

**ADDRESS BY AMP CHAIRMAN PETER MASON
TO THE AMP ANNUAL GENERAL MEETING
10 MAY 2012**

Let me begin my overview by saying your board and management believe strongly that the best position from which to tackle change is the front foot – and in 2011, AMP continued to move swiftly and decisively to gain advantage from a shifting financial services landscape.

Global context

We did this against a challenging backdrop.

Last year was another year of dislocation for many of the world's economies. Economic growth was slow or negative in many developed countries.

While the world hoped to see signs of recovery from the global financial crisis that began in 2007, natural disasters, ongoing conflict and civil unrest in the Middle East, and concerning European sovereign debt exposures, put paid to a turnaround.

Global growth remained subdued, as investors feared another recession.

The United States economy showed some signs of optimism in the second half of 2011, after what our house economist, Shane Oliver, described as the 'debacle' of its debt ceiling crisis. But this optimism was countered by the problems in Europe.

Our own economy was affected not only by events overseas, but also by natural disasters on our own shores early in the year.

Households have continued to be cautious, and weaker retail and housing-related sectors have failed to reflect the strength of our mining and resources sector.

The ride for share markets has been a rough one, as many of you in this room will know. The ASX All Ordinaries index is now almost 10 per cent lower than it was a year ago, having been around 15 per cent lower at the end of 2011 than it was at the time of last year's AGM.

Investors and share markets don't like uncertainty, and there is quite a lot of it at the moment: uncertainty around financial markets, around regulation and policy formulation, and also within our political environment.

This has significant implications for both AMP's share price, and for our business.

Business performance

With this in mind, in 2011, AMP began the real work of bringing its business together with AXA's – and offering a strong alternative to the banks in financial services.

Together, the two businesses have made pleasing progress.

And we are pleased to have created a long-term partnership with Japanese bank Mitsubishi UFJ Trust Bank to underpin our aspirations in Asia.

And I would like to thank all our advisers and employees for their commitment and support over the past year as we've worked together to build the new AMP.

Craig will talk more about these two major initiatives later.

We also continued to take a prudent approach to managing capital and costs.

At year end, AMP had more than \$1.5 billion in total capital resources above minimum regulatory requirements. At the end of March, that figure was around \$1.9 billion.

We intend to maintain a strong capital position for a couple of reasons.

- First, the prudential standards that dictate how much capital we are required to hold are set to change, under the influence of changes proposed in Europe and the US, where the global financial crisis was much more disruptive than it was in Australia.
- And second, we are seeing growing opportunities in areas of the business that are relatively capital intensive.

The total dividend for 2011 was 29 cents a share, meaning our shareholders received 84 per cent of AMP's underlying profit as dividend.

As you would be well aware, it has been our policy for some time to pay out between 75 and 85 per cent of underlying profit as dividend.

However, we have taken the prudent decision to revise this policy, and from this year we will instead pay out between 70 and 80 per cent of our underlying profit as dividend.

This will help us meet the capital demands of the parts of AMP's business that are growing the fastest – such as banking and personal insurance – and will help ensure we are ready for changes in the market environment in which we are operating.

Even with this change, AMP's payout ratio remains at the higher end compared to many other companies.

Managing change

As we move through 2012, the catalysts most likely to impact AMP's operating environment are:

- the volatility in global markets, which looks like continuing for some time, and
- the desire of governments and regulators, including those here in Australia, to create a more comprehensive regulatory framework for financial markets.

To avoid previous mistakes and safeguard the future is a laudable aim.

But new policy must be implemented with an eye on its broader impacts on market efficiency and investor sentiment.

And that is why this morning I am going to spend some time commenting on policy issues and our concerns about the impact these issues can have on all Australians.

Compared with most other developed countries, Australia has held up admirably in the fallout from the global financial crisis.

Although Australian investment markets remain subdued, Australia's fundamentals are healthy: our financial institutions are strong, unemployment is low and household savings are high. Investment in mining and energy and associated industries continues to be strong, too.

And all of this is underpinned by a substantial pool of superannuation savings, which are significantly invested in nation building.

This pool exists because of our world-leading retirement savings system, which was initiated more than 20 years ago by a Labor government.

Support for a compulsory superannuation system as Australia's preferred method of saving for retirement has been maintained by both sides of politics ever since.

Our system is the envy of the world.

Superannuation: a long-term view

And because of that, we need to be alert to the consequences of tinkering with it, and potentially muting its effectiveness.

AMP has always supported a framework that delivers better outcomes for individuals and the nation, and which takes into account the long-term interests of Australians.

That's why we support lifting compulsory superannuation contributions from nine per cent to 12 per cent. And why we support many aspects of the Future of Financial Advice legislation – particularly those which increase the professionalism of financial planners.

It's worth noting that AMP has led the way with regard to this.

Our Horizons Academy is at the forefront of training Australia's future financial planning professionals, and our planner force is Australia and New Zealand's most qualified.

But when there is continuous amendment to the framework for Australia's long-term savings, people feel they can't rely on it to make long-term plans.

Constant changes to Australia's superannuation system, as we saw again in Tuesday's budget, undermine people's comfort in saving within this system.

We know from experience that any change, even when it doesn't impact them directly, unsettles people, and makes them anxious about the future.

The greatest contribution that the Government can make right now is to provide the certainty and security Australians need so they can save with confidence in the future.

At AMP, we want to see Australia's superannuation system deliver what it was set up to deliver: on the one hand, the means for people to enjoy a dignified, comfortable, self-funded retirement, and on the other, a pool of funds to underpin nation-building initiatives.

Some people can afford to save to fund their own retirement, and some cannot; we need a system that supports both groups of people.

We need to incentivise those who *can* afford to save for the future to do so – ultimately relieving the burden on the government purse, and ensuring the state can better afford to help people really in need.

That's why the delay in reinstating the \$50,000 superannuation concessional tax cap for those over 50 announced on Tuesday is not just a deferred commitment.

It seriously constrains the ability of Australians to save more for their retirement, at the very stage in their lives when they are freed of other financial commitments, like mortgages and children.

Ironically, this constant tinkering by the Government risks undermining the very system Labor established, and which is now so widely admired around the world.

Superannuation is a long-term response to a long-term demographic and economic challenge. It needs to be managed for the long-term, not continually modified to meet short-term budgetary objectives.

It also needs to be a system that manages equitably the intergenerational challenges created by an aging population, without transferring an unfair burden to future generations of taxpayers – our children and grandchildren.

That way, Australia will remain the envy of the world, with our people enjoying the retirements they deserve, and our nation capable of funding the infrastructure we need to provide an attractive standard of living for everyone.

Regulation and unintended consequences

In Australia of late we have, on the whole, been blessed with sound regulations and responsible regulators who have facilitated fairness and equity within the system.

However, we need to be careful not to push new regulation so far, and so soon compared to the rest of the world, that the costs start outweighing the expected benefits.

Many industries in Australia are currently working through significant and painful structural change. These changes, along with our current high currency, are putting strain on the international competitiveness of Australian businesses.

When we introduce new regulation that imposes additional costs on business, we need to be very sure that the regulation will deliver real and practical benefits.

Our industry, for example, is facing extraordinary change over the next 12 months, as a result of a range of new regulations and standards being introduced, which will have a substantial cost, ultimately on consumers.

This includes:

- implementing the new Future of Financial Advice and Stronger Super changes next year;
- the new capital standards from APRA;
- the costs of the new superannuation contributions tax on high income earners announced in the budget on Tuesday; and
- the levy being imposed on our industry to pay for the administration of some of these changes.

Change in regulation, the *anticipation* of change in regulation, and over-regulation can all have ramifications for Australia's competitiveness, not least of all because it increases the cost of capital.

That's a cost that's ultimately passed on to the consumer. It impedes economic growth, and makes Australia a much less attractive investment destination for international corporations and institutions.

This is a significant factor for all companies, particularly those operating in the Asia-Pacific region – itself a highly contested market.

In a role I play as Chairman of the Centre for International Finance and Regulation, a government-sponsored body which brings together leading Australian universities, research centres and financial organisations, I am part of a team looking at how to increase Australia's standing in the international finance community, and how to enhance the attractiveness of Australia as a global finance centre.

The potential application of Basel III capital structures ahead of both Europe and the US would create a cost of capital imposition on the Australian financial system. That

would make us less competitive internationally, and make Australia less attractive in the Asia Pacific region.

Our financial system is strong. It has been successfully stress-tested. And what may be appropriate for other countries' economic systems is not necessarily appropriate for ours.

While governments and regulators have the very best intentions, imposing changes ahead of the rest of the world is not the answer for Australia. We must have time to adjust alongside international markets.

Share sale facility

Now, before I close my address, I want to mention a housekeeping matter, but one that I'm often asked about and that makes good financial sense for your company and for shareholders.

In the next few months, AMP will give holders of very small parcels of shares the opportunity to sell those shares at no cost.

We know from conversations with shareholders that many people who own a small number of shares want to sell them, but the fees associated with doing so can prove to be a disincentive.

Around 57,000 shareholders holding less than \$500 worth of shares will be asked whether they would like to retain their shares. If a shareholder does not tell us that he or she wants to keep the shares, we will arrange for them to be sold, and the proceeds will be paid to the shareholder.

This will go a long way toward consolidating our retail shareholder base, which grew significantly after our merger with AXA.

Conclusion

AMP continues to operate in an environment with short-term challenges, but excellent long-term growth prospects.

AMP is financially strong, and performed solidly in 2011.

Your board and senior executives will continue to anticipate change and capitalise on it wherever possible – ensuring AMP is a strong voice in the debate about how our country's retirement savings system should serve *all* Australians.

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