

28 October 2016

AMP Limited provides an update on its Australian wealth protection business and reports third quarter cashflows

AMP Limited (ASX: AMP; ADR: AMLYY) today provided an update on its Australian wealth protection business and reported cashflows and assets under management (AUM) for the third quarter to 30 September 2016.

In addition, AMP announced two significant actions as part of its update to address the market conditions for wealth protection in Australia:

- the implementation of a significant reinsurance arrangement with Munich Reinsurance Company of Australasia Limited (Munich Re), and
- strengthening of best estimate assumptions across both AMP Life and NMLA effective 31 December 2016.

AMP Chief Executive Craig Meller said: “We’ve seen consistent deterioration in the insurance sector over the course of 2016 and, despite the progress on claims transformation to date, it has significantly impacted the performance of our wealth protection business.

“Today’s actions are designed to re-set the wealth protection business. They will improve the group’s earnings stability, free-up capital and help bring into focus the growth potential of AMP.

“While cashflows remained subdued during the third quarter, they were impacted by the ongoing uncertainty in superannuation legislation leading to lower consumer confidence in the system, advisers adjusting to the enhanced regulatory environment and recent investment market volatility.

“However AMP is optimistic that the recent superannuation reforms will reverse this trend.”

Business update for the Australian wealth protection business

The series of actions AMP announced today will, subject to regulatory approval, release capital from the wealth protection business and provide greater earnings stability across the group. In more detail they are:

Significant reinsurance deal

AMP’s focus is to reposition the wealth protection business in Australia as significantly less capital intensive with market-leading products and a transformed claims philosophy and process.

AMP Life has executed a binding quota share agreement with Munich Re to reinsure 50 per cent of \$750 million of annual premium income of the AMP Life retail portfolio (including income protection and lump sum business). The agreement will commence on 1 November 2016.

The agreement creates the potential to release up to \$500 million of capital from AMP Life subject to regulatory approval. This initial tranche of reinsurance will reduce the magnitude of earnings volatility from the Australian wealth protection business for the AMP group.

The estimated net impact from the agreement on the Australian wealth protection business profit margins is a \$25 million reduction annually from FY 17.

AMP intends to pursue further tranches of reinsurance when time and conditions suit.

Strengthening of best estimate assumptions and goodwill impairment

The challenges AMP has faced in its Australian wealth protection business over the last three years have been accentuated in 2016 by deteriorating experience across the life insurance sector.

This has been driven by a range of factors in a period of unprecedented external scrutiny.

This trend has continued into Q3 2016 resulting in an experience loss of \$44 million (a full breakdown of the Q3 16 experience loss is overleaf).

Having reviewed experience against long-term trends, AMP has come to the view that the current trends are structural in nature. In response, AMP expects to strengthen best estimate assumptions across both AMP Life and NMLA (including retail and group income protection, claims and lapses) from year end.

As a result, the following underlying profit impacts are anticipated:

- capitalised losses and other one off experience items in the order of \$500 million in FY 16, and
- reduction in Australian wealth protection profit margins for FY 17 in the order of \$65 million.

The anticipated assumption changes will reduce the Australian wealth protection embedded value at FY 16 by approximately \$1.0 billion at a 5 per cent discount margin. The reinsurance agreement results in a negligible change in embedded value (prior to any capital release from AMP Life).

Goodwill attributable to the Australian wealth protection business is expected to be fully impaired by \$668 million when preparing the 2016 year-end financial statements. This reflects a decline in the potential recoverable amount for the Australian wealth protection business in line with reductions in embedded value.

The impairment charges will not impact AMP's FY 16 underlying profit.

Note that all items above are approximate, unaudited and subject to change as full year reporting processes are completed. The Part 9 consolidation of NMLA with AMP Life is on track and will not be impacted by the assumption changes or goodwill impairment.

Wealth protection experience for Q3 2016

Experience losses for Q3 16 were \$44 million compared with experience losses of \$42 million in 1H 16, reflecting:

- retail income protection experience losses of \$18 million
- retail lump sum experience losses of \$8 million
- group insurance claims experience losses of \$12 million, and
- lapse experience losses of \$6 million.

Q3 16 experience reflected ongoing challenges in the market environment, seasonality of lapses and lower than expected Group Salary Continuance and income protection terminations.

2H 16 wealth protection experience guidance

AMP's Australian wealth protection business continues to operate in a difficult market environment. As a result, if year to date trends continue into Q4 16, in addition to the impacts of potential best estimate assumption changes, experience losses for the Australian wealth protection business in 2H 16 are likely to be in the order of \$75 million. However, experience by its nature will be volatile from period to period.

FY 17 wealth protection guidance

FY 17 profit margins for the Australian wealth protection business are expected to be impacted by a combination of strengthened assumptions (\$65 million) and execution of the reinsurance agreement (\$25 million). As a result, profit margins in FY 17 are expected to reduce by approximately \$90 million.

Q3 16 Cashflows and AUM update

Australian wealth management net cash outflows were \$327 million for the quarter, down from net cashflows of \$241 million in Q3 15, driven by the uncertainty in superannuation legislation, advisers adjusting to an enhanced regulatory environment and recent investment market volatility driving weaker inflows in retail products. AMP is optimistic that recent government announcements will reverse the trend in superannuation contributions.

Internal inflows were \$4.4 billion in Q3 16 (\$4.3 billion in Q3 15) representing 61 per cent (57 per cent in Q3 15) of total cash inflows.

Total AUM was \$118.1 billion, up 3 per cent from \$115.0 billion at the end of Q2 16 (up 6 per cent from \$111.1 billion at Q3 15). The increase since June 30 reflected positive investment market movements during the quarter. Average AUM increased by 3 per cent to \$117.8 billion from Q3 15.

AMP's leading wrap platform North reported net cashflows of \$1.1 billion in Q3 16, up 2 per cent from Q3 15. 49 per cent of North's net cashflows were externally sourced. North AUM grew to \$25.2 billion at the end of the quarter, up 8 per cent from \$23.4 billion at the end of Q2 16 and increased by 32 per cent from \$19.1 billion at Q3 15.

AMP Flexible Super reported net cash outflows of \$83 million in Q3 16, down from net cashflows of \$274 million in Q3 15, driven by increasing preference for North by new and existing pension

customers and the weaker industry environment. Flexible Super AUM increased by 2 per cent in Q3 16 to \$15.7 billion and increased 8 per cent from \$14.4 billion at Q3 15.

Corporate superannuation reported net cash outflows of \$69 million in Q3 16 down \$96 million from Q3 15. The prior period benefited from member transitions from a large mandate win which did not repeat in Q3 16.

External platform net cash outflows were \$454 million in Q3 16 compared to net cash outflows of \$493 million in Q3 15. This improvement in net outflows was largely the result of lower net cash outflows from advisers who left Genesys offset by lower platform inflows as advisers continue to use North as the preferred platform.

SuperConcepts now supports 54,910 administration and software funds representing 9.5 per cent of the market. Growth of 40 per cent in the quarter was driven by the acquisition of additional SMSF software clients as part of the strategic partnership with accounting software provider Reckon, announced in August. Administration funds in the quarter fell 336 to 16,440. Total reported assets under administration grew by \$3.9 billion in the quarter to \$22.2 billion primarily from a strategic collaboration with a big four accountancy firm.

AMP Capital net cash outflows for Q3 16 were \$208 million, comprising external cash inflows of \$498 million for the quarter and internal net cash outflows of \$706 million.

External flows benefited from strong flows into the China Life AMP Asset Management Company (CLAMP) offset by redemptions from the China Growth Fund and the loss of a \$500 million low margin passive equities mandate. Overall, external net cashflow performance continues to reflect a shift from lower to higher margin asset classes.

AMP's share of the CLAMP alliance delivered strong flows of \$786 million in the third quarter. This partially reflects timing impacts around money market fund flows, as well as new fund launches during the quarter.

AMP Capital AUM at the end of Q3 16 was \$162.5 billion, up 1 per cent from \$160.4 billion at the end of Q2 16 (and \$157.5 billion at Q3 15). Average AUM increased 2 per cent over the quarter to \$163.2 billion.

AMP Bank's loan book increased 3 per cent to \$16.6 billion at the end of Q3 16 from \$16.0 billion at Q2 16. The deposit book increased \$1,116 million (10 per cent) in Q3 16 relative to Q2 16.

AMP New Zealand financial services' net cashflows of \$122 million were \$63 million lower than in Q3 15 reflecting lower KiwiSaver flows and a reduction in one off transfers of clients onto NZ financial services platforms. New superannuation cashflow mandates are expected in Q4 16 following other providers opting not to enter the updated regulatory regime required by the Financial Markets Conduct Act.

Australian mature net cash outflows in Q3 16 were \$391 million, compared to net cash outflows of \$392 million in Q3 15.

Australian wealth protection annual premium in-force (API) increased 3 per cent in Q3 16 to \$1,984 million compared to \$1,927 million in Q2 16. The increase in API was primarily driven by a 4.6 per cent increase in individual lump sum.

Dividend and capital update

The AMP Limited board will decide on the final 2016 dividend in February 2017, based on the conditions at that time.

Due to the one off and largely non-cash nature of the changes announced today, the Board intends to exclude these impacts on current profits when determining the final 2016 dividend. It will also consider AMP's enhanced capital strength and future earnings sustainability.

AMP's policy remains to pay dividends on a payout ratio of 70-90 per cent of underlying profits.

The impact of anticipated best estimate assumption changes will absorb approximately \$270 million of regulatory capital. This will be covered from within existing capital surplus and the capital release expected from the Part 9 life company consolidation which will be in the order of \$100 million.

AMP maintains a strong balance sheet and is well capitalised. The proceeds from the reinsurance agreement are anticipated to increase the existing surplus to AMP's minimum regulatory requirements, which at 30 June 2016 was \$1.9 billion. Consequently AMP will consider a range of capital management alternatives including a return of surplus capital to shareholders.

AMP Limited will host an analyst conference call at 9.30-10.30am AEDT this morning. Investors and analysts should call:

Australia Toll Free:	1800 838 758	Japan Toll Free:	0053 116 1314
Other International:	+61 7 3145 4004	Singapore Toll Free:	800 852 9513
New Zealand Toll Free:	0800 447 258	United Kingdom Toll Free:	0800 051 4282
Canada/USA Toll Free:	1855 237 2970	For assistance:	+61 2 9005 1060
Hong Kong Toll Free:	800 901 654		

Members of the media are invited to listen in at 9.30-10.30am AEDT this morning by calling:
Phone number: 1800 131 617
For assistance: +61 2 9005 1060

Please note that media will be unable to ask questions on this call. Please direct all media enquiries to the AMP Media Relations team.

Note to editors: Further explanation of financial definitions used in relation to the Q3 16 cashflows and wealth protection update is available at www.amp.com.au/Octoberbusinessupdate

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Q3 16 cashflows

Australian wealth management

Australian wealth management	Cash inflows		Cash outflows		Net cashflows	
Cashflows by product (A\$m)	Q3 16	Q3 15	Q3 16	Q3 15	Q3 16	Q3 15
North ¹	3,649	3,001	(2,513)	(1,889)	1,136	1,112
AMP Flexible Super ²	1,341	1,761	(1,424)	(1,487)	(83)	274
Summit, Generations and iAccess ³	271	553	(697)	(856)	(426)	(303)
Flexible Lifetime Super (superannuation and pension) ⁴	464	527	(882)	(905)	(418)	(378)
Other retail investment and platforms ⁵	67	123	(80)	(121)	(13)	2
Total retail on AMP platforms	5,792	5,965	(5,596)	(5,258)	196	707
SignatureSuper and AMP Flexible Super - Employer	778	820	(659)	(613)	119	207
Other corporate superannuation ⁶	370	363	(558)	(543)	(188)	(180)
Total corporate superannuation	1,148	1,183	(1,217)	(1,156)	(69)	27
Total retail and corporate super on AMP platforms	6,940	7,148	(6,813)	(6,414)	127	734
External platforms ⁷	301	396	(755)	(889)	(454)	(493)
Total Australian wealth management	7,241	7,544	(7,568)	(7,303)	(327)	241

Australian wealth management cash inflow composition (A\$m)		
Member contributions	742	897
Employer contributions	925	868
Total contributions	1,667	1,765
Transfers and rollovers in ⁸	5,571	5,741
Other cash inflows	3	38
Total Australian wealth management	7,241	7,544

¹ North is a market leading fully functioning wrap platform which includes guaranteed and non-guaranteed options.

² AMP Flexible Super is a flexible all in one superannuation and retirement account for individual retail business.

³ Summit and Generations are owned and developed platforms. iAccess is ipac's badge 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 are included.

⁵ Other retail investment and platforms include Flexible Lifetime - Investments, AMP Personalised Portfolio and Synergy. The Synergy platform was closed in Q2 2016, with customer accounts transferred to North.

⁶ Other corporate superannuation comprises CustomSuper, SuperLeader and Business Super.

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

⁸ Transfers and rollovers in includes the transfer of accumulated member balances into AMP from both internal (eg retail superannuation to allocated pension/annuities) and external products.

Australian wealth management	Q2 16		Q3 16 Net cashflows			Total	Q3 16	
AUM (A\$m)	AUM	Superannuation	Pension	Investment	net cashflows	Other movements ¹	AUM	
North	23,360	223	654	259	1,136	745	25,241	
AMP Flexible Super	15,410	21	(104)	-	(83)	333	15,660	
Summit, Generations and iAccess	12,196	(161)	(181)	(84)	(426)	420	12,190	
Flexible Lifetime Super (superannuation and pension)	23,465	(261)	(157)	-	(418)	566	23,613	
Other retail investment and platforms	2,363	-	-	(13)	(13)	78	2,428	
Total retail on AMP platforms	76,794	(178)	212	162	196	2,142	79,132	
SignatureSuper and AMP Flexible Super - Employer	15,100	118	1	-	119	364	15,583	
Other corporate superannuation	12,477	(188)	-	-	(188)	239	12,528	
Total corporate superannuation	27,577	(70)	1	-	(69)	603	28,111	
Total retail and corporate superannuation on AMP platforms	104,371	(248)	213	162	127	2,745	107,243	
External platforms	10,580	(127)	(147)	(180)	(454)	765	10,891	
Total Australian wealth management	114,951	(375)	66	(18)	(327)	3,510	118,134	
Australian wealth management - SuperConcepts²								
Assets under administration	18,281					3,920	22,201	

¹ Other movements include fees, investment returns and taxes.

² SuperConcepts assets under administration includes AMP SMSF, Multiport, Cavendish, SuperIQ, yourSMSF and Ascend administration platforms, but does not include Multiport Annual and JustSuper.

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Australian wealth management	Q2 16	Q3 16
AUM (A\$m)	AUM	AUM
AUM by product		
Superannuation	67,977	69,059
Pension	34,057	35,137
Investment	12,917	13,938
Total	114,951	118,134
AUM by asset class		
Cash and fixed interest	32%	31%
Australian equities	32%	32%
International equities	25%	26%
Property	6%	6%
Other	5%	5%
Total	100%	100%

Australian wealth management	Q2 16	Q3 16
AUM summary (A\$b)	AUM	AUM
Closing AUM	115.0	118.1
Average AUM	115.0	117.8

AMP Capital

AMP Capital	Q2 16	Q3 16 Net cashflows		Total	Other	Q3 16
AUM (A\$m)	AUM	Cash inflows	Cash outflows	net cashflows	movements ¹	AUM
External	54,694	4,189	(3,691)	498	(831)	54,361
Internal	105,707	6,786	(7,492)	(706)	3,149	108,150
Total AMP Capital	160,401	10,975	(11,183)	(208)	2,318	162,511

AMP Capital	Q2 16	Q3 16
AUM summary (A\$b)	AUM	AUM
Closing AUM	160.4	162.5
Average AUM	159.5	163.2

¹ Other movements include investment returns, distributions and foreign exchange movements.

New Zealand financial services

New Zealand financial services	Cash inflows		Cash outflows		Net cashflows	
Cashflows by product (A\$m)	Q3 16	Q3 15	Q3 16	Q3 15	Q3 16	Q3 15
KiwiSaver	217	203	(109)	(84)	108	119
Other ¹	263	301	(249)	(235)	14	66
Total New Zealand	480	504	(358)	(319)	122	185

New Zealand financial services	Q2 16	Q3 16 Net cashflows				Total	Other	Q3 16
AUM (A\$m)	AUM	Superannuation	Pension	Investment	Other	net cashflows	movements ²	AUM
KiwiSaver	3,918	108	-	-	-	108	75	4,101
Other ¹	10,625	27	(1)	(29)	17	14	170	10,809
Total New Zealand	14,543	135	(1)	(29)	17	122	245	14,910

¹ Other New Zealand financial services cashflows and AUM include New Zealand wealth protection, mature and non-KiwiSaver wealth management products.

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

New Zealand wealth protection	Q2 16	Q3 16
Risk Insurance Annual Premium In-force – API (A\$m)	API	API
Individual lump sum	238	236
Individual income protection	48	48
Group Risk	38	37
Total	324	321

Australian mature

Australian mature	Cash inflows		Cash outflows		Net cashflows	
Cashflows by product (A\$m)	Q3 16	Q3 15	Q3 16	Q3 15	Q3 16	Q3 15
Australian mature	131	105	(522)	(497)	(391)	(392)

Australian mature	Q2 16		Q3 16 Net cashflows			Total	Other	Q3 16
AUM (A\$m)	AUM	Superannuation	Pension	Investment	Other	net cashflows	movements ¹	AUM
Australian mature	21,527	(186)	(48)	(26)	(131)	(391)	506	21,642

¹ Other movements include fees, investment returns and taxes.

AMP Bank

AMP Bank by product	Q2 16		Q3 16
Deposits and loans (A\$m)	end balance	Other movements ¹	end balance
Deposits (Supercash, Super TDs & Platform TDs) ²	4,767	357	5,124
Deposits (retail) ²	5,160	755	5,915
Deposits (Other) ²	786	4	790
Loans	16,009	548	16,557

¹ Represents movements in AMP Bank's deposits and loan books.

² At 30 Sept 2016, deposits include AMP Bank retail deposits (A\$5.9b), AMP Supercash and Super TDs (A\$2.2b), North and platform deposits (A\$2.9b), internal deposits (A\$0.6b) and other wholesale deposits (A\$0.2b).

Australian wealth protection

Australian wealth protection	Cash inflows		Cash outflows		Net cashflows	
Cashflows by product (A\$m)	Q3 16	Q3 15	Q3 16	Q3 15	Q3 16	Q3 15
Individual risk	364	355	(157)	(143)	207	212
Group risk	117	89	(86)	(65)	31	24
Total Australian wealth protection	481	444	(243)	(208)	238	236

Australian wealth protection	Q2 16	Q3 16
Annual Premium In-force – API (A\$m)	API	API
Individual lump sum	1,085	1,135
Individual income protection	402	403
Group Risk	440	446
Total	1,927	1,984