



19 February 2009

## AMP delivers sound result in challenging market

AMP Limited has reported an underlying profit of A\$810 million for the full year ending 31 December 2008, a decline of 8 per cent on the previous year.

Underlying profit is AMP's key measure of business profitability as it smoothes investment market volatility and is the earnings base from which the Board's decisions relating to dividend are derived.

Key outcomes for the full year included A\$1.4 billion in net cashflows for AMP Financial Services despite the difficult climate, strong revenue growth in AMP's insurance businesses, and tight cost management. Controllable costs fell 3 per cent in the second half of 2008, against the prior corresponding period.

The AMP Board has set the final dividend at 16 cents per share, 85 per cent franked with the unfranked amount being declared to be conduit foreign income. This takes the full year 2008 dividend to 38 cents per share plus 2 cents special dividend from the sale of Cobalt/Gordian.

The Board's dividend decision reflects a prudent approach to capital preservation and a focus on maintaining a strong balance sheet in challenging market conditions. As at December 2008, AMP held A\$898 million of capital in excess of regulatory requirements, up from A\$665 million at June 2008.

AMP's Chief Executive Officer Craig Dunn said the company has reported a sound result in a tough year, demonstrating the resilience of AMP's business.

"AMP remains a strong, well capitalised and resilient company with a disciplined and prudent approach to executing our strategy in these markets," he said.

Net profit attributable to shareholders declined 41 per cent to A\$580 million (down 29 per cent excluding profits from discontinued businesses in 2007). The difference between statutory profit and underlying profit was mainly due to an investment income market adjustment loss of A\$260 million. This statutory profit also includes an annuity fair value loss, which is offset by accounting mismatches and other adjustments.

AMP's performance against its five key measures was as follows:

- **Underlying return on equity:** increased 1.0 percentage points to 38.9 per cent.
- **Total operating earnings:** fell 4 per cent to A\$737 million.
- **Cost to income ratio:** rose to 41.3 per cent from 39.7 per cent.
- **Growth measures:** AMP Financial Services net cashflows were A\$1.4 billion, down from A\$2.9 billion in full year 2007; AMP Capital Investors external net cashflows were A\$(804) million, down from A\$1.7 billion in full year 2007.
- **Investment performance:** 63 per cent of AUM met or exceeded benchmark over five years to 31 December 2008, impacted by extraordinary markets in 2008, when 17 per cent of AUM met or exceeded benchmark.

“Despite the current very difficult operating climate, we remain confident about the medium to long term outlook for the wealth management sector. We continue to manage our costs, capital and liquidity prudently, while investing in our core businesses to position AMP strongly for the medium to long term,” Mr Dunn said.

## **Review of business unit performance**

### **AMP Financial Services**

In **Contemporary Wealth Management**, which includes financial planning, superannuation, pensions and the banking business, operating earnings fell by 13 per cent to A\$266 million, following a 23 per cent fall in AUM from impacted investment markets.

AMP Banking contributed A\$21 million to Contemporary Wealth Management operating earnings, up from A\$10 million in full year 2007. This result reflected strong growth in retail lending and deposits.

Contemporary Wealth Management cost to income ratio was up 3.8 percentage points to 46.5 per cent, while controllable costs increased by 1 per cent.

Operating earnings to AUM declined by 6 basis points to 48 basis points.

Contemporary Wealth Management generated net cashflows of more than A\$2 billion, which is a strong result in a difficult market. These positive net cashflows helped grow market share<sup>1</sup> by 0.5 per cent to 12.1 per cent, improving AMP's market position from number three to number two over the 12 months ending 30 September 2008.

AMP Financial Planning continued to grow its planner base and invest in initiatives to improve planner productivity, and total planner numbers across the business increased by 3 per cent to 2,095. There were 27 new AMP Financial Planning practices added to the network and seven new practices joined Hillcross.

The planner academy has been extended to Western Australia, South Australia, Northern Territory, in addition to New South Wales and Victoria, and has received more than 3,600 applications since the program was established.

Other programs underway to improve productivity include new technology for planner practices, extended para-planning services, and low-touch programs rolled out to almost 130,000 customers.

Return on equity fell 7.6 percentage points to 46.5 per cent.

In **Contemporary Wealth Protection**, operating earnings grew by 29 per cent to A\$154 million as a result of strong new business growth and improved claims experience.

Individual risk annual premium income rose by 17 per cent to A\$547 million, due to strong growth in new business, increased planner activity and growth in third party distribution.

Operating earnings to annual premium income increased 3.2 percentage points to 23.9 per cent.

Controllable costs increased 7 per cent to A\$78 million for the year, while the cost to income ratio fell to 21.7 per cent due to revenue increases more than offsetting cost increases.

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<sup>1</sup> Source: Plan for Life, 30 Sept 08, based on retail AUM (excludes CMTs)

Lapse rates increased 0.2 percentage points to 10.8 per cent, while return on equity rose 2.6 percentage points to 31.5 per cent.

The **Mature** business is one of the largest closed life insurance businesses in Australia, with A\$16.1 billion AUM as at 31 December 2008. The focus of the business is on cost, capital efficiency and persistency management.

Net cash outflows improved by 28 per cent to A\$1,036 million in the year due to lower withdrawals, compared to 2007 following legislative changes.

Operating earnings fell 15 per cent to A\$161 million for the year, largely due to falling bond yields, poor investment markets and natural run-off of the business.

Controllable costs remained flat at A\$64 million, while the cost to income ratio increased from 18.3 per cent to 20.8 per cent, due to a decline in profit margins. Controllable costs to AUM rose 3 basis points to 37 basis points.

Return on equity fell to 158.2 per cent.

The **New Zealand** business performed well in the full year to end December 2008, with operating earnings increasing by 17 per cent to A\$56 million, or 22 per cent in New Zealand dollar terms, driven by good revenue growth in its insurance business, improved claims experience, tight cost control and early success in KiwiSaver, New Zealand's workplace savings scheme.

In 2008, AMP increased its market share of New Zealand's KiwiSaver to 15.2 per cent<sup>2</sup>, up from 11.4 per cent in the previous year.

AMP Financial Services is reinvigorating its adviser business to leverage opportunities in New Zealand's emerging wealth management industry.

Controllable costs remained steady at A\$64 million, but grew in NZ dollar terms by 4.3 per cent due to relocating Wellington operations to Auckland and the cost of servicing an additional 100,000 KiwiSaver customers.

Profit margins increased by 6.4 per cent and cost to income ratio declined by 2.9 percentage points.

Net cashflows increased 73 per cent to A\$126 million, largely due to regular contributions from KiwiSaver.

Individual risk annual premium income rose 8 per cent to A\$112 million.

Return on equity fell by 0.4 percentage points to 27.2 per cent.

### **AMP Capital Investors (AMP Capital)**

AMP Capital delivered a solid performance with operating earnings down 9 per cent to A\$136 million to 31 December 2008, despite investment market volatility.

Earnings were positively impacted by management fees which increased 3 per cent to A\$387 million, reflecting the business' diversity of fee income sources. Management fees benefited from an improved product mix and good growth in non-AUM sourced income.

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<sup>2</sup> Fund Source Research Limited, Sept 2008

Total performance and transaction fees fell 9 per cent to A\$86 million.

Total AUM fell 17 per cent to A\$92 billion from A\$111 billion in full year 2007, primarily reflecting weak investment markets.

External net outflows were A\$804 million for the full year, compared to A\$1.71 billion net inflows in full year 2007.

For investment performance, 63 per cent of AUM met or exceeded benchmark over the five years to 31 December 2008, reflecting difficult investment markets in 2008, when 17 per cent of AUM met or exceeded benchmark. The benchmark target is 75 per cent.

In 2008, three asset classes which account for almost 60 per cent of AMP Capital's total AUM – property, infrastructure and fixed interest – were impacted by a series of factors. Many of the property and infrastructure portfolios were set against a bond yield plus margin benchmark, which were challenging benchmarks to beat in volatile markets. In addition, with the substantial widening of credit spreads in the second half of 2008, very few investment managers were able to meet or exceed fixed interest benchmarks.

In the Australian direct property, fixed interest and balanced growth funds, AMP Capital continues to be ranked in the first quartile over five years.

Controllable costs rose 4 per cent compared to full year 2007, with the cost to income ratio increasing 3.2 percentage points to 56.3 per cent. This reflects higher costs as the business continues to expand in Asia and higher employment and technology costs.

Return on equity was down 4.3 percentage points to 59.9 per cent.

### **Capital Management**

AMP Group remains strongly capitalised with A\$898 million in surplus capital above the minimum regulatory requirement, reflecting a disciplined and dynamic approach to capital management.

The capital position of AMP Life remains strong, with the capital above minimum regulatory requirement increasing by A\$337 million during the year to A\$948 million.

Mr Dunn said AMP has a sharp focus on capital preservation to maintain balance sheet strength and provide flexibility to grow as markets improve.

“We have a strong bias toward having more capital than less in the current market.”

In November AMP raised A\$559 million from retail and institutional shareholders.

“As we've previously flagged, we continue to evaluate options to raise Tier 2 capital to improve the capital mix and replace maturing sub debt, subject to market conditions,” he said.

Group gearing remains low at 14 per cent on a Standard & Poor's basis while underlying interest cover is high at 10.9 times.

Going forward, AMP's target dividend payout ratio is likely to be in the range of 75-85 per cent of underlying profit, targeting 85 per cent franking.

The Dividend Reinvestment Plan (DRP) will be offered at a 2.5 per cent discount to encourage an increase in participation from 19 per cent to 30 per cent. This will be partially underwritten up to 30 per cent to ensure we reach that level of participation.

**Strategy and outlook**

Mr Dunn said AMP was responding to the difficult market conditions by tightly managing costs, capital and liquidity to protect AMP's financial position for the short term, and position the company to grow as markets improve.

"Despite the need for ongoing cost efficiencies, we remain committed to AMP's strategy of growing distribution, products and services to drive growth in shareholder value over the long term. While we will continue to closely manage our risks in this environment, we will also seek to maximise opportunities to further strengthen our market position and improve AMP's growth profile over the medium to long term.

"We expect continued market volatility through 2009 as the full consequences of the global financial crisis work their way through the economy. However over the long term AMP remains confident about growth in the wealth management sectors in key geographic markets of Australia, New Zealand and select Asian markets. The fundamentals of these markets are underpinned by ageing demographics and regulatory support for retirement savings.

"While economic and market conditions mean that delivering growth in the short term will remain challenging, AMP is a resilient business that is well placed to take advantage of future opportunities, and we remain very confident in the medium to long term outlook for the company," Mr Dunn said.

AMP maintains its over-arching goal of delivering top quartile TSR performance to shareholders.

**Media enquiries**

Jane Anderson  
Tel: +61 2 9257 9870  
Mobile: +61 402 967 791

Sarah Hudson  
Tel: +61 2 9257 2700  
Mobile: +61 424 034 059

**Investor enquiries**

Howard Marks  
Tel: +61 2 9257 7109  
Mobile: +61 402 438 019

Stuart Kingham  
Tel: +61 2 9257 5207  
Mobile: +61 401 139 067