AMP ASX Announcement

18 August 2011

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AMP Limited (ASX/NZX: AMP)
(also for release to AMP Group Finance Services Limited (ASX: AQNHA & NZX: AQN010))

Part One:	Appendix 4D
Part Two:	**AMP delivers A$455 million underlying profit for first half of 2011** **AMP 2011 interim dividend information** **AMP Financial Summary 1H11**
Part Three:	AMP Financial Services Cashflows Q1 and Q2 2011
Part Four:	Investor Presentation
Part Five:	Investor Report
Part Six:	Directors' Report & Financial Report

AMP Media Release

18 August 2011

AMP delivers A$455 million underlying profit for first half of 2011

AMP Limited has reported an underlying profit of A$455 million for the half year to 30 June 2011, which includes a A$61 million[1] contribution from AXA for the second quarter of 2011, following the merger of the two businesses on 30 March 2011[2]. On a like for like basis, AMP's underlying profit for 1H 11 was up 3 per cent on 1H 10.

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

Net profit before AXA merger adjustments and accounting mismatches was A$450 million[3], while net profit attributable to shareholders was A$349 million[3].

The interim dividend has been set at 15 cents per share, the same level as 1H 10 and will be 30 per cent franked with the unfranked amount being declared conduit foreign income. The dividend represents a payout ratio of 81 per cent of underlying profit.

AMP remained strongly capitalised as at 30 June 2011 with A$2.2 billion capital above minimum regulatory requirements, up from A$1.4 billion as at 30 June 2010.

AMP's performance against key measures was as follows:
Underlying profit: A$455 million, including a 31 March to 30 June 2011 contribution of A$61 million from AXA, and up from A$383 million in 1H 10.

Growth measures:

- AMP Financial Services net cashflows A$457 million, down from A$584 million in 1H 10; AMP Capital Investors external net cashflows A$247 million, down from A$1.9 billion in 1H 10; AXA net outflows increased to A$964 million from A$498 million in 1H 10;
- AMP Financial Services value of risk new business up A$7 million to A$52 million; AXA value of risk new business was A$37 million.

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[1] Operating earnings (A$59m), underlying investment income (A$15m) less group costs (A$4m) for the period 31 March to 30 June 2011, and interest expense (A$9m) on A$600m AXA subordinated debt.

[2] Given the inclusion of AXA's financial results for the second quarter of 2011, like for like comparisons are not available for many of the performance measures in this announcement.

3 Refer to attached Financial Summary.

Investment performance: 69 per cent of AMP Capital's funds under management met or exceeded benchmark over the 12 months to 30 June 2011.
Underlying return on equity: 18.1 per cent reflecting the merger with AXA and a prudent approach to capital management.

AMP Chief Executive Officer Craig Dunn said the business continued to show resilience in its core markets, despite the volatile external environment and subdued consumer confidence.

"These results show our investment in growth over the last three years is starting to pay off. Our focus continues to be on building a business with an even sharper competitive edge and a stronger platform for growth, underpinned by a robust capital position that gives us the flexibility to achieve these goals. The merger with AXA further strengthens the combined group's capacity to accelerate its growth strategy and provide better outcomes for customers," Mr Dunn said.

Following the merger with AXA, AMP is the leading independent wealth management company in Australia and New Zealand and holds number one market positions in key market segments.

AMP offers a diverse range of financial advice models and brands, supported by award winning products, and backed by a strong and trusted institutional brand.

"AMP has the largest adviser and planner network across Australia and New Zealand, and we take none of these business relationships for granted. We are very focused on demonstrating value to financial planners and advisers, as well as to our four million customers," Mr Dunn said.

Integration update

AMP has appointed the senior management teams to lead the merged business and has determined how the two companies' products, services and platforms will come together.

"The merger of AXA and AMP is on track and we remain firmly focused on our overriding integration objectives, which are to maintain business momentum, sharpen our competitive edge by delivering synergies and drawing on the strengths of both companies, and to build a stronger growth platform for the combined company," Mr Dunn said.

The synergy target has increased 17 per cent to A$140 million post tax from A$120 million, due to a range of factors, including the removal of additional IT infrastructure duplication and contract renegotiations with external suppliers. This will see a one off increase in expected project integration costs of 9 per cent to A$310 million post tax, to be incurred over three years.

Advisers and financial planners

The merged business had 4,020 planners and advisers at 30 June 2011, making it the largest network of financial planners across Australia and New Zealand.

AMP Financial Planning is Money Management's Institutional Dealer Group of the Year, while licensees in the AXA Financial Advice Network were voted the 1st, 2nd and 3rd most attractive licensees to work with in CoreData's 2011 annual licensee survey.

As at 31 July 2011, the merged group had 4,048[4] planners, a fall of six advisers over the period from 31 December 2010. Ongoing strong growth in AMP planner numbers was offset by lower recruitment for AXA advisers, particularly in the first quarter of 2011, against a background of heightened uncertainty for AXA advisers ahead of the final merger outcome.

"We are very pleased with the AXA adviser retention post the merger. As of today, around 97 per cent of the value of the adviser network in AXA and Charter Financial Planning has been retained.

"With financial advice at the very core of what we do, the merged group continues to innovate and lead the industry in the advice space," Mr Dunn said.

The AMP Horizons Academy, a front runner in planner education and recruitment, is now being expanded to include AXA financial planning groups. The Horizons Academy is a major source of new advisers across the AMP Group, as is AXA's Discovery Program, which successfully transitions salaried advisers into self-employed advisers.

AMP has recently launched one of the industry's first scaled advice programs – My Money Choices, with more than 500 planners now offering simple, cost effective advice to address the specific needs of customers.

Business unit performance

AMP Financial Services (AFS)

AFS' operating earnings were A$329 million in 1H 11, up 2 per cent from A$323 million in 1H 10.

This reflects strong results from AMP Bank, Contemporary Wealth Protection and higher net cash flows into AMP Flexible Super, which were partially offset by a decline in earnings from the New Zealand business.

Controllable costs for this business unit rose 5 per cent to A$274 million in 1H 11, in line with market guidance. The cost to income ratio of 33.9 per cent for 1H 11 (33.6 per cent for 1H 10), reflects ongoing cost discipline as the business has continued to invest in long term growth initiatives.

Net cashflows for 1H 11 were A$457 million, down from A$584 million in 1H 10, reflecting continuing subdued investor sentiment and increased net outflows in retail investment and external platforms.

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[4] Includes Hillross' acquisition of IRIS Financial Group announced 13 July 2011.

These outflows were partially offset by strong net cashflows into retail superannuation and pensions, reflecting the ongoing success of AMP Flexible Super. Net cashflows for 1H 11 for AMP retail superannuation and pensions products were A$482 million, up 41 per cent on 1H 10.

In ***Contemporary Wealth Management*** which includes the financial planning, superannuation, pensions and banking businesses, operating earnings increased 5 per cent to A$157 million compared with 1H 10.

Higher Bank revenues and growth in average AUM, more than offset the effects of increased controllable costs and some tightening in superannuation operating margins. The cost to income ratio for this business unit increased slightly to 42.1 per cent from 41.7 per cent in 1H 10.

The average AUM for the half was A$54.8 billion compared with A$51.5 billion for the same period in 2010. This reflected net cashflows of A$721 million in 1H 11 and growth from higher average investment markets.

AMP Flexible Super, launched in May 2010 had AUM of A$2.8 billion at 30 June 2011, reflecting the growing success of this flexible all-in-one superannuation and retirement product. This product continues to build momentum, attracting new customers to AMP, of which around half of those in the superannuation product are under the age of 35 and with a large proportion choosing AMP Flexible Super for their SG contribution.

AMP Bank contributed operating earnings of A$31 million for 1H 11, up 48 per cent from A$21 million in 1H 10. This result was driven by strong growth in both the home loan and deposit books, which were up 12 and 30 per cent respectively on balances as at 30 June 2010. Net interest margins were also higher, and continued to benefit from a growth in funding from AMP superannuation cash deposits, up 23 per cent on 30 June 2010.

For 1H 11, AMP Bank delivered a return on equity of 18.0 per cent and a cost to income ratio of 32.0 per cent. The return on business unit equity for Contemporary Wealth Management overall, was down slightly to 39.9 per cent compared with 40.8 per cent for 1H 10.

AMP Bank remains an important part of AMP's overall consumer and financial planner offer and has experienced a significant increase in demand for its banking products and services, as consumers continue to look for alternatives to the major banks.

The growth in AMP Bank will continue to be managed in line with a prudent approach to the Bank's funding capacity.

In ***Contemporary Wealth Protection*** operating earnings increased 15 per cent to A$84 million (A$73 million in 1H 10), reflecting stronger sales and improved claims experience.

The sales momentum achieved in 2010 continued with a 9 per cent lift in individual annual premium income compared with 1H 10. Sales through independent financial planners increased 72 per cent in 1H 11, and accounted for 13 per cent of individual risk annual premium income.

Controllable costs rose to A$49 million, up 7 per cent from A$46 million in 1H 10, reflecting ongoing investment in distribution growth initiatives and the cost of higher new business volumes. Strong revenue growth saw the cost to income ratio fall two percentage points to 24.8 per cent compared with 26.8 per cent in 1H 10.

The return on equity was up 1.2 percentage points to 25.9 per cent for 1H 11.

The ***Mature*** business contributed operating earnings of A$67 million, down 1.5 per cent on 1H 10, reflecting the run-off nature of this business.

The Mature business's AUM of A$17.1 billion as at 30 June 2011, was down 3 per cent on 30 June 2010. This level of AUM run-off was lower than expected as customers delay retirement and make fewer withdrawals from capital guaranteed products.

The return on business unit equity increased to 37.2 per cent for 1H 11 compared with 35.5 per cent for 1H 10.

The ***New Zealand*** business delivered operating earnings of A$21 million, down 34 per cent from A$32 million in 1H 10, as a result of a challenging domestic market, natural disasters and a stronger Australian dollar. 1H 10 also benefited from a one-off tax benefit of $A6 million.

Individual annual premium income grew by 8 per cent over 1H 10 to NZ$160 million, the lapse rate improved 0.8 percentage points to 9.3 per cent, and net cash flows were up 5 per cent to NZ$113 million.

Controllable costs of A$26 million were up $2 million on 1H 10, as a result of a greater investment in marketing, employment and IT costs. Additional costs were also incurred as the business supported advisers in the Christchurch region affected by the February earthquake.

Return on business unit equity was 17.3 per cent compared with 25.1 per cent for 1H 10.

AXA Australia and New Zealand
AXA contributed operating earnings of A$59 million for the period 31 March to 30 June 2011, following the merger of this business with AMP.

AXA continued to experience good sales results for the AXA Elevate risk product, which was launched in 2010, with individual annual premium income increasing A$38 million to A$556 million, up 7 per cent on 1H 10.

North, the award winning and market-leading wrap platform developed by AXA, performed well.

Since the upgrade of North to full wrap capability in early April, net cashflows for 2Q 11 increased 24 per cent to A$143 million, compared to the same quarter for 2010. Over 35 per cent of the AUM was placed by independent financial advisers and total AUM on the North platform was A$1.8 billion at 30 June 2011, up from A$1.4 billion at 30 June 2010.

Closing AUM for AXA of A$44.4 billion at 30 June 2011 was down 3.5 per cent compared to 30 June 2010.

The return on business unit equity was 23.0 per cent for 1H 11, while the cost to income ratio was 49.3 per cent.

AMP Capital Investors
AMP Capital Investors' operating earnings were A$41 million for 1H 11, down from A$44 million in 1H 10.

Fee income increased 2 per cent to A$198 million in 1H 11, and was offset by higher controllable costs up 6 per cent to A$144 million.

The increased costs related primarily to higher employment costs, with the completion of the roll-out of a new operating platform and the costs incurred as the business expanded its international presence. This included the continued growth of the Japanese distribution team and an expanded UK and European infrastructure team.

Total closing AUM as at 30 June 2011 was A$98 billion, down A$300 million from 31 December 2010, due to negative internal net cashflows, which offset improved investment markets.

External net cashflows were positive at A$247 million in 1H 11, but fell from A$1,855 million in 1H 10, mainly as a result of reduced flows from Japan as investor confidence fell following the natural disaster in March. AMP Capital attracted over A$500 million in net cash flows from Asia in 1H 11 and manages A$8.5 billion in AUM on behalf of Asian clients.

Sixty nine per cent of AUM met or exceeded benchmarks against a business target of 75 per cent. The competitive rankings of AMP Capital's main funds remain strong over the five year period.

Return on business unit equity was 36.5 per cent for 1H 11 compared with 50.4 per cent for 1H 10.

Capital Management
The interim dividend of 15 cents per share represents a payout ratio of 81 per cent of underlying profit, which is within AMP's target dividend payout ratio of between 75 - 85 per cent.

The dividend will be 30 per cent franked compared to 60 per cent in FY10. AMP said prior to the merger with AXA that it expected the franking capacity for the merged group to be less than AMP's recent franking levels in the near term, given AXA APH's franking position and substantial tax losses.

Shareholders will be invited to participate in a dividend reinvestment plan that will be offered at a 1.5 per cent discount with new shares being issued. The dividend reinvestment plan will not be underwritten.

As at 30 June 2011, AMP held A$2.2 billion capital in excess of minimum regulatory requirements, up from A$1.4 billion as at 30 June 2010.

This increase reflects the increased size of the company following AMP’s merger with AXA, as well as AMP’s ongoing prudent and dynamic approach to capital management.

AMP continues to have a bias towards holding more capital than less, particularly given the current volatile economic environment and until the outcome of current capital regulatory reviews is known.

Subsequent to 30 June AMP has continued to implement additional capital protection strategies to maintain balance sheet strength.

As at 30 June 2011 group gearing remained low at 11 per cent on an S&P basis, while underlying interest cover remained strong at 12 times.

Outlook

Mr Dunn said that the European debt crisis and uncertainty over the US recovery are likely to remain a source of investment market volatility for some time to come. Closer to home, Australian households remain cautious and continue to prefer to increase their savings through bank deposits, over increasing discretionary contributions into superannuation.

“Notwithstanding the current difficult environment, Australia remains one of the most attractive superannuation and pension markets in the world. The Government’s proposal to increase employees’ superannuation contribution to 12 per cent will contribute towards ongoing growth for the sector,” Mr Dunn said.

AMP continues to support proposed regulatory reform that will lead to better consumer outcomes and increase consumer confidence in the financial services profession.

“We welcome the healthy debate about the future of the wealth management industry and how we can best ensure Australians long term financial interests are well-served in a cost effective way. While we still have some way to go before we see the final legislation, we have been encouraged by the consultative approach taken by the Government.

“Wherever possible, the AMP Group has already moved ahead of the regulatory curve, and is well-positioned for further change.

“Following the merger with AXA, we now have leading superannuation, investment, banking and insurance products to meet almost every need and a diverse range of distribution models, providing consumers with significant choice in how they can access AMP advice, services and quality products – all backed by a powerful and trusted brand.

“Our focus continues to be on building a more competitive, stronger growth business, while maintaining a strong capital position,” 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 financial summary, AMP Financial Services cashflows and AMP Financial Services and AMPCI AUM for the half ending 30 June 2011, and AXA Australia and New Zealand cashflows and AUM for the same period.

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AMP Financial Summary 1H 11

A$m	1H 11
Profit and loss	
Australian contemporary wealth management	157
Australian contemporary wealth protection	84
Australian mature	67
New Zealand	21
AMP Financial Services	329
AXA[1]	59
AMP Capital Investors	41
BU operating earnings	429
Group Office costs [2]	(26)
Total operating earnings	403
Underlying investment income [2]	83
Interest expense on corporate debt [2]	(39)
AMP Limited tax loss recognition	8
Underlying profit	455
Market adjustment - investment income [2]	(3)
Market adjustment - annuity fair value	16
Market adjustment - risk products [2]	(1)
Loan hedge revaluations	-
Other items [3]	(17)
Profit after income tax before AXA merger adjustments and accounting mismatches	450
M&A transaction costs [4]	(34)
AXA integration costs	(36)
Amortisation of AXA acquired intangible assets	(22)
Accounting mismatches	(9)
Net profit attributable to shareholders of AMP Limited	349

1. AXA operating earnings relate to the AXA Australian and New Zealand businesses. 1H 11 operating earnings are for the period 31 March to 30 June 2011. Refer to pages 26 to 28 for more detail.
2. All line items impacted by the merger with AXA Australian and New Zealand businesses.
3. Other items principally comprise one-off and non-recurring costs.
4. M&A transaction costs principally relate to the merger with AXA Asia Pacific Holdings Limited.