352	368	310	320	42	48
Direct (including corporate superannuation)	504	426	366	331	138	95
Centrally managed clients and other	193	187	308	210	(115)	(23)
3rd party distributors	564	583	847	799	(283)	(216)
<b>Total Australia</b>	<b>7,529</b>	<b>6,106</b>	<b>6,648</b>	<b>5,876</b>	<b>881</b>	<b>230</b>
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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 comprises SignatureSuper, CustomSuper, SuperLeader and AXA Business Super.

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

8 Q2 12 cashflows have been restated to reflect changes in channels.

## Q2 13 AUM

AUM (A\$m)	Q1 13		Q2 13 Net cashflows				Total	Other	Q2 13
	AUM	Superannuation	Pension	Investment	Other	net cashflows	movements <sup>2</sup>	AUM	
<b>Australian wealth management</b>									
AMP Flexible Super	8,053	370	259	-	-	629	97	8,779	
North	5,708	418	388	279	-	1,085	(63)	6,730	
Summit, Generations and iAccess (including Assure)	14,180	(154)	(58)	(76)	-	(288)	180	14,072	
Flexible Lifetime (superannuation and pension)	24,080	(215)	(229)	-	-	(444)	386	24,022	
Other retail investment and platforms	3,239	(17)	(26)	(34)	-	(77)	4	3,166	
<b>Total retail on AMP platforms</b>	<b>55,260</b>	<b>402</b>	<b>334</b>	<b>169</b>	<b>-</b>	<b>905</b>	<b>604</b>	<b>56,769</b>	
<b>Total corporate superannuation</b>	<b>21,904</b>	<b>26</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>312</b>	<b>22,268</b>	
<b>Total retail and corporate super on AMP platforms</b>	<b>77,164</b>	<b>428</b>	<b>360</b>	<b>169</b>	<b>-</b>	<b>957</b>	<b>916</b>	<b>79,037</b>	
External platforms	12,594	30	107	81	(3)	215	(56)	12,753	
<b>Total Australian wealth management</b>	<b>89,758</b>	<b>458</b>	<b>467</b>	<b>250</b>	<b>(3)</b>	<b>1,172</b>	<b>860</b>	<b>91,790</b>	
<b>Australian wealth protection</b>						<b>216</b>	<b>216</b>	<b>(216)</b>	
<b>Australian mature</b>	<b>23,162</b>	<b>(257)</b>	<b>(66)</b>	<b>(8)</b>	<b>(176)</b>	<b>(507)</b>	<b>117</b>	<b>22,772</b>	
<b>Total Australia</b>	<b>112,920</b>	<b>201</b>	<b>401</b>	<b>242</b>	<b>37</b>	<b>881</b>	<b>761</b>	<b>114,562</b>	
<b>New Zealand</b>									
KiwiSaver	2,039	24	-	-	-	24	88	2,151	
Other	8,364	-	(1)	(47)	7	(41)	554	8,877	
<b>Total New Zealand</b>	<b>10,403</b>	<b>24</b>	<b>(1)</b>	<b>(47)</b>	<b>7</b>	<b>(17)</b>	<b>642</b>	<b>11,028</b>	
<b>Australian wealth management - AMP SMSF<sup>3</sup></b>									
Assets under administration	12,580						(281)	12,299	
<b>Total AUM</b>	<b>135,903</b>	<b>225</b>	<b>400</b>	<b>195</b>	<b>44</b>	<b>864</b>	<b>1,122</b>	<b>137,889</b>	
<b>Australian wealth management - AMP Bank by product</b>									
Deposits (Supercash, Super TDs & Platform TDs)	4,288						163	4,451	
Deposits (retail)	3,804						(141)	3,663	
Mortgages	12,505						251	12,756	

1 Reported AUM excludes shareholder capital.

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

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

## Q2 13 AUM and API summary

AUM (A\$m)	Q1 13 AUM	Q2 13 AUM
<b>Australian wealth management - AUM by product</b>		
Superannuation	55,411	56,556
Pension	23,678	24,419
Investment	10,669	10,815
<b>Total</b>	<b>89,758</b>	<b>91,790</b>
<b>Australian wealth management - AUM by asset class</b>		
Cash and fixed interest	32%	32%
Australian equities	34%	34%
International equities	23%	23%
Property	6%	6%
Other	5%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>
<b>AUM summary (A\$b)</b>		
<b>Australian wealth management</b>		
Closing AUM	89.8	91.8
Average AUM	88.5	91.9
<b>Asset Management</b>		
<b>AMP Capital</b>		
Closing AUM	131.1	131.0
Average AUM	130.3	132.6
<b>Risk insurance Annual Premium Income - API (A\$m)</b>		
<b>Australia</b>		
Individual lump sum	984	985
Individual income protection	409	410
Group risk	361	361
<b>New Zealand</b>		
Individual lump sum	199	210
Individual income protection	42	44
Group risk	32	33
<b>Total</b>	<b>2,027</b>	<b>2,043</b>