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AMP Limited (ASX/NZX: AMP)

AMP updates on portfolio review and Q3 cash flows

Part One: AMP agrees to sell wealth protection and mature businesses.

Announces intention to divest via IPO New Zealand wealth management and advice businesses

Part Two: **AMP completes portfolio review** 

Part Three: AMP Limited provides Q3 cash flows update



AMP completes portfolio review

25 October 2018



Overview

<p>Successful completion of portfolio review</p>	<ul style="list-style-type: none"> – Successful completion of portfolio review, first announced in February 2018, to realise value of manage for value businesses – Outcome of portfolio review includes three components: <ul style="list-style-type: none"> ○ Sale of Australian and New Zealand wealth protection and mature businesses (AMP Life) to Resolution Life¹ for A\$3.3 billion ○ Binding agreement with Swiss Re² for New Zealand retail wealth protection reinsurance to release up to A\$150 million in regulatory capital to AMP, subject to regulatory approvals ○ Intention to seek divestment of New Zealand wealth management and advice businesses via initial public offering (IPO) in 2019 subject to market conditions and regulatory approvals, unlocking further value – Total proceeds of A\$3.45 billion (excluding value unlocked via potential New Zealand IPO) – Transaction with Resolution Life includes A\$1.9 billion in cash, A\$300 million in preference shares in AMP Life and A\$1.1 billion in non-cash consideration comprising an economic interest in mature business and interest in Resolution Life – Resolution Life assumes economic benefits and risks for Australian and New Zealand wealth protection and mature businesses from 1 July 2018, subject to risk-sharing arrangements, reducing AMP's earnings volatility – Use of net proceeds to be evaluated and determined following transaction completion in 2H 2019 	
<p>Prioritising customers</p>	<ul style="list-style-type: none"> – Terms and conditions of existing policies retained; Resolution Life management has a track record of quality customer service – Existing customers to benefit from Resolution Life's significant expertise in managing in-force life insurance portfolios – Wealth protection business to transition to specialist in-force management – New AMP customers and all aligned and employed advisers will continue to have access to a range of quality life insurance products available in the market 	<p>Notes</p> <p>1. Acquiring entity is Resolution Life Australia Pty Ltd, a wholly owned subsidiary of Resolution Life Group Holdings LP</p>
<p>Setting AMP for the future</p>	<ul style="list-style-type: none"> – Significant simplification of portfolio reduces complexity and earnings volatility – Strengthened balance sheet provides strategic flexibility for a range of options including growth investments and/or capital management activity – Enables clear focus on growth businesses: Australian wealth management, AMP Capital and AMP Bank 	<p>2. Swiss Re Life & Health Australia Ltd, New Zealand Branch</p>

Wealth protection and mature: key transaction elements

Strong mix of cash and income-generating investments

Sale of Australian and New Zealand wealth protection and mature businesses to Resolution Life	A\$3.3 billion
Cash	A\$1.9 billion
AT1 preference shares in AMP Life (issued on transaction completion)	A\$300 million
Income generating equity investments:	
• Economic interest in future earnings from mature business ¹	A\$600 million
• Interest in Resolution Life	A\$515 million
Expected capital release from New Zealand retail wealth protection reinsurance agreement	A\$150 million

- Transactions value equates to approximately 0.82x 30 June 2018 pro forma embedded value for sold businesses
- Wealth protection and mature economic benefits and risks with Resolution Life from 1 July 2018, subject to Australian wealth protection risk-sharing arrangements
- AT1 preference shares to yield a fully franked semi-annual cash coupon of approximately 6%, equivalent to A\$18 million per annum
- Opportunity to monetise A\$1.1 billion of equity investments over time; expected to generate strong cashflows to AMP in the interim:
 - Ongoing economic interest in mature business expected to deliver future earnings of approximately A\$50 million (after tax) per annum
- assuming annual run off at 5%
- Interest in Resolution Life, focused on acquisition and management of in-force life insurance books globally, expected to generate significant yield over time
- A new Relationship Agreement has been established with Resolution Life and AMP Capital will continue to manage wealth protection and mature assets under management
- AMP Capital will also join Resolution Life's global panel of preferred asset managers
- New Zealand retail wealth protection reinsurance expected to release additional capital to AMP prior to completion of sale, subject to regulatory approvals

Notes
1. Future cashflow from mature business discounted at 10% rate

Wealth protection and mature: prioritising customers

Delivering the right outcome for customers

Partnering with Resolution Life to continue to deliver quality customer service

- Customers will retain all terms and conditions of existing policies and benefit from Resolution Life management's expertise and track record in managing in-force life insurance portfolios
- Alignment and shared commitment of AMP and Resolution Life to service existing customers
- Resolution Life has expressed its commitment to continuing AMP's record of claims, bonus and crediting rate management
- Experienced teams supporting existing wealth protection and mature customers will largely transfer with the insurance and mature businesses, delivering continuity and stability for customers

About Resolution Life – experienced operator of in-force insurance businesses

- Resolution Life is an international insurance and reinsurance group whose management has a 15-year track record of providing quality service to in-force insurance customers
- Since 2003, various Resolution entities have committed US\$13.6 billion of equity in the acquisition, reinsurance, consolidation and management of 27 life insurance companies
- Together these companies have served the needs of 10 million policyholders while managing more than US\$300 billion of policyholder assets
- Resolution Life has operations in London, Bermuda and the United States
- Resolution Life provides a safe and reliable partner for insurers by:
 - Focusing on existing customers, rather seeking expansion by new sales
 - Delivering policyholder benefits in a secure, well capitalised environment
 - Returning capital over time to institutional investors in the form a steady dividend yield

New Zealand wealth protection: reinsurance

New Zealand reinsurance to release capital to AMP

New Zealand retail wealth protection reinsurance

- Binding agreement with Swiss Re for New Zealand retail wealth protection reinsurance expected to release up to A\$150 million in regulatory capital to AMP, subject to regulatory approvals
- Agreement expected to be effective from 31 December 2018 and will cover approximately 65% of the New Zealand retail portfolio for new claims incurred from that date. 19 existing reinsurance treaties recaptured, simplifying the existing reinsurance structure in New Zealand
- Reinsurance agreement is expected to reduce New Zealand profit margins by approximately A\$20 million on a full-year basis from 1 January 2019
- Reinsurance outcomes factored into the Resolution Life transaction

New Zealand wealth management and advice businesses: IPO

Intention to unlock further value from New Zealand IPO

New Zealand IPO¹

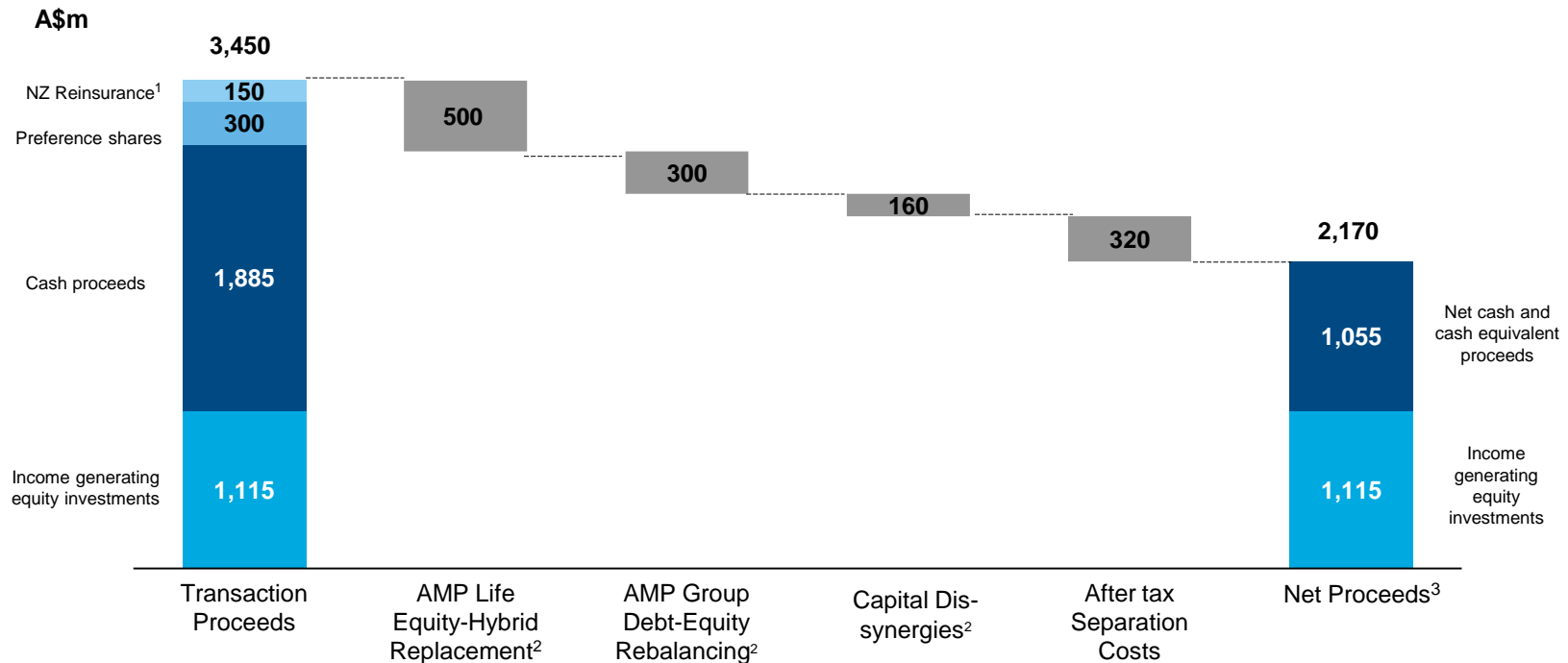
- Capital intensive wealth protection business to be divested through Resolution Life transaction
- Intention to seek divestment of New Zealand wealth management and advice businesses including distribution partnerships via an IPO in 2019, subject to market conditions and regulatory approvals
- Pro forma standalone operating earnings of approximately A\$40 million in FY 18
- IPO to unlock further capital to AMP to drive growth and returns

Notes

1. The proposed IPO has not yet commenced and no offers of securities are currently being made, nor application monies sought. If the proposed IPO proceeds, it will be made under the Financial Markets Conduct Act 2013 (NZ) and a product disclosure statement will be made available by an AMP group entity that has not yet been determined. Anyone who wants to acquire securities under the proposed IPO will need to complete the application form that will be in or will accompany the product disclosure statement.

Wealth protection and mature: transaction and reinsurance proceeds

Provides strategic flexibility for growth and/or capital management



- Total expected proceeds of A\$3.45 billion
- Net proceeds of approximately A\$1.1 billion in cash and cash equivalents, and A\$1.1 billion of income-generating equity investments
- Total corporate debt reduction of up to A\$800 million facilitated by providing additional capital
- Capitalisation of AMP Life with additional A\$500 million of equity to replace existing hybrid securities on-lent by AMP
- A\$300 million increase in capital / reduction in debt to provide robust post-transaction AMP balance sheet

- Capital dis-synergy of A\$160 million from transfer of CLPC shareholding and wealth management business out of AMP Life to AMP Limited
- Simplification and separation costs of approximately A\$320 million (post tax) relating to Resolution Life transaction
- Income-generating equity investments and preference shares expected to deliver approximately A\$110 million investment income per annum
- Intention to seek divestment of New Zealand wealth management and advice businesses via an IPO in 2019, subject to market conditions and regulatory approvals, to unlock further value to AMP

Notes

1. Expected capital release from New Zealand retail wealth protection reinsurance
2. Pro-forma amounts as at 30 June 2018
3. Total net proceeds excludes New Zealand IPO

Wealth protection and mature: other transaction considerations

Preference shares	<ul style="list-style-type: none">– Issued by AMP Life on transaction completion– Structured as an Additional Tier 1 hybrid security with similar terms to AMP’s existing Capital Notes– Three tranches of A\$100 million with 5, 7 and 9-year maturities; yielding a fully franked semi-annual cash coupon of approximately 6%– AMP has the ability to monetise all or part immediately following issuance
Wealth protection and mature	<ul style="list-style-type: none">– The transaction with Resolution Life effectively transfers the economic interest in the profits, losses and related risks of the sold businesses to Resolution Life from 1 July 2018, subject to risk sharing of Australian wealth protection claims experience above a A\$20 million threshold until transaction completion– AMP is entitled to up to A\$45 million of additional value depending on the lapse performance of the New Zealand individual risk business– Wealth protection and mature businesses will be reported as discontinued operations from 2H 18
Regulatory approvals and other conditions precedent	<ul style="list-style-type: none">– Transaction requires AMP to transfer Australian contemporary wealth management business out of AMP Life, which is expected to conclude in 2H 2019– Transaction subject to regulatory approvals in Australia, New Zealand and Bermuda including:<ul style="list-style-type: none">– Australia: Federal Treasurer (under the Financial Sector (Shareholdings) Act and Insurance Acquisitions and Takeovers Act), Foreign Investment Review Board, Australian Prudential Regulation Authority– New Zealand: Reserve Bank of New Zealand, Overseas Investment Office– Proposed transaction excludes AMP’s CLPC interest, which will be transferred out of AMP Life subject to regulatory approval in the People’s Republic of China– Transaction subject to no unremedied matters occurring before completion reasonably likely to reduce pro forma EV by more than A\$800 million, subject to various exclusions including changes in economic or market conditions affecting the industry generally, best estimate assumptions and laws

Financial impacts

AMP post separation

Expected annualised earnings ¹ impact on AMP post separation	
Australian wealth management	<ul style="list-style-type: none"> Unwinding of internal distribution arrangements and adjustments for tax and products transferring with sale expected to lead to a reduction in Australian wealth management operating earnings in the order of A\$80 – A\$90 million per annum
AMP Capital	<ul style="list-style-type: none"> No material impact expected
AMP Bank	<ul style="list-style-type: none"> No material impact expected
New Zealand	<ul style="list-style-type: none"> Post the sale of the New Zealand wealth protection and mature businesses, the residual New Zealand wealth management and advice business's operating earnings are expected to be approximately A\$40 million per annum
Group office costs	<ul style="list-style-type: none"> Residual stranded group office costs on separation are expected to be approximately A\$40 million per annum
Underlying investment income	<ul style="list-style-type: none"> Additional underlying investment income from equity investments in Resolution Life, preference shares and economic interest in the mature business expected to deliver approximately A\$110 million investment income per annum
Corporate debt	<ul style="list-style-type: none"> Interest expense on corporate debt expected to be in the order of A\$35 million per annum following the repayment of debt on separation

Notes
 1. Based on pro forma annualised FY 18 after tax financials

FY 2018 dividend

Impact on FY 18 dividend
<ul style="list-style-type: none"> AMP will exclude the 2H 18 earnings from the discontinued businesses in determining the FY 18 dividend AMP continues to target a total FY 18 dividend payout within, but towards the lower end of, its dividend guidance range of between 70-90% of underlying profit

Summary

Portfolio review completed	<ul style="list-style-type: none">– Completion of portfolio review will simplify AMP's business– Transaction will deliver net proceeds of approximately A\$1.1 billion in cash and cash equivalents, and A\$1.1 billion in income-generating equity investments and interest in Resolution Life– Strong outcome for customers, shareholders and employees; Resolution Life is the right partner to continue providing quality service to existing customers
2019 a year of transition for AMP	<ul style="list-style-type: none">– New CEO to set strategy and future direction– Separation and transition to Resolution Life expected to complete in 2H 2019– Intention to seek divestment of New Zealand wealth management and advice businesses via an IPO in 2019 subject to market conditions and regulatory approvals, unlocking further value– Streamlining of portfolio with opportunity to drive business simplification and cost efficiencies– Income-generating components of Resolution Life transaction expected to generate strong cash return to AMP with option to monetise over time
Future AMP	<ul style="list-style-type: none">– Significantly simplified business portfolio– Focused on higher-growth businesses– Leaner and simplified business well positioned to compete in a changing market– Strengthened balance sheet with strategic flexibility for growth investments and/or capital management activity

Important disclaimer

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