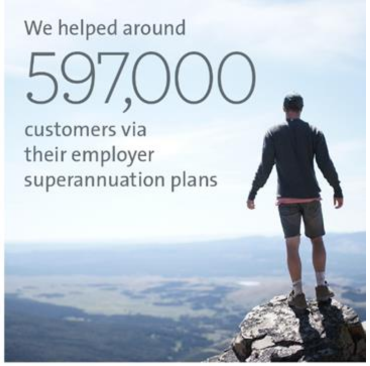
Capital management

Jason Bounassif
Group Treasurer

Introduction

Jason Bounassif - Group Treasurer at AMP

- Has worked at AMP for 14 years
- Is responsible for managing liquidity, funding and capital for AMP Group and AMP Bank
- Manages a team of approximately 15 Treasury staff



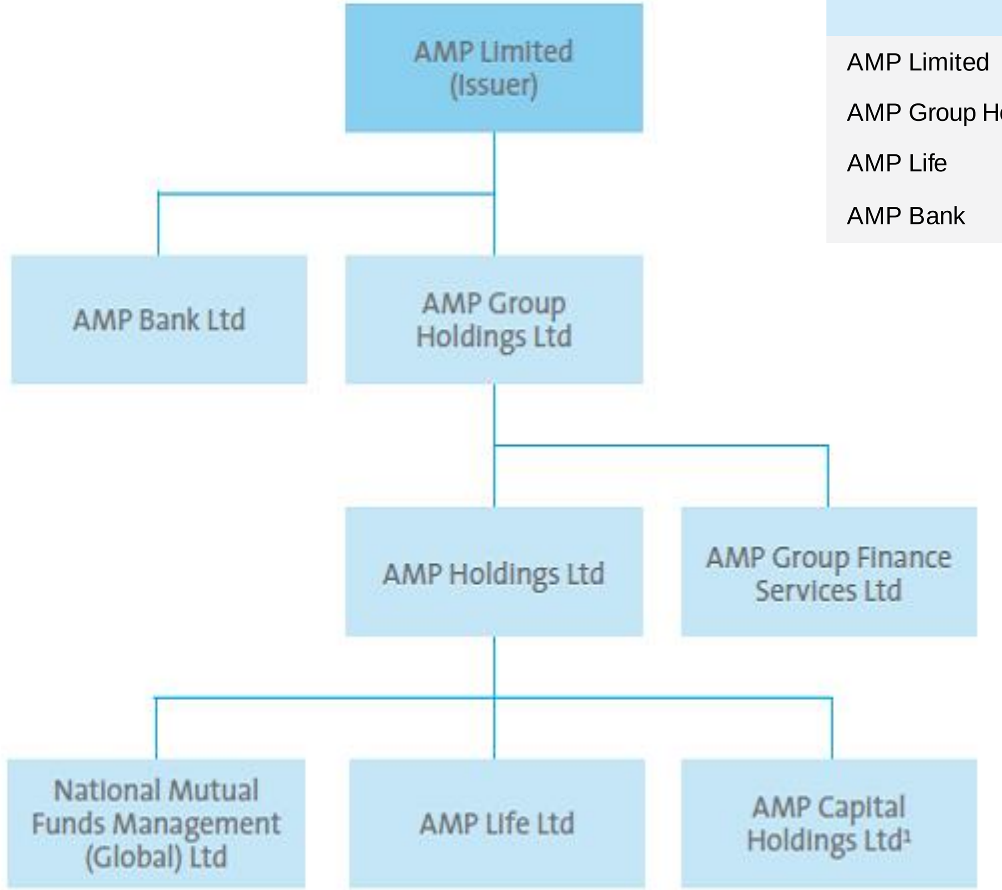
1H 18 Profit Summary

A$m	1H 18	1H 17	%
Australian wealth management	204	193	5.7
AMP Capital[1]	94	92	2.2
AMP Bank	78	65	20.0
Australian wealth protection	1	52	(98.1)
New Zealand financial services	56	65	(13.8)
Australian mature	70	75	(6.7)
BU operating earnings	**503**	**542**	**(7.2)**
Group Office costs	(29)	(33)	12.1
Total operating earnings	**474**	**509**	**(6.9)**
Underlying investment income[1]	52	50	4.0
Interest expense on corporate debt	(31)	(26)	(19.2)
Underlying profit	**495**	**533**	**(7.1)**
Advice remediation and related costs	(312)	-	n/a
Royal Commission	(13)	-	n/a
Portfolio review and related costs	(19)	-	n/a
Other items	(41)	(9)	n/a
Amortisation of acquired intangible assets[1]	(40)	(43)	7.0
Profit before market adjustments and accounting mismatches	**70**	**481**	**(85.4)**
Market adjustments[1]	13	(30)	n/a
Accounting mismatches	32	(6)	n/a
Profit attributable to shareholders of AMP Limited	**115**	**445**	**(74.2)**

Notes

1. AMP Capital is 15% owned by MUFG: Trust Bank (formerly MUTB). AMP Capital results, and any other impacted line items, are shown net of minority interests.

Corporate structure



	Moody's	S&P
AMP Limited	N/A	A (Negative)
AMP Group Holdings	A2 (Negative)	A (Negative)
AMP Life	Aa3 (Negative)	A+ (Negative)
AMP Bank	A2 (Negative)	A (Negative)

1 AMP Capital Holdings Limited is owned 85% by AMP Holdings Ltd and 15% by Mitsubishi UFJ Trust and Banking Corporation as part of the strategic business and capital alliance between AMP Capital and Mitsubishi UFJ Trust and Banking Corporation.

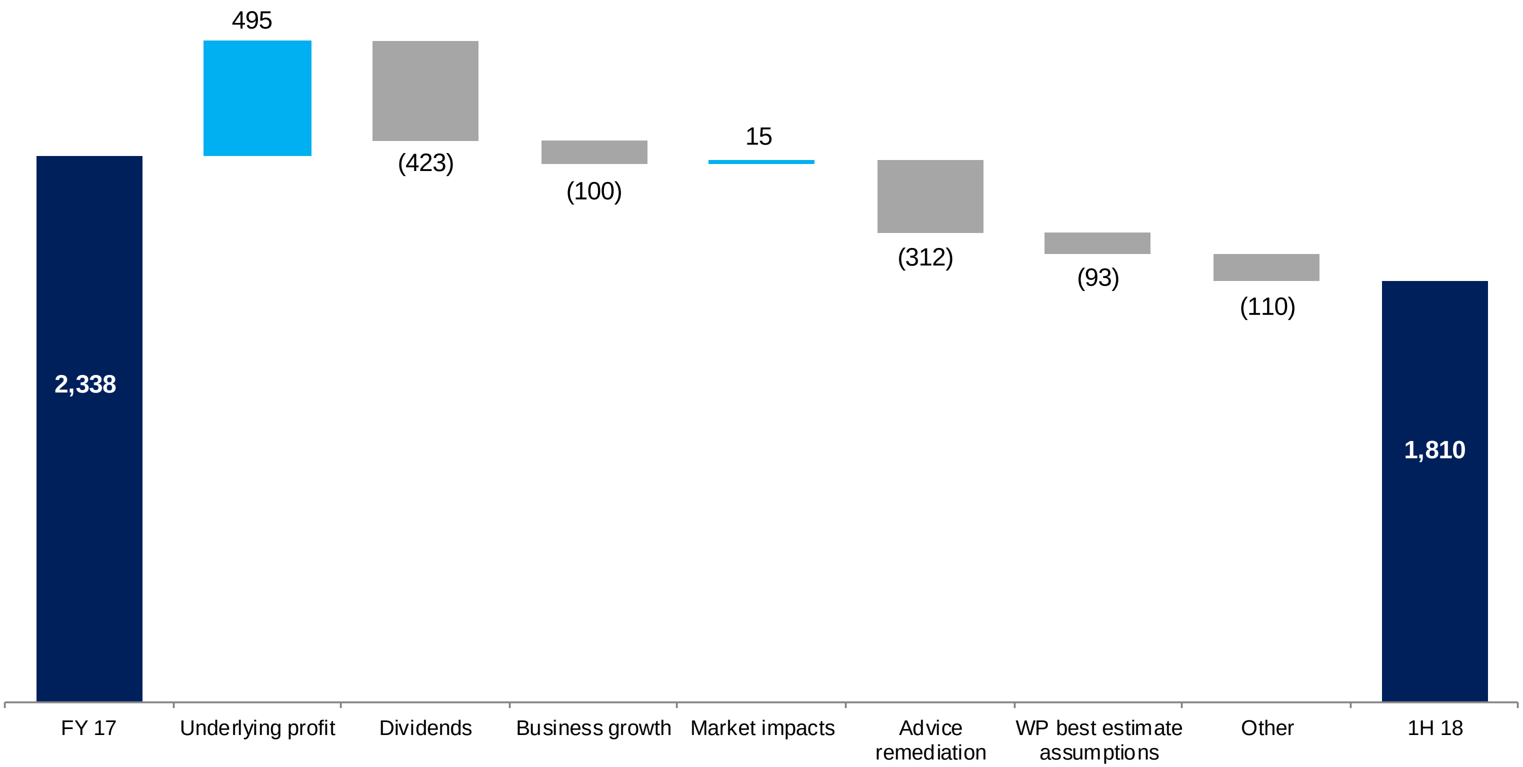
AMP Group balance sheet and regulatory capital

A$m	1H 18	FY 17	Change
Shareholder equity	6,956	7,276	(320)
Total corporate subordinated debt	951	951	-
Total corporate senior debt	1,044	730	314
Total capital resources	**8,951**	**8,957**	**(6)**
Level 3 eligible capital	3,238	3,711	(473)
Level 3 eligible capital above MRR	**1,810**	**2,338**	**(528)**

Debt metrics and liquidity		
Corporate gearing	13%	9%
Interest cover (underlying)	18.3 times	20.6 times
Group cash (A$m)	965	455
Undrawn loan facilities (A$m)	750	400

1H18 capital position

Level 3 eligible capital above MRR (A$m)



- Level 3 eligible capital of A$1.8b above MRR
- Reduction to A$1.8b due primarily to advice remediation provision, changes to best estimate assumptions and one-off costs
- Business growth capital usage largely reflects capitalised costs, AMP Bank lending growth and purchase of adviser registers
- 'Other' includes items outside business unit results and netting of deferred tax balances

Group capital

30 June 2018

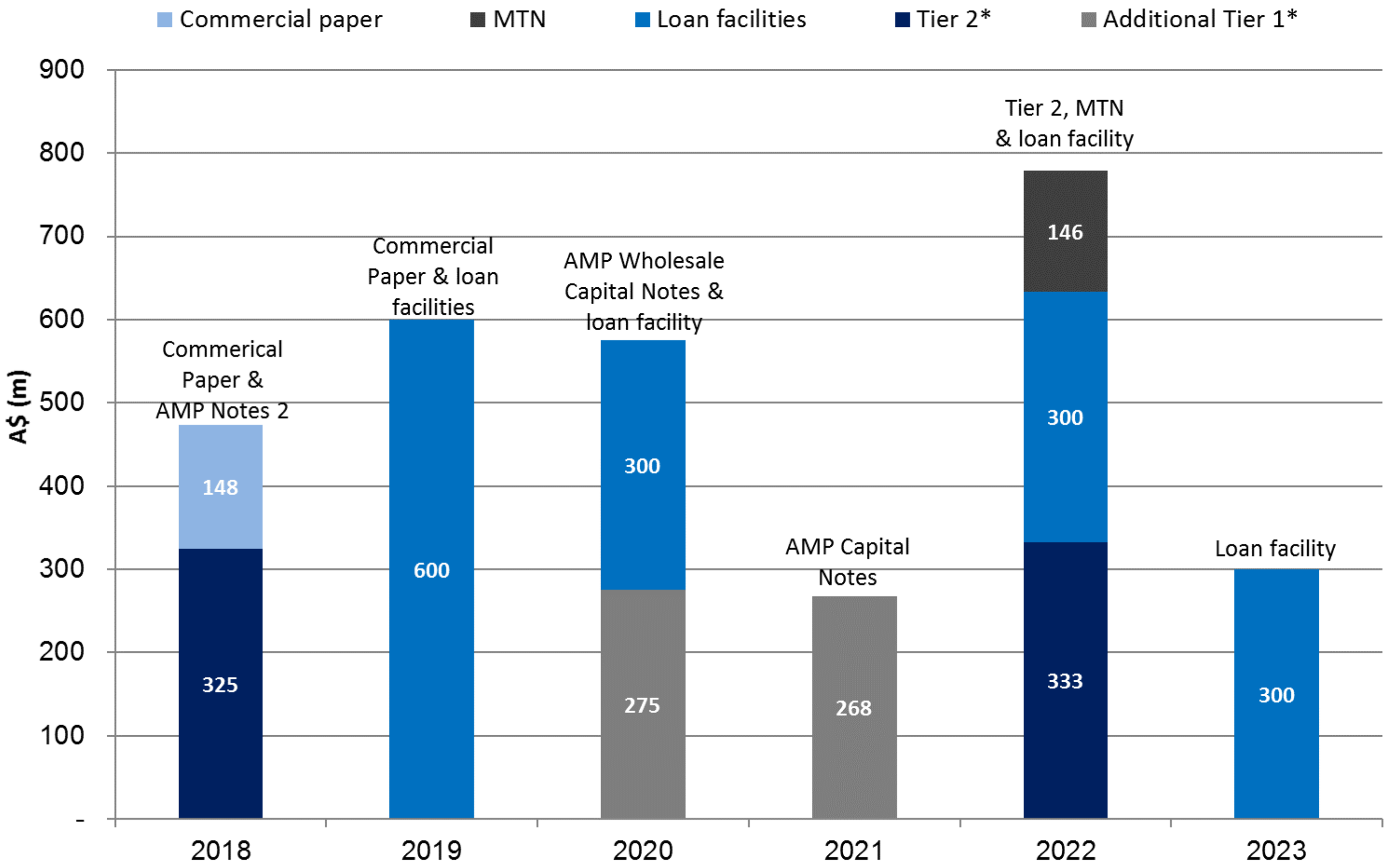
A$m	Total AMP group	AMP Life	AMP Bank	AMP Capital	Group Office	Other
Total capital resources	8,951	2,546	931	547	2,484	2,443
Intangibles	(3,516)	(517)	(98)	(316)	(661)	(1,924)
Tangible capital resources	5,435	2,029	833	231	1,823	519
Non-allowable hybrid instruments	-	-	-	-	-	-
Senior debt6	(1,044)	-	-	-	(1,044)	-
Subordinated debt not eligible as regulatory capital in Group	(868)	-	-	-	(868)	-
Other deductions	(285)	(234)	(51)	-	-	-
Level 3 Eligible Capital	**3,238**	**1,795**	**782**	**231**	**(89)**	**519**
Shareholder minimum regulatory capital requirements (MRR)	1,428	722	421	100	73	112
Level 3 Eligible Capital above MRR	**1,810**	**1,073**	**361**	**131**	**(162)**	**407**

Capital – Preferred markets

The Group operates in the retail market and Institutional market depending on the type capital it is looking to raise

Capital Type	
Common Equity Tier 1	– AMP has been listed on the ASX since demutualisation in 1998 – AMP has paid dividends semi-annually ever since listing – Operates a dividend reinvestment plan – Has paid capital returns – Conducted share buybacks
Additional Tier 1 (retail)	– AT1 notes are typically issued in the retail, ASX listed market due to franked distributions – Retail markets require a prospectus. This leads to increased disclosure, directors liability, lead time and distribution costs – Limited institutional investor participation both domestically and offshore due to the franking credits.
Additional Tier 1 (wholesale)	– We have issued non-listed AT1 notes to wholesale investors – Limited appetite due to franked distributions and lack of precedence – Quick turn around time due to use of wholesale documentation and not a prospectus – Minimise distribution costs – Limited institutional investor participation both domestically and offshore due to the franking credits.
Tier 2	– In recent years, AMP and the broader market prefer to issue Tier 2 instruments in wholesale strong demand for the product, lower distribution costs, simpler disclosure and time to execute – We have issued in both the retail and institutional markets and prefer the institutional market – Interest payments on Tier 2 capital are not franked and therefore appeals to domestic and offshore institutional investors.
RMBS	– Instrument can be used as funding only or capital relief – AMP typically issues for capital relief, selling the whole structure – Increased interest from offshore investors in Australian RMBS recently especially from Japan – RMBS allows for match funding with underlying loan, whilst improving the Bank's capital position via a reduction in risk weighted assets.

Group debt maturity profile as at 30 June 2018



Notes:
[1] Excludes AMP Bank debt
* Based on the first call date

AMP Bank capital structure

AMP Bank	1H 18 (A$M)	Regulatory capital ratios
Residential mortgage book	19,680	
Risk weighted assets	7,682	
Common Equity Tier 1	791.3	10.3%
Additional Tier 1 / Total Tier 1	138.3	12.1%
Tier 2 / Total capital ratio	276.5	15.7%

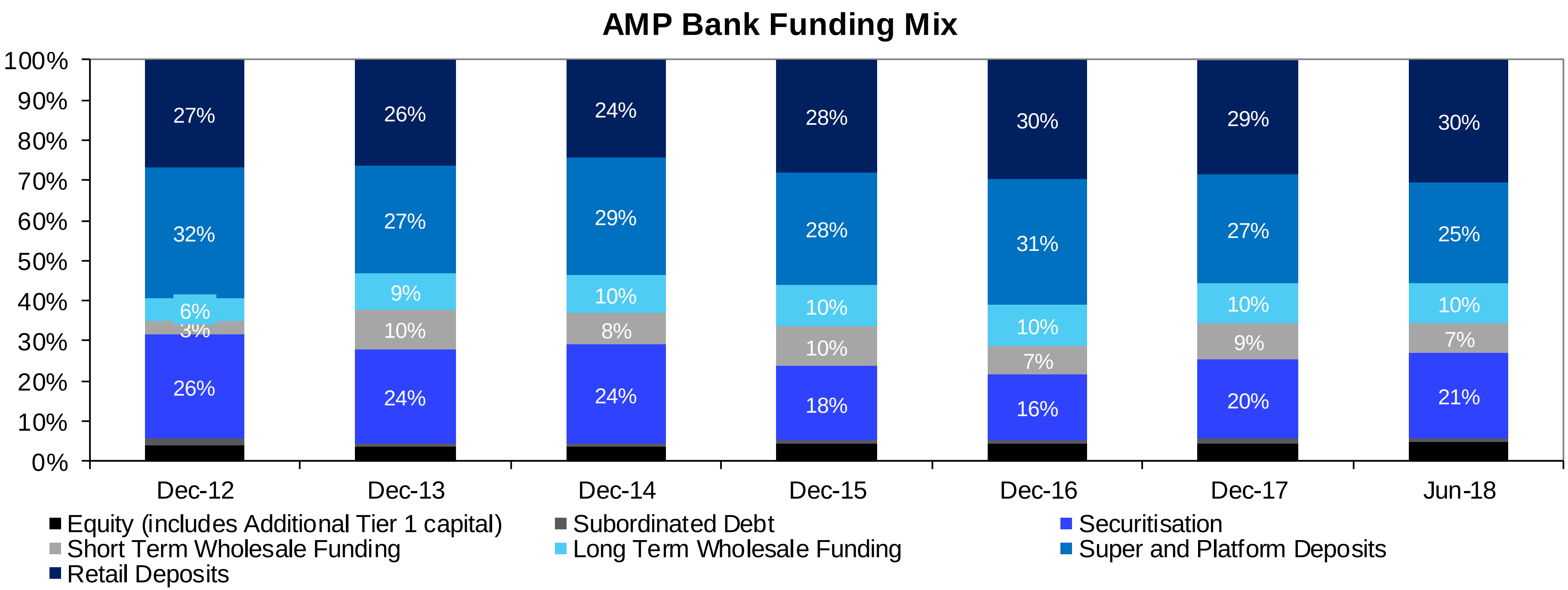
- Simple, branchless banking business focussed on residential mortgages distributed through brokers, AMP advisers and a small direct sales force.
- Strong regulatory capital position, positioning the Bank for future growth in 2019.
- Maximise the use of AT1 and Tier 2 capital instruments to ensure we maintain an efficient capital structure.
- Use of capital relief RMBS (usually $1.0-2.0bn annually) to reduce risk weighted assets and improve the Bank's capital ratios.

AMP Bank funding mix

– AMP Bank aims to diversify its funding sources across multiple funding products and markets to reduce the risk of over reliance on any one funding source.

– Deposits are a key source of stable funding for the bank. The balance sheet was 55% funded by deposits as at 30 June 2018.

– Securitisation is approximately 20% of total funding with the balance in wholesale funding and capital.



AMP Bank – Financial Performance

Strong growth; ongoing investment in capability and technology

Key performance measures	1H 18	1H 17
Operating profit (A$m)	78	65
Controllable costs (A$m)	(45)	(38)
Cost to income ratio	28.7%	29.0%
Net interest margin	1.72%	1.67%
Residential mortgage book (A$m)	19,680	18,194
Deposits (A$m)	12,707	12,435
Return on capital	16.7%	16.3%

– 20% increase in operating profit in 1H 18 driven by solid mortgage book growth and improved deposit margins

– Loan growth moderated in 1H 18 compared to 1H 17, largely due to macroprudential regulatory impacts; trend expected to continue in 2H 18

– Increase in controllable costs reflects ongoing investment in technology and operating capability to support mortgage growth and customer service improvements

– Net interest margin expected to trend down due to competitive lending environment and increased funding costs

– Maintained conservative credit policy with asset quality remaining strong; +90 day arrears well below industry average

– Bank capital position in line with changing regulatory requirements

– Securitisation undertaken in June 2018

Questions