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## **AMP delivers solid half year A\$383 million underlying profit**

AMP Limited has reported an increase in underlying profit to A\$383 million for the six months to June 2010, up 4.4 per cent on the six months to June 2009, representing a solid result in an ongoing volatile market.

Underlying profit is AMP's preferred measure of profitability as it removes some of the impact of investment market volatility and is the basis on which the Board determines the dividend payment.

Net profit attributable to shareholders was A\$425 million, up 17.4 per cent from A\$362 million in June 2009.

The interim dividend has been set at 15 cents per share, 60 per cent franked with the unfranked amount being declared conduit foreign income. The interim dividend represents a payout ratio of 81 per cent of underlying profit.

At 30 June 2010, AMP's regulatory capital resources above minimum regulatory requirements (MRR) were A\$1.4 billion, up from A\$1.2 billion at the end of December 2009.

AMP's performance against key measures was as follows:

**Underlying return on equity:** 27.4 per cent, compared to 31.6 per cent for 1H09, reflecting a prudent approach to capital management.

**Underlying profit:** A\$383 million, up 4 per cent.

**Growth measures:** AMP Financial Services net cashflows A\$584 million, down from A\$865 million; AMP Capital Investors external net cashflows A\$1.9 billion, up from A\$0.2 billion; value of new risk insurance business A\$45 million, down A\$2 million.

**Investment performance:** 64 per cent of funds under management met or exceeded benchmarks in the 12 months to 30 June 2010.

AMP Chief Executive Officer Craig Dunn said the company's solid result was bolstered by robust core business performance, with disciplined cost control, profit margins holding up well and building sales momentum from investment in growth initiatives.

"Our growth initiatives gained real traction in the half as we've moved decisively and proactively to position ourselves well for the future.

"We have successfully introduced a fee-for-service model across our Australian planner network well ahead of the industry, launched a market-leading product range that appeals to a broader customer base, built on our expanded presence in Asia and introduced more distribution channels, including a bigger presence in the IFA market.

“Customers of AMP Financial Services today can expect simpler, more transparent products, designed and priced to suit most pockets, and offered by more professional financial planners increasingly operating in a no-commission, fee-for-service environment,” Mr Dunn said.

While continuing to invest in the business, the cost to income ratio fell slightly, by 0.2 percentage points, to 42.2 per cent while total costs increased by three per cent to A\$426 million, compared with the first half 2009.

### **Business unit performance**

#### **AMP Financial Services (AFS)**

AMP Financial Services' operating earnings increased five per cent to A\$323 million compared with first half 2009, demonstrating the resilience of this business and reflecting higher fees because of higher AUM levels.

Controllable costs fell slightly in the half to A\$261 million, compared with A\$264 million in the first half of 2009 resulting in a cost to income ratio of 33.6 per cent, an improvement from 35.0 per cent in the first half of 2009.

Significant achievements included reshaping the business through the removal of in-built commissions from all new superannuation, pension and investment products, and the launch of the market-leading AMP Flexible Super product range. Since its May launch, AMP Flexible Super has delivered net cashflow of over A\$260 million and now has total AUM of over A\$330 million.

These changes position AMP well, putting the company ahead of the regulatory curve and other industry reforms. Importantly, these changes also broaden AMP's appeal to new market segments.

AMP planners are an increasingly productive and diverse advisory force with Australian AMP planners more productive than the industry median and 11 years younger than the average planner across the industry.<sup>1</sup>

In Australia for the 12 months ending 31 March 2010<sup>2</sup>, AMP Financial Planning was ranked as the largest financial planning group by planner numbers and grew its planner numbers faster than the industry over the same period.

Pleasingly, total AFS planner numbers remained relatively flat, falling by only 23 in the half to June 2010 to 2,105, despite the very significant change program being driven through the business.

In **Contemporary Wealth Management**, which includes the financial planning, superannuation, pensions and banking businesses, operating earnings increased 16 per cent to A\$150 million, as a result of higher investment related revenue linked to higher AUM, and lower controllable costs.

Controllable costs fell by 3.6 per cent on the first half of 2009, with the cost to income ratio falling to 41.7 per cent, which is the lowest cost ratio ever achieved by this business.

Return on equity remained high at 40.8 per cent, down from 42.0 per cent for the period to June 2009, reflecting an increased capital base.

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<sup>1</sup> Top 100 Dealer Survey, Money Management August 2010

<sup>2</sup> Top 100 Dealer Survey, Money Management August 2010

The average AUM for the half was A\$51.5 billion compared with A\$42.6 billion for the same period in 2009. This reflects higher investment markets over the first half of 2009 along with ongoing positive net cashflows. While discretionary cashflows remain subdued, there has been good momentum in the new AMP Flexible Super product and Personalised Portfolio service.

AMP Bank contributed operating earnings of A\$21 million, up from A\$18 million for the first half of 2009. While deposits were strong, the operating environment was characterised by a slow-down in home loan demand across the industry, as well as ongoing funding constraints for second tier banks.

In **Contemporary Wealth Protection** operating earnings were down 12 per cent to A\$73 million from A\$83 million for the first half of 2009. This reflects the ongoing incidence of higher than usual income protection claims, consistent with a difficult economic environment, along with an increase in life insurance claims.

Good sales momentum saw profit margins increase by nine per cent on the first half of 2009 to A\$76 million and individual risk API increase by nine per cent to A\$616 million over the same period. This reflected increased consumer demand for risk protection products in an uncertain economic environment, along with increased distribution through IFAs.

The cost to income ratio rose to 26.8 per cent, up from 21.9 per cent for the same period in 2009, reflecting the effect of less positive claims experience on operating earnings and an increased investment in business and product development to grow sales, particularly through IFAs. Sales in the IFA and alliances channel grew by 17 per cent on the first half 2009.

The return on equity for this business unit was 24.7 per cent, down from 31.7 per cent for the six months to June 2009 reflecting lower operating earnings and an increase in capital allocated to support new business growth.

The **Mature** business contributed operating earnings of A\$68 million, down six per cent on the first half of 2009.

The Mature business is one of Australia's largest closed life insurance businesses with AUM of A\$17.6 billion compared with A\$18.1 billion at the end of December 2009. The key priorities for this business unit are to maintain capital efficiency, improve persistency (customer retention) and improve cost efficiency.

Persistency remained broadly flat at 89.4 per cent for the six months to end of June 2010.

Costs also stayed broadly flat at A\$28 million resulting in a cost to income ratio of 20.2 per cent.

The return on equity for the Mature business was strong at 35.5 per cent, although down from 45.5 per cent for the six months to the end of June 2009, as a result of an increase in capital allocated to support capital guaranteed products given ongoing volatility in investment markets.

The **New Zealand** business contributed operating earnings of A\$32 million, an increase of 39 per cent on A\$23 million for the first six months of 2009.

This increase reflected lower controllable costs and a A\$10 million turnaround in experience profits, owing to better claims experience, improved lapse experience and recent changes to the New Zealand corporate tax rate.

Profit margins were down by A\$1 million to A\$28 million, driven by increases in lapse rate assumptions on risk products recognised as at December 2009 and lower margins on new business owing to life tax changes.

Tight cost control in the New Zealand business saw controllable costs decrease to A\$24 million from A\$27 million for the six months to June 2009.

The return on equity of this business unit was 25.1 per cent up from 20.5 per cent for the six months to June 2009, reflecting higher operating earnings.

### **AMP Capital Investors**

AMP Capital Investors contributed operating earnings of A\$44 million, up slightly from A\$43 million for the six months to June 2009, representing a solid performance through volatile market conditions.

Total AUM remained flat at A\$95 billion reflecting strong external net cashflows that were offset by negative investment returns from falling investment markets.

The Asian region contributed A\$1.1 billion in external net cashflows, building on the success of AMP Capital's Japanese business.

Investment performance improved with 64 per cent of AUM either meeting or exceeding investment benchmarks over the 12 months to 30 June 2010.

The return on equity for AMP Capital Investors was 50.4 per cent, down from 56.6 per cent for the six months to June 2009, reflecting a higher capital base as internal debt used to part fund seed pool investments has been replaced with equity.

Costs increased by 10.6 per cent to A\$136 million compared with A\$123 million for the six months to June 2009. The cost to income ratio was 67.7 per cent, up from 65.3 per cent for the same period in 2009.

The increase in costs was driven by investment in Asian expansion and operating platforms that will improve business scalability, particularly as the business increases its off-shore presence. It will also enable better risk management and improved investment performance.

### **Capital management**

The dividend policy remains to target a dividend payout ratio of between 75 to 85 per cent of underlying profits. The interim dividend of 15 cents will be 60 per cent franked.

The future franking rate is dependent on improved markets lifting taxable profit, which generates franking capacity. As markets stabilise and the outlook improves, taxable profits are likely to increase, enhancing AMP's franking capability.

Shareholders will be invited to participate in the dividend reinvestment plan which will be offered at a discount of 1.5 per cent.

AMP continues to take a dynamic and prudent approach to capital management, preferring to hold more capital than less, given the continued market volatility, and until changes to APRA's regulatory capital framework become clearer.

At 30 June 2010, AMP's regulatory capital resources were A\$2.4 billion and were A\$1.4 billion above minimum regulatory requirements (MRR), up from A\$1.2 billion above MRR at the end of December 2009.

Group gearing remains low, at 15 per cent on an S&P basis, while underlying interest cover is high at 12.3 times.

### **Outlook**

Mr Dunn said that while AMP retains a reasonably positive economic outlook for Australia and the Asian region, it continues to be cautious about the global economic outlook, expecting ongoing market volatility and subdued investor confidence.

AMP remains one of the most efficient providers of wealth management in Australia with a business model that allows significant flexibility to respond to changing consumer demands and the changing regulatory landscape.

"We'll continue to act proactively and decisively to reposition the company for growth, capturing the opportunities that will flow from the changing wealth management market and our targeted expansion into Asia.

"We'll use our business strength and flexibility to continue investing in targeted growth initiatives, while delivering robust financial returns," Mr Dunn said.

Note:

Shareholders are invited to join a live webcast of the investment analyst briefing at 12.30pm today by visiting [www.amp.com.au/shareholdercentre/webcasts](http://www.amp.com.au/shareholdercentre/webcasts).

A replay of the presentation will also be available shortly after the briefing has concluded.

Attached below are AMP Limited's Q2 cashflows and AUM for the quarter ending 30 June 2010.

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## AMP Limited Q2 cashflows and AUM

Cashflows by product (A\$m)	Cash inflows			Cash outflows			Net cashflows		
	Q2 10	Q2 09	% Q2/Q2	Q2 10	Q2 09	% Q2/Q2	Q2 10	Q2 09	% Q2/Q2
<b>Australian contemporary wealth management</b>									
Retail superannuation <sup>1</sup>	1,189	1,184	0.4	1,018	792	(28.5)	171	392	(56.4)
Allocated pensions	480	395	21.5	410	347	(18.2)	70	48	45.8
Total retail superannuation and pensions	1,669	1,579	5.7	1,428	1,139	(25.4)	241	440	(45.2)
Retail investment	75	87	(13.8)	95	79	(20.3)	(20)	8	n/a
External platforms <sup>2</sup>	394	378	4.2	410	328	(25.0)	(16)	50	n/a
Total retail	2,138	2,044	4.6	1,933	1,546	(25.0)	205	498	(58.8)
Corporate superannuation and pensions	771	755	2.1	555	519	(6.9)	216	236	(8.5)
Corporate superannuation mandate wins <sup>3</sup>	97	64	51.6	-	-	-	97	64	51.6
<b>Total Australian contemporary wealth management</b>	<b>3,006</b>	<b>2,863</b>	<b>5.0</b>	<b>2,488</b>	<b>2,065</b>	<b>(20.5)</b>	<b>518</b>	<b>798</b>	<b>(35.1)</b>
<b>Total Australian contemporary wealth protection</b>	<b>194</b>	<b>178</b>	<b>9.0</b>	<b>76</b>	<b>73</b>	<b>(4.1)</b>	<b>118</b>	<b>105</b>	<b>12.4</b>
<b>Total Australian contemporary</b>	<b>3,200</b>	<b>3,041</b>	<b>5.2</b>	<b>2,564</b>	<b>2,138</b>	<b>(19.9)</b>	<b>636</b>	<b>903</b>	<b>(29.6)</b>
<b>Australian mature</b>	<b>186</b>	<b>198</b>	<b>(6.1)</b>	<b>514</b>	<b>497</b>	<b>(3.4)</b>	<b>(328)</b>	<b>(299)</b>	<b>(9.7)</b>
<b>Total Australia</b>	<b>3,386</b>	<b>3,239</b>	<b>4.5</b>	<b>3,078</b>	<b>2,635</b>	<b>(16.8)</b>	<b>308</b>	<b>604</b>	<b>(49.0)</b>
<b>New Zealand</b>	<b>146</b>	<b>169</b>	<b>(13.6)</b>	<b>106</b>	<b>118</b>	<b>10.2</b>	<b>40</b>	<b>51</b>	<b>(21.6)</b>
<b>Total AFS cashflows</b>	<b>3,532</b>	<b>3,408</b>	<b>3.6</b>	<b>3,184</b>	<b>2,753</b>	<b>(15.7)</b>	<b>348</b>	<b>655</b>	<b>(46.9)</b>
<b>Total AFS cashflows, excluding Corporate superannuation mandate wins</b>							<b>251</b>	<b>591</b>	<b>(57.5)</b>
AMP Banking – mortgages	433	565	(23.3)	393	418	5.8	40	147	(73.0)
AMP Banking – deposits							382	86	342.1
<b>Cashflows by distribution channel</b>									
AMP Financial Planning	2,074	1,991	4.2	1,898	1,591	(19.3)	176	400	(56.0)
Hillross	416	437	(4.8)	435	345	(26.1)	(19)	92	n/a
Corporate Superannuation - direct sales force	509	422	20.6	232	225	(3.1)	277	197	40.6
Centrally managed clients and other	205	186	10.2	271	243	(11.5)	(66)	(57)	(15.8)
3rd party distributors	182	203	(10.3)	242	231	(4.8)	(60)	(28)	(114.3)
<b>Total Australia</b>	<b>3,386</b>	<b>3,239</b>	<b>4.5</b>	<b>3,078</b>	<b>2,635</b>	<b>(16.8)</b>	<b>308</b>	<b>604</b>	<b>(49.0)</b>
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<b>Australian contemporary wealth management cash inflows (A\$)</b>									
Member contributions	379	422	(10.3)						
Employer contributions	883	941	(6.2)						
Total contributions	1,261	1,363	(7.5)						
Transfers and rollovers in <sup>4</sup>	1,635	1,362	20.0						
Other cash inflows	110	138	(20.2)						
<b>Total</b>	<b>3,006</b>	<b>2,863</b>	<b>5.0</b>						

## AMP Financial Services and AMPCI - Q2 10 AUM

AUM (A\$b)	Q2 10	Q2 09
<b>Australian contemporary wealth management</b>		
Closing AUM (including capital)	50.7	44.3
Average AUM (including capital)	51.9	42.9
<b>AMPCI<sup>5</sup></b>		
Closing AUM	95.2	88.5
Average AUM	95.4	88.3

1 Retail superannuation includes the products Flexible Lifetime Super and AMP Flexible Super, a component of which is small corporate superannuation schemes.

2 Externally manufactured products that earn platform fees (superannuation, pensions and investments).

3 Cashflows from the transfer of accumulated member benefits as a result of SignatureSuper mandate wins.

4 Transfers and rollovers in include transfer of accumulated member balances into AMP from both internal (eg retail superannuation to allocated pensions/annuities) and external products.

5 As previously advised, AMPCI AUM (both closing and average) 2009 comparatives have been restated. The restatement reduces closing AUM as NZ AUM which is invested in Australian products, was previously included in both the NZ and Australia numbers, which are aggregated to form total AMPCI AUM.