



AMP portfolio review Additional background information

31 October 2018



Portfolio review – strategic rationale

Australian wealth protection	<ul style="list-style-type: none">- Australian wealth protection business permanently impacted by structural changes in life insurance industry globally and changing Australian regulatory environment- Increased competition from global competitors who benefit from lower cost of capital, greater scale and geographic diversification- Continuing and expected further deterioration in profitability of Australian life insurance industry- Systems supporting products create operating complexity; significant investment expected to meet future regulatory requirements (including IFRS 17)- These factors limit AMP's ability to compete in sector on a sustainable and profitable basis and deliver acceptable returns on capital to shareholders
Australian mature	<ul style="list-style-type: none">- Largely comprises legacy insurance products and shares underlying infrastructure (including systems) with wealth protection business; significant investment expected to meet future regulatory requirements (including IFRS 17)- Closed book in run-off at approximately 5% per annum; but can vary in volatile investment markets
New Zealand wealth protection and mature	<ul style="list-style-type: none">- Low growth profile; performance declining- Vulnerable to potential future deterioration in New Zealand life insurance market

Underlying profit of the sold businesses

A\$m	Reported 12 months to 31 Dec 2017	Reported 12 months to 30 June 2018	Reported 6 months to 30 June 2018	Annualised 6 months to 30 June 2018
Australian wealth protection	110	59	1	2
NZ wealth protection and mature	71	61	28	56
Australian mature	150	145	70	140
Operating earnings	331	265	99	198
Underlying investment income	54	49	21	42
Underlying profit	385	314	120	240
Other adjustments:				
Unwinding of Australian wealth management internal distribution arrangements and adjustments for tax and products transferring with sale				85
NZ wealth protection reinsurance impacts				(20)
Annualised underlying profit (after adjustments) for sold businesses				305
Implied price / earnings multiple				11x

- Underlying profit trend demonstrates ongoing decline in profitability of sold businesses
- As previously announced, Australian wealth protection reported a negative claims experience of A\$22 million in Q3 18. Results for this business can be volatile from quarter to quarter and are impacted by best estimate assumption changes
- Wealth protection and mature economic benefits and risks (including potential best estimate assumption changes) are transferred to Resolution Life from 1 July 2018 subject to risk sharing arrangements for Australian wealth protection

Portfolio review – alternatives considered

<p>Retain and grow wealth protection</p>	<ul style="list-style-type: none"> – Significant additional capital required to achieve sustainable levels of new business growth (value of new business is negative) and update systems to meet future regulatory requirements (including IFRS 17) – Challenging outlook for industry; ongoing claims risks and earnings volatility evidenced by A\$22 million deterioration in Q3 18 Australian wealth protection claims experience and previously advised loss of a number of large group plans – Remain exposed to earnings volatility, adverse claims and lapse experience and associated potential changes to best estimate assumptions and associated capital implications – Option not considered value maximising, particularly given expected future return on capital
<p>Further reinsurance of Australia and New Zealand wealth protection</p>	<ul style="list-style-type: none"> – Australian wealth protection: two reinsurance agreements cover effectively 65% of the retail portfolio and released in the order of A\$1 billion of capital to group; reducing profitability and embedded value (EV) – New Zealand wealth protection: In October 2018 announced reinsurance agreement covering approximately 65% of the retail portfolio; expected to release up to A\$150 million of capital to group (subject to regulatory approvals), prior to sale to Resolution Life – 65% reinsurance considered to be maximum acceptable level of cover to ensure interests remain aligned with reinsurers; additional reinsurance would further reduce profitability and EV of the wealth protection businesses
<p>Retain wealth protection and close to new business</p>	<ul style="list-style-type: none"> – Risk of increased lapses and associated potential requirement to further adjust best estimate assumptions with implications for both financial results and capital – Significant additional capital likely to be required to meet future regulatory requirements (including IFRS 17) – Triggers similar impacts to sale (creation of stranded costs and cessation of internal distribution arrangements) without releasing capital
<p>Demerger of wealth protection, mature and New Zealand</p>	<ul style="list-style-type: none"> – Requires significant up-front capital injection to fund separation costs, capital dis-synergies, necessary debt reduction and ensure standalone entity well capitalised – Requires additional operating costs to run as standalone business – No release of capital to the group
<p>Sale of Australia and New Zealand wealth protection and mature businesses</p>	<ul style="list-style-type: none"> – Sale represents preferred alternative considering costs, future capital requirements and potential risks – Enables capital release and certainty of proceeds – Combined sale of wealth protection and mature businesses reflects shared infrastructure and avoids further capital dis-synergies, separation costs and capital expenditure needed to meet future regulatory requirements (including IFRS 17) if either business were retained – Provides significant opportunity for simplification of AMP – Fully tested market for buyers domestically and internationally and considered interests of shareholders, customers and employees; Resolution Life proposal in the long-term interests of all stakeholders

Reconciliation of embedded values for sold businesses

A\$m	Wealth protection	Mature	NZ	Total
1H 18 Investor Report EV at 30 June 2018	1,270	1,794	1,431	4,495
Retained NZ business and impact of reinsurance				(420)
EV previously reported in Australian wealth management (reflecting unwind of internal distribution arrangements, tax and product adjustments)				885
Additional cost of capital retained in sold businesses (net of expense offsets)				(215)
1H 18 Pro forma EV (5% dm; including franking)				4,745
Franking credits – wealth protection				(300)
Franking credits – mature				(405)
1H 18 Pro forma EV (5% dm; excluding franking)				4,040
Implied acquisition price for 100% (A\$m)				3,300
Multiple of pro forma EV (5% dm; inc. franking)				0.70x
Multiple of pro forma EV (5% dm; ex. franking)				0.82x

- Table outlines reconciliation of pro forma sale embedded value (EV) of Australian wealth protection, Australian mature and New Zealand businesses to EVs as published in AMP's Investor Report
- Adjustments reflect refinements for the purpose of a sale, the scope of businesses and earnings being sold
- The assumptions and sensitivity analysis set out in the AMP 1H 18 Investor Report should be referenced in understanding and interpreting these EV figures
- AT1 preference shares in AMP Life and retained economic interest in mature business provide ongoing access to franking credits

Underlying profit of retained businesses

A\$m	Reported 12 months to 31 Dec 2017	Reported 12 months to 30 June 2018	Announced pro forma adjustments	Pro forma 12 months to 30 June 2018
Australian wealth management	391	402	(85)	317
AMP Capital ¹	156	158	-	158
AMP Bank	140	153	-	153
NZ wealth management and advice	54	55	(15)	40
Operating earnings	741	768	(100)	668
Group office costs	(74)	(70)	(40)	(110)
Underlying investment income ²	41	48	110	158
Interest expense on corporate debt	(53)	(58)	23	(35)
Underlying profit	655	688	(7)	681

- MySuper fee reductions expected to reduce Australian wealth management investment related revenue by A\$12 million in 2H18 and by an annualised A\$50 million from FY19 (numbers are pre-tax)
- AMP has committed to offsetting financial impact of unwinding distribution arrangements in the Australian wealth management business (A\$65 million of the previously announced A\$80-A\$90 million post-tax adjustments) through revenue replacement and/or cost management
- AMP has committed to removing approximately A\$40 million (after tax) of group office stranded costs in the first full year post separation (FY 2020)

¹AMP Capital is 15% owned by MUFG: Trust Bank. AMP Capital figures are reported net of minority interests

²Before investment income on net cash proceeds

Portfolio review – implications for AMP’s capital position

A\$m	30 June 2018 Reported	Pro forma (incl. net cash post completion)
Level 3 eligible capital	3,238	2,550
Minimum regulatory capital requirements (MRR)	1,428	750
Level 3 eligible capital above MRR	1,810	1,800
Capital in excess of target surplus on settlement	n/a	755
AT1 preference shares	n/a	300
Net cash and cash equivalents on settlement	n/a	1,055

- Post-sale the capital requirements (represented by MRR) of the group will be reduced and capital in excess of target surplus will increase to approximately A\$755 million
- In addition, A\$1.1 billion income generating equity investments can be monetised over time, and will accrue as additional capital in excess of target surplus
- Proceeds from potential New Zealand wealth management and advice IPO will further increase capital in excess of target surplus
- Corporate debt position reduces from A\$2.0 billion as at 30 June 2018 to approximately A\$1.2 billion post completion

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