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1H 12 results show AMP driving earnings growth

AMP Limited reported a net profit of A\$383 million for the half year to 30 June 2012, up 11 per cent compared with A\$346 million for 1H 11¹. Net profit for 2H 11 was A\$342 million.

Underlying profit was A\$491 million, up seven per cent compared with A\$459 million for 1H 11¹.

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

AMP's performance against key measures was as follows:

Underlying profit: A\$491 million compared with A\$450 million in 2H 11, up nine per cent.

Growth measures:

- AMP Financial Services net cash inflow A\$301 million, up from net inflows of A\$94 million in 1H 11; AMP Capital external net cash outflows A\$1.35 billion, compared with cash outflows of A\$371 million in 1H 11².
- AMP Financial Services (AFS) value of risk new business A\$112 million, up 19 per cent on 1H 11.

Investment performance: 80 per cent³ of AMP Capital's funds under management met or exceeded benchmark over the three years to 30 June 2012.

Underlying return on equity: 13.5 per cent, an increase from 12.9 per cent for 2H 11, reflecting the growth in underlying profit partly offset by a higher capital base.

The cost to income ratio for the group for 1H 12 was 46.2 per cent, down from 50.6 per cent at 2H 11. Controllable costs were down 4.7 per cent on 2H 11. Controllable costs are expected to be two to three per cent lower for FY 12 than in FY 11 (determined on a pro-forma basis).

Capital above MRR increased by A\$503 million to A\$2.05 billion at 30 June 2012.

¹ 1H 11 included only three months contribution from the former AXA business, whereas 2H 11 included a full six months' contribution and so provides a more meaningful comparison. As such, most prior period comparisons for operating earnings and related ratios are made against 2H 11.

² 1H 11 cashflows and the value of new business have been restated to include a full six months contribution from the former AXA business.

³ Investment performance is on a three-year rolling basis, as this is the basis on which our investment professionals are remunerated. One year, three year and five year investment performances are shown on p. 34 of the 1H 12 Investor Report.

AMP has worked to build a significant capital buffer above MRR given the current economic environment and ahead of changes in regulatory capital requirements, particularly the new capital standards for life and general insurers, LAGIC.

AMP estimates LAGIC will increase the MRR of its life company statutory funds by around A\$200 million from 1 January 2013. AMP is well positioned to manage the increase given its capital position⁴.

As at 30 June 2012, group gearing remained steady at 11 per cent on an S&P basis, and underlying interest cover remained high at 11.2 times.

The interim dividend has been set at 12.5 cents per share, compared with the final 2011 dividend of 14 cents per share, and will be 55 per cent franked with the unfranked amount being declared conduit foreign income. The dividend results in a payout ratio of 73 per cent of underlying profit for 1H 12 and is within AMP's target payout range of 70 to 80 per cent of underlying profit.

The Board believes that given ongoing investment market volatility and the continued growth in demand for more capital intensive products, it is appropriate for this period's dividend to be struck at the lower end of the Board's target dividend payout range.

AMP will continue to offer its dividend reinvestment plan to shareholders for the interim 2012 dividend at 1.5 per cent discount, with new shares being issued.

AMP Chief Executive Officer Craig Dunn said: "The strength of the underlying business is evident in the earnings growth, excellent cost control and continued success in AFS' contemporary products and platforms. At the same time, we've continued to strengthen our capital position in advance of regulatory change and are holding a significant capital surplus above MRR.

"The merger has substantially enhanced the competitive position of AMP and the integration continues to deliver ahead of expectations. At the same time, we continue to invest in those parts of the market that afford the greatest opportunity for strong growth.

"Our new SMSF business unit will build scale and develop customer and adviser-friendly offers in response to the needs of the market's fastest growing superannuation segment.

"And our partnership with MUTB has significantly enhanced our distribution footprint in Japan, and will accelerate our growth into Asia.

"We're seeing structural change across the financial services sector as we manage the effects of market uncertainty, changing consumer preferences and the emergence of new technologies combined with the challenges and opportunities of an ageing population and significant regulatory change.

"While we're well-advanced in our preparedness for the new regulatory framework, we're still waiting to see the necessary policy detail that will allow us to finalise the required business changes," Mr Dunn said.

⁴ Based on the estimated impact of LAGIC had the new capital standards applied at 30 June 2012 and could change with market movements. Further increases in capital will be required in the life companies shareholders' funds and the North guarantee, however, this is expected to be mitigated by management actions undertaken over the remainder of 2012. Refer to p. 20 and 21 of the investor presentation for an update on regulatory capital reviews.

AMP expects the one off cost to the company of implementing the Future of Financial Advice, Stronger Super and other regulatory changes over the next 12 to 18 months to be in the range A\$60 million to A\$75 million after tax, of which A\$52 million has been provisioned at 30 June 2012.

The final costs may vary from this depending on final legislation and regulatory guidance, market practice and the future competitive landscape.

AXA integration update

The merger continues to track well with the integration expected to be complete six months earlier than planned. Synergies are also emerging more quickly than anticipated and the synergy target has been increased to A\$150 million post tax from A\$140 million post tax reflecting higher than expected adviser retention.

“We’ve hit all our key targets since the integration began and a new, stronger and more competitive AMP is emerging with greater opportunities for future growth.

“We’ve completed the roll-out of the North platform to AMP and Hillross planners and AMP’s market-leading low cost retail superannuation and retirement product, Flexible Super, is now available to the AXA adviser network, together resulting in A\$202 million of new inflows in 1H 12.

“We remain very focused on our key integration objectives – to maintain business momentum, sharpen our competitive edge by delivering on synergies and drawing on the strengths of both companies, and to build a stronger future growth platform for the company,” Mr Dunn said.

Business unit update

AMP Financial Services

AFS operating earnings were A\$412 million for 1H 12, up nine per cent compared with A\$378 million for 2H 11.

Controllable costs in AFS were A\$463 million, down 5.3 per cent compared with 2H 11, reflecting both merger synergies and a continued disciplined cost focus across the business.

AMP has continued to achieve growth across its planner businesses, offering consumers the choice of multiple brands and advice models. Planner and adviser numbers were up 128 over the last six months in Australia and New Zealand to 4,259 at 30 June 2012.

Contemporary Wealth Management’s operating earnings were up 8.6 per cent over 2H 11, or 11.6 per cent excluding AMP Bank earnings, reflecting a 10.2 per cent fall in controllable costs over the same period.

Over the 12 months to 30 June 2012, both customer numbers and AUM doubled in AMP’s low cost retail superannuation and retirement product, AMP Flexible Super, with AUM growing from A\$2.8 billion to A\$5.7 billion.

North, the market-leading full service wrap platform had AUM of A\$3 billion at 30 June 2012, with net cashflows more than tripling to A\$636 million compared with 1H 11.

In AMP SMSF, Multiport and Super IQ (of which AMP owns 49 per cent), contributed net cash flows of A\$127 million and A\$287 million respectively. No net cash flows were included from the recent Cavendish acquisition, which was completed in July 2012. Cavendish is the largest SMSF administrator in Australia, with more than 5,000 funds and 110 employees.

AMP Bank again outperformed system growth for home loans with its mortgage book growing eight per cent to A\$12 billion in 1H 2012. This was largely funded by an increase in deposits, which were up 20 per cent over the first half. AMP Bank's operating earnings were A\$29 million, compared with A\$30 million in 2H 11, impacted by a contraction in net interest margins.

The Contemporary Wealth Protection business unit's operating earnings increased 25 per cent to A\$134 million over 2H 11, driven by improved claims' experience and repricing of the income protection book facilitating the reversal of a proportion of previously capitalised losses. Excluding the effect of capitalised loss reversals, operating earnings grew by 11.8 per cent over 2H 11. Sales growth was offset by higher controllable costs.

AFS New Zealand's operating earnings were A\$38 million, down 12 per cent on 2H 11 as a result of the challenging economic environment and increased controllable costs. This result is despite strong KiwiSaver growth, now with 18.4 per cent of the KiwiSaver market and NZ\$2.1 billion in AUM.

AMP Capital

AMP Capital's operating earnings were A\$45 million⁵, up 18 per cent on 2H 11 driven by higher internal AUM investment fees flowing from the merger, increased performance fees, higher seed pool income and lower controllable costs.

Controllable costs were tightly managed, falling 4.2 per cent over the six months. A cost to income ratio of 68.2 per cent was achieved, down from 76 per cent in 2H 11, while AMP Capital continued to invest in initiatives to drive growth domestically and offshore.

AMP Capital's return on equity was 50.0 per cent for 1H 12, up from 32.3 per cent in 2H 11.

AUM increased to A\$123.2 billion up slightly on 31 December 2011 as a result of good investment performance offsetting net outflows.

AMP Capital continues to build on its international presence with the appointment of a new Asian equities team based in Hong Kong, and strong fund flows from Europe attracted by a globally recognised infrastructure investment capability. In July 2012, AMP Capital was also successful in winning a new global REIT mandate from China's National Social Security Fund.

The transaction to form AMP Capital's strategic business and capital alliance with MUTB was completed on 1 March 2012 paving the way for the launch of the Global Listed Infrastructure Bond Fund. This Fund is made available through three MUTB related, Japanese retail distribution channels, attracting A\$271 million as at 10 August. Further new funds are expected to be launched in the second half of 2012.

Outlook

As the global economy continues to work through its current challenges, AMP expects the future business environment to look very different from the past.

"Our view is that the changes in our industry are largely structural and this is shaping the strategy we're pursuing to build and create the new AMP.

"We're not running the business waiting for things to go back to the way they used to be. We're running the business for the changed environment we face today and in the future.


⁵ After allowing for MUTB's 15 per cent minority interest. Prior to the deduction of MUTB's minority interest, operating earnings were up 34.2 per cent on 2H 11.

“We’re focused on the things we can control. While maintaining a strong balance sheet, we’re realising the benefits from the merger, driving down costs and growing earnings by taking advantage of the growth opportunities in Australia and in selected international asset management markets,” 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.

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

Attached below are AMP Limited’s 1H 12 financial summary, and for the quarter ending 30 June 2012 AMP Financial Services’ cashflows and AMP Financial Services and AMP Capital AUM. 

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Financial summary 1H 12

A\$m	1H 12
Profit and loss	
Australian contemporary wealth management	164
Australian contemporary wealth protection	134
Australian mature	76
New Zealand	38
AMP Financial Services	412
AMP Capital ¹	45
BU operating earnings	457
Group Office costs	(31)
Total operating earnings	426
Underlying investment income ¹	113
Interest expense on corporate debt	(48)
AMP Limited tax loss recognition	-
Underlying profit	491
Market adjustment – investment income ¹	(1)
Market adjustment – annuity fair value	(10)
Market adjustment – risk products	23
Other items ^{1,2}	10
Profit after income tax before AXA merger adjustments and accounting mismatches	513
M&A transaction costs	(2)
AXA integration costs	(71)
Amortisation of AXA acquired intangible assets ¹	(50)
Accounting mismatches	(7)
Net profit attributable to shareholders of AMP Limited	383

¹ Net of minority interests. Refer to p. 29 of the Investor Report for more detail.

² Other items principally comprise one-off and non-recurring items. Refer to p. 42 of the Investor Report for more detail.

Q2 12 Cashflows¹

Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q2 12	Q2 11	Q2 12	Q2 11	Q2 12	Q2 11
Australian contemporary wealth management						
AMP Flexible Super ²	1,381	1,310	673	498	708	812
North ³	718	359	310	216	408	143
SMSF ⁴	362	82	93	63	269	19
Summit, Generations and iAccess (including Assure) ⁵	766	983	981	1,027	(215)	(44)
Flexible Lifetime Super (superannuation and pension) ⁶	726	818	1,175	1,271	(449)	(453)
Other retail investment and platforms ⁷	88	101	175	166	(87)	(65)
Total retail on AMP platforms	4,041	3,653	3,407	3,241	634	412
Corporate superannuation and pensions ⁸	913	928	738	747	175	181
Corporate superannuation mandate wins	-	104	-	-	-	104
Total corporate superannuation	913	1,032	738	747	175	285
Total retail and corporate super on AMP Platforms	4,954	4,685	4,145	3,988	809	697
External platforms ⁹	918	793	1,032	1,094	(114)	(301)
Total Australian contemporary wealth management	5,872	5,478	5,177	5,082	695	396
Total Australian contemporary wealth protection						
Individual risk	320	301	138	120	182	181
Group risk	92	81	58	55	34	26
Total Australian contemporary wealth protection	412	382	196	175	216	207
Total Australian contemporary	6,284	5,860	5,373	5,257	911	603
Australian mature	184	203	596	639	(412)	(436)
Total Australia	6,468	6,063	5,969	5,896	499	167
New Zealand						
KiwiSaver	86	87	33	22	53	65
Other	160	217	209	222	(49)	(5)
New Zealand	246	304	242	244	4	60
Total AFS cashflows	6,714	6,367	6,211	6,140	503	227
Australian contemporary wealth management - AMP Bank by product¹⁰						
Deposits (Supercash, Super TDs & Platform TDs)					450	252
Deposits (Retail)					43	453
Mortgages					517	379
Cashflows by distribution channel (A\$m)						
AMP Financial Planning	2,520	2,475	2,285	2,213	235	262
Hillross	569	520	483	565	86	(45)
AXA Financial Planning / Charter Financial Planning	918	912	807	880	111	32
Jigsaw advisers	67	79	78	73	(11)	6
ipac group advisers and Tynan Mackenzie	539	432	565	565	(26)	(133)
Genesys group advisers	371	238	319	230	52	8
Direct (including corporate superannuation)	426	516	332	318	94	198
Centrally managed clients and other	425	226	317	272	108	(46)
3rd party distributors	633	665	783	780	(150)	(115)
Total Australia	6,468	6,063	5,969	5,896	499	167
New Zealand	246	304	242	244	4	60
Total AFS cashflows	6,714	6,367	6,211	6,140	503	227

¹ Comparatives have been restated to include AXA.

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

³ North is a market leading fully functioning wrap platform which includes guaranteed and non-guaranteed options.

⁴ SMSF includes Multiport, SuperIQ and Ascend administration platforms. SuperIQ is 49 per cent owned by AMP.

⁵ Summit and Generations are owned and developed platforms. iAccess and Assure are ipac badges on Summit.

⁶ Flexible Lifetime Super (superannuation and pension) was closed to new business from 1 July 2010. A small component of corporate superannuation schemes is included.

⁷ Other retail investment and platforms include Flexible Lifetime - Investments, AMP Personal Portfolio and Synergy.

⁸ Corporate superannuation and pensions comprise SignatureSuper, CustomSuper, SuperLeader and AXA Business Super.

⁹ External platforms comprise Asgard, BT Wrap, Macquarie Wrap, Solar and other margin earning platforms used by Genesys.

¹⁰ Represents movements in AMP Bank's deposits and mortgage books for the quarter.

Q2 12 AUM¹

AUM (A\$m)	Q1 12		Q2 12 Net cashflows				Total net cashflows	Other movements ²	Q2 12 AUM
	AUM	Superannuation	Pension	Investment	Other				
Australian contemporary wealth management									
AMP Flexible Super	5,047	385	323	-	-	708	(99)	5,656	
North	2,578	200	170	38	-	408	(32)	2,954	
SMSF	1,675	271	-	(2)	-	269	(30)	1,914	
Summit, Generations and iAccess (including Assure)	13,888	(64)	(68)	(83)	-	(215)	(340)	13,333	
Flexible Lifetime (superannuation and pension)	23,958	(137)	(312)	-	-	(449)	(556)	22,953	
Other retail investment and platforms	3,275	(15)	(19)	(53)	-	(87)	(123)	3,065	
Total retail on AMP platforms	50,421	640	94	(100)	-	634	(1,180)	49,875	
Total corporate superannuation	20,062	175	-	-	-	175	(298)	19,939	
Total retail and corporate super on AMP platforms	70,483	815	94	(100)	-	809	(1,478)	69,814	
External platforms	12,909	(9)	(119)	14	-	(114)	(300)	12,495	
Total Australian contemporary wealth management	83,392	806	(25)	(86)	-	695	(1,778)	82,309	
Australian contemporary wealth protection									
Australian mature	22,776	(159)	(72)	(6)	(175)	(412)	543	22,907	
Total Australia	106,168	647	(97)	(92)	41	499	(1,451)	105,216	
New Zealand									
KiwiSaver	1,649	53	-	-	-	53	(60)	1,642	
Other	8,238	5	(1)	(75)	22	(49)	(295)	7,894	
New Zealand	9,887	58	(1)	(75)	22	4	(355)	9,536	
Total AUM	116,055	705	(98)	(167)	63	503	(1,806)	114,752	
Australian contemporary wealth management - AMP Bank by product									
Deposits (Supercash, Super TDs & Platform TDs)	3,655						450	4,105	
Deposits (retail)	4,443						43	4,486	
Mortgages	11,519						517	12,036	

¹ Reported AUM excludes shareholder capital.

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

Q2 12 AUM and API summary

AUM (A\$m)	Q1 12 AUM	Q2 12 AUM
Australian contemporary wealth management - AUM by product		
Superannuation	52,035	51,457
Pension	20,388	20,312
Investment	10,969	10,540
Total	83,392	82,309
Australian contemporary wealth management - AUM by asset class		
Cash and fixed interest	31%	33%
Australian equities	36%	34%
International equities	23%	22%
Property	6%	6%
Other	4%	5%
Total	100%	100%
AUM summary (A\$b)		
Australian contemporary wealth management		
Closing AUM	83	82
Average AUM	81	82
Asset Management		
AMP Capital		
Closing AUM	124.9	123.3
Average AUM	124.3	124.3
Risk insurance Annual Premium Income - API (A\$m)		
Australia		
Individual lump sum	927	930
Individual income protection	394	398
Group risk	351	354
New Zealand		
Individual lump sum	192	193
Individual income protection	37	36
Group risk	31	30
Total	1,932	1,941