

ASX Announcement

13 February 2020

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ASX Market Announcements
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AMP Limited (ASX/NZX: AMP)

Full Year Financial Results RESULTS FOR ANNOUNCEMENT TO THE MARKET

- Part One: Appendix 4E
- Part Two: **AMP reports FY 19 results** 
- Part Three: Investor presentation
- Part Four: Investor report

Marissa Bendyk
Group Company Secretary

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AMP announces FY 19 results and provides strategy update

AMP strategy

- New strategy in August 2019 enabled fundamental reset of AMP; foundational steps in three-year transformation now underway.
- AMP Capital international growth strategy accelerating following record year for infrastructure funds.
- Separation of AMP Life on track for completion by 30 June 2020; China approval (CBIRC) received; continue to work with other regulators on achieving conditions precedent.
- Client remediation program on schedule to complete in 2021; A\$190 million paid in 2H 19¹.
- Significant progress in reshaping advice network to be compliant, professional and more productive; approximately 440 advisers exited network in FY 19.
- Simplification of superannuation business underway to deliver easy-to-understand client propositions; reducing from around 70 superannuation products to six.
- Targeting A\$300 million gross cost savings (ex AMP Capital) by FY 22; A\$19 million of gross cost savings delivered in 2H 19.

Financial performance

- FY 19 underlying profit² of A\$464 million (FY 18: A\$680 million) reflects challenging environment in Australian wealth management, offset by strong earnings in AMP Capital and resilient AMP Bank performance.
- FY 19 net loss attributable to shareholders of A\$2.5 billion largely due to impairments taken in 1H 19 of A\$2.35 billion (post-tax) to address legacy issues and position AMP for the future.
- Standout performance by AMP Capital with strong growth in direct international institutional clients; AMP Bank strengthening its position as a challenger bank.
- Level 3 eligible capital above minimum regulatory requirements (MRR) of A\$2.5 billion as at 31 December 2019.
- To maintain balance sheet strength and prudent capital management through a period of significant change, the Board has resolved not to declare a final dividend in FY 19. This position will be reviewed after completion of the AMP Life sale.

¹ Includes payments to clients and program costs.

² Underlying profit is AMP's key measure of business profitability as it normalises investment market volatility.

AMP Chief Executive Francesco De Ferrari said:

“2019 was a year of fundamental reset at AMP. We rebased our business, set out a new group strategy and strengthened our capital base to accelerate the execution of our strategy.

“Amid the reset, AMP Capital had an outstanding year, delivering on its long-term global growth plan. Its reputation as a global leader in real assets investment was further enhanced with two of the largest infrastructure fundraisings in the world during 2019.

“AMP Bank and New Zealand wealth management also delivered resilient performances in competitive markets. In Australian wealth management, we took bold steps on our plans to reshape advice, working with advisers to support them make a decision on their path forward, and ensure our network is professional, productive and compliant.

“As promised, we have prioritised client remediation and made significant progress. We expect to have completed 80 per cent of the program by the end of FY 20, with completion in 2021, as we have consistently guided. We have agreed the main outstanding areas of our program with ASIC, including for advisers who are no longer active in our network. We remain committed to putting it right for impacted clients as quickly as possible.

“In a period of unprecedented legislative and regulatory pressure we have established a strong three-year roadmap for recovery. Our focus is now on delivery.”

Business unit results

Operating earnings (A\$ million)	FY 19	FY 18	% change
Australian wealth management	182	363	(49.9)
AMP Bank	141	148	(4.7)
AMP Capital ³	198	167	18.6
New Zealand wealth management	44	53	(17.0)
AMP Life	(21)	(3)	n/a
Total operating earnings	544	728	(25.3)

AMP Australia

Australian wealth management

Australian wealth management continued to experience a challenging period of industry disruption however the underlying business remained resilient. Assets under management (AUM) increased 9 per cent to A\$134.5 billion, driven by stronger investment markets.

AUM on AMP's North platform increased by A\$9.7 billion to A\$47.6 billion in FY 19 due to growing preference for clients to use North. Cash inflows from external financial advisers on the platform increased 44 per cent to A\$1.2 billion.

³ AMP Capital is 15 per cent owned by MUFG: Trust Bank. AMP Capital results, and any other impacted line items, are shown net of minority interests.

Net cash outflows of A\$6.3 billion in FY 19 includes A\$2.4 billion in pension payments to clients in retirement. Cashflows were impacted by weaker external inflows and higher outflows, reflecting ongoing reputational impact and strong competition. In Q4 19 net cash outflows were A\$1.3 billion, compared to A\$1.6 billion in Q4 18.

Operating earnings of A\$182 million in FY 19 (FY 18: A\$363 million) reflects the end of internal distribution arrangements between Australian wealth management and AMP Life. Higher controllable costs and lower investment-related revenue also impacted earnings.

AMP Bank

AMP Bank is proving its strength as a challenger bank with continued mortgage book and retail deposit growth in a highly competitive market. The residential mortgage book increased 3.8 per cent to A\$20.2 billion in FY 19, driven by competitive offers on principal and interest home loans. Credit quality remains strong with 90+ days arrears at 0.66 per cent, which compares favourably to peers.

Total deposits increased A\$1.1 billion to A\$14.4 billion, due in part to a successful introductory saver rate for new customers, strengthening the bank's deposit to loan ratio to 70 per cent, up from 66 per cent in FY 18.

Operating earnings of A\$141 million (FY 18: A\$148 million) reflect an increase in major regulatory and compliance project costs that are now reported as part of controllable costs. Net interest margin was resilient at 1.69 per cent in FY 19 despite the competitive lending environment.

AMP Capital

Growth momentum in infrastructure and real estate (real assets) and continued global expansion underpinned a standout performance in AMP Capital. Total AUM increased to A\$203 billion (FY 18: A\$187 billion), driven by positive external cashflows and the investment of real asset committed capital.

Operating earnings increased 19 per cent to A\$198 million (FY 18: A\$167 million), benefiting from fee income growth received through record year of infrastructure fund raises.

Continued interest from global investors in real assets drove positive external net cashflows of A\$2.5 billion. Total net cash outflows of A\$5.2 billion (FY 18: A\$2.8 billion net outflows) reflect internal cash outflows in Australian wealth management.

Controllable costs increased to A\$527 million (FY 18: A\$453 million) reflecting investment in growth initiatives, additional regulatory and compliance costs across the industry, and variable remuneration aligned with performance outcomes. A cost to income ratio of 63 per cent in FY 19 remains within target range of 60 to 65 per cent.

New Zealand wealth management

New Zealand delivered a strong underlying performance despite increased competition in the sector. Excluding the impact of product revenues transferring with the sale of AMP Life, FY 19 operating earnings increased 7 per cent (including product revenues transferring, earnings decreased 17 per cent).

AUM increased A\$1.2 billion to A\$12.3 billion in FY 19, due to strong investment markets and continued cash inflows into KiwiSaver. Net cash outflows of A\$433 million in FY 19 reflect regular pension payments, increased market competition, and the wind-up of two legacy products.

AMP Life⁴

AMP Life was impacted by Protecting Your Super Legislation and ongoing structural challenges in the wealth protection industry. An operating loss of A\$21 million in FY 19 reflects Protecting Your Super legislation impacts and best estimate assumption changes in Australian wealth protection.

AMP Life profit margins decreased to A\$222 million (FY 18: A\$269 million). Experience and capitalised losses of A\$243 million in FY 19 are largely due to the Protecting Your Super legislation impacts and the strengthening of best estimate assumptions, driven by changes in expense projections from the transition to a standalone business.

Resolution Life will be on risk for all experience and lapse losses from 1 July 2018 until completion and is entitled to all AMP Life net earnings during that period.

Client remediation

AMP remains on track to complete its client remediation program in 2021 with 80 per cent of the program expected to be complete by the end of FY 20.

Client remediation comprises the following components:

- Inappropriate advice: program approximately 50 per cent complete
- Fee for no service:
 - o Active advisers: program approximately 20 per cent complete
 - o Inactive advisers: pilot program for inactive advisers has commenced
 - o Overall fee for no service refund rate expected of 17 per cent (29 per cent including interest) of total ongoing service fees charged.
- Program costs tracking to expectations.

Total program spend to date, including program costs and money repaid to clients, is A\$264 million with A\$190 million paid in 2H 19. Major policies now agreed with ASIC including active and inactive advisers. 2H 19 additional provision of A\$150 million primarily relates to finalisation of inactive adviser approach. Overall remediation costs remain broadly in line with original estimate provided in November 2018.

Impairment

As announced on 8 August 2019, AMP recognised a predominantly non-cash impairment of A\$2.35 billion (post-tax) in 1H 19 to write down goodwill in Australian wealth management and AMP Life, capitalised project costs and valuations of advice registers given changes to buyback terms and associated practice finance loans.

An additional A\$55 million was recognised in 2H 19 reflecting additional reductions in value of client registers and associated practice finance loan impairments. Total FY 19 impairment is A\$2.4 billion (post-tax).

⁴ AMP Life refers to AMP's wealth protection and mature businesses in Australia and New Zealand which are subject to a sale agreement with Resolution Life.

Capital position and dividend

AMP remains well-capitalised. Level 3 eligible capital above minimum regulatory requirements (MRR) is A\$2.5 billion at 31 December 2019, up from A\$1.65 billion at 31 December 2018. The increase reflects proceeds from the capital raising in 2H 19 and business unit earnings, offset by capital usage for business growth and below the line costs.

To maintain balance sheet strength and prudent capital management through a period of significant change, the Board has resolved not to declare a final dividend in FY 19. This position will be reviewed after completion of the AMP Life sale.

AMP anticipates that any capital in excess of target surplus post completion will first be used to fund delivery of the new AMP strategy. Beyond this, AMP will assess all capital management options with the intent of returning the excess above target surplus to shareholders, subject to unforeseen circumstances.

Update on strategy

AMP has provided a progress update on its strategic priorities to transform the business into a simpler, client-led, growth-oriented business.

Simplify portfolio

- Sale of AMP Life
 - Legal separation and sale of AMP Life is on track for completion by 30 June 2020.
 - Approval from China (CBIRC) received. AMP continues to work with other regulators on achieving conditions precedent.

- Divest New Zealand wealth management
 - Significant progress on simplification of business in FY 19 including consolidation of product offerings and removal of a number of legacy products.
 - Divestment process underway with mandate to maximise shareholder value. AMP is in discussions with a number of interested parties and expects to provide a further update at or before 1H 20 results.

Reinvent wealth management in Australia

- Reshape advice
 - In FY 19 action was taken to reshape the aligned adviser network to be compliant, professional and more productive.
 - Approximately 440 advisers exited the network in FY 19; consolidated operations in employed channel to major metropolitan locations.
 - Improved adviser productivity with average AUM per adviser increasing to A\$52 million.

- Build best-in-class retail super business
 - Simplification of products, including reducing around 70 products to six, in parallel with completion of AMP Life transaction to deliver better client outcomes.
 - Delivered fee reductions in MyNorth (May 2019) and super (February 2020) benefiting more than 585,000 clients and all new clients.

- Majority of grandfathered commissions to be removed in 1H 20 as part of the separation of AMP Life.
- Grow successful platform business
 - North cash inflows from external financial advisers increased 44 per cent to A\$1.2 billion in FY 19 due in part to launch of new platform features.
 - Strengthened managed portfolio and investment offers including ongoing platform enhancements.
- Maintain growth momentum in AMP Bank
 - Development of ‘whole of wealth’ corporate super offering with integrated banking and superannuation propositions underway; objective to launch in 2020.
 - Modernisation of the bank’s core system on track for completion in FY 20, including automation of deposit portfolio, improving efficiency and client experience, and enabling scaled growth.

Maintain growth momentum in AMP Capital

- Grow AMP Capital through differentiated capabilities
 - Significant growth in infrastructure and real estate capabilities, including US\$6.2 billion raised for fourth infrastructure debt strategy, US\$3.4 billion for Global Infrastructure Fund II and further co-investment, and a A\$5 billion real estate development pipeline in Australia.
 - Global equities delivered top percentile performance vs peers, returning 27.8 per cent annually since inception; top quartile performance for global listed real estate and global listed infrastructure strategies.
 - International growth building momentum. Direct international institutional clients grew to 358 in FY 19, with AMP Capital managing A\$20.4 billion on their behalf, up 18 per cent from A\$17.3 billion in FY 18.

Management update

AMP Group Chief Risk Officer (GCRO) Jenny Fagg has decided to step down from her role and will leave the group on 3 April 2020. Ms Fagg joined AMP in January 2018 just prior to the financial services Royal Commission hearings and has strengthened regulatory engagement and uplifted risk management, governance and controls during a period of extensive change in the financial services industry. She leaves with AMP’s best wishes.

Phil Pakes, currently AMP Chief Audit Executive, will be appointed Group Chief Risk Officer (GCRO) from 3 April 2020. Mr Pakes will step down from his current role with immediate effect and work with Ms Fagg on a transition into the GCRO position.

Mr Pakes joined AMP in April 2019 and has more than 20 years’ experience in audit and risk management roles in the financial services industry. Prior to AMP, Mr Pakes was the global Chief Auditor of Citi Private Bank.

As a result of this change, AMP's Head of Internal Audit Nicola Rimmer-Hollyman has been promoted to the role of AMP Group Audit Executive.

Media teleconference

A conference call for media with Francesco De Ferrari (CEO) and James Georgeson (CFO) will be held at 9.15am (AEDT) today, 13 February 2020.

Dial in details:

Australia: Toll free 1800 220 860

New Zealand: Toll free 0800 452 795

Metered number for all other countries: +61 7 3107 6320

An analyst briefing starting at 11.00am can be viewed via webcast at amp.com.au/webcasts.

More detailed information on the FY 19 result and strategy update is available in the FY 19 investor report and presentation available at amp.com.au/shares.

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Marissa Bendyk, Group Company Secretary

Q4 19 Cashflows

Australian wealth management

Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18
North ¹	4,883	3,303	(3,431)	(2,671)	1,452	632
AMP Flexible Super ²	361	522	(1,078)	(1,015)	(717)	(493)
Summit, Generations and iAccess ³	128	127	(656)	(570)	(528)	(443)
Flexible Lifetime Super (superannuation and pension) ⁴	370	322	(1,015)	(930)	(645)	(608)
Other retail investment and platforms ⁵	24	-	(110)	(74)	(86)	(74)
Total retail on AMP platforms	5,766	4,274	(6,290)	(5,260)	(524)	(986)
SignatureSuper and AMP Flexible Super - Employer	878	818	(937)	(884)	(59)	(66)
Other corporate superannuation ⁶	364	317	(528)	(510)	(164)	(193)
Total corporate superannuation	1,242	1,135	(1,465)	(1,394)	(223)	(259)
Total retail and corporate superannuation on AMP platforms	7,008	5,409	(7,755)	(6,654)	(747)	(1,245)
External platforms ⁷	144	206	(701)	(571)	(557)	(365)
Total Australian wealth management	7,152	5,615	(8,456)	(7,225)	(1,304)	(1,610)

Cash inflow composition (A\$m)	Q4 19	Q4 18
Member contributions	822	713
Employer contributions	999	1,037
Total contributions	1,821	1,750
Transfers, rollovers in and other ⁸	5,331	3,865
Total	7,152	5,615

¹ North is an award-winning fully functioning wrap platform which includes guaranteed and non-guaranteed options.

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

³ Summit and Generations are owned and developed platforms. iAccess is ipac's badge on Summit.

⁴ Flexible Lifetime Super (superannuation and pension) was closed to new business from 1 July 2010. A small component of corporate superannuation schemes are included.

⁵ Other retail investment and platforms include Flexible Lifetime - Investments and AMP Personalised Portfolio.

⁶ Other corporate superannuation comprises CustomSuper, SuperLeader and Business Super.

⁷ External platforms comprise Asgard, Macquarie, BT Wrap platforms and Challenger annuities.

⁸ Transfers, rollovers in and other includes the transfer of accumulated member balances into AMP from both internal (eg retail superannuation to allocated pension/annuities) and external products.

AUM (A\$m) ¹	Q3 19	Q4 19 Net cashflows				Total net cashflows	Other movements ²	Q4 19
	AUM	Super-annuation	Pension Payments	Other Pension	Investment			AUM
North	45,270	727	(329)	816	238	1,452	865	47,587
AMP Flexible Super ³	14,819	(245)	(118)	(354)	-	(717)	259	14,361
Summit, Generations and iAccess	9,237	(197)	(62)	(182)	(87)	(528)	183	8,892
Flexible Lifetime Super (superannuation and pension) ⁴	22,117	(500)	(40)	(105)	-	(645)	394	21,866
Other retail investment and platforms	2,366	-	-	-	(86)	(86)	27	2,307
Total retail on AMP platforms	93,809	(215)	(549)	175	65	(524)	1,728	95,013
SignatureSuper and AMP Flexible Super - Employer ⁵	19,612	(65)	(9)	15	-	(59)	348	19,901
Other corporate superannuation ⁶	12,212	(164)	-	-	-	(164)	236	12,284
Total corporate superannuation	31,824	(229)	(9)	15	-	(223)	584	32,185
Total retail and corporate superannuation on AMP platforms	125,633	(444)	(558)	190	65	(747)	2,312	127,198
External platforms	7,550	(87)	(31)	(134)	(305)	(557)	270	7,263
Total Australian wealth management	133,183	(531)	(589)	56	(240)	(1,304)	2,582	134,461
Australian wealth management – SuperConcepts ⁷ Assets under administration	21,228						(1,542)	19,686

¹ AUM reflects a post separation view following the sale of Australian and New Zealand wealth protection and mature businesses to Resolution Life.

² Other movements include fees, investment returns, distributions, taxes, and foreign exchange movements.

³ AMP Flexible Super includes A\$0.4b in MySuper (Q3 19 A\$0.4b).

⁴ Flexible Lifetime Super (superannuation and pension) includes A\$5.5b in MySuper (Q3 19 A\$5.4b).

⁵ SignatureSuper and AMP Flexible Super – Employer includes A\$10.6b in MySuper (Q3 19 A\$10.3b).

⁶ Other corporate superannuation includes A\$6.2b in MySuper (Q3 19 A\$6.1b).

⁷ SuperConcepts assets under administration includes AMP SMSF, Multiport, Cavendish, SuperIQ, yourSMSF, Justsuper, Ascend and SuperConcepts platforms, but does not include Multiport Annual, SuperConcepts Accountants Outsource, SMSF Managers and MORE Superannuation.

AUM (A\$m)	Q3 19	Q4 19
AUM by product	AUM	AUM
Superannuation	80,649	81,749
Pension	36,041	36,157
Investment	16,493	16,555
Total	133,183	134,461
AUM by asset class		
Cash and fixed interest	30%	29%
Australian equities	30%	30%
International equities	29%	30%
Property	6%	6%
Other	5%	5%
Total	100%	100%

AUM (A\$b)	Q3 19	Q4 19
	AUM	AUM
Closing AUM	133.2	134.5
Average AUM	133.1	134.0

AMP Capital

AUM (A\$m)	Q3 19	Q4 19 Net cashflows				Q4 19
	AUM	Cash inflows	Cash outflows	Total net cashflows	Other movements ¹	AUM ²
External	76,019	4,722	(3,779)	943	433	77,395
Internal	126,135	3,204	(5,606)	(2,402)	1,967	125,700
Total AMP Capital	202,154	7,926	(9,385)	(1,459)	2,400	203,095

AUM (A\$b)	Q3 19	Q4 19
	AUM	AUM
Closing AUM	202.2	203.1
Average AUM	201.3	202.7

¹ Other movements include fees, investment returns, distributions, taxes, and foreign exchange movements.

² AUM is invested capital. Committed real asset capital is excluded from AUM.

AMP Bank

AMP Bank by product	Q3 19	Other	Q4 19
Deposits and loans (A \$m)	end balance	movements¹	end balance
Deposits (super and platform) ²	5,478	(95)	5,383
Deposits (other) ³	9,019	12	9,031
Loans	20,297	387	20,684

¹ Represents movements in AMP Bank's deposits and loan books.

² At 31 Dec 2019, Super and Platform deposits include AMP Supercash and Super TDs (A\$1.5b), North and platform deposits (A\$3.9b).

³ Deposits (other) includes retail deposits, internal deposits, wholesale deposits and other deposits.

New Zealand wealth management

Cashflows by product (A\$m)	Cash inflows		Cash outflows		Net cashflows	
	Q4 19	Q4 18	Q4 19	Q4 18	Q4 19	Q4 18
KiwiSaver	167	144	(130)	(175)	37	(31)
Other ¹	106	176	(247)	(204)	(141)	(28)
Total New Zealand wealth management	273	320	(377)	(379)	(104)	(59)

AUM (A\$m)	Q3 19	Q4 19 Net cashflows			Q4 19	
	AUM	Superannuation	Investment	Total net cashflows	Other movements ²	AUM
KiwiSaver	5,357	37	-	37	270	5,664
Other ¹	6,420	(28)	(113)	(141)	327	6,606
Total New Zealand wealth management	11,777	9	(113)	(104)	597	12,270

¹ Other includes superannuation, retail investment platform and legacy products.

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