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ASX ANNOUNCEMENT

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SUBJECT : **Part 1: Update on 5 point reform agenda**
Part 2: Presentation

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Update on five point reform agenda

AMP has today announced the first set of initiatives resulting from its review of activities and costs, in line with the company's five point reform agenda.

The five point reform agenda involves:

- Addressing low return channels and product lines;
- Focusing short term growth ambitions on core businesses;
- Increasing quality and transparency of disclosure;
- Tackling sacred cows and embedded behaviours; and
- Role modelling strong leadership.

Mr Mohl said the strategic review of AMP was continuing, but that some early decisions had been reached.

Strategic decisions relate to AMP Bank and the Corporate office, which will both be significantly restructured. In addition, a number of structural changes have been made in Australian Financial Services (AFS) to improve efficiency and competitiveness.

The review is ongoing, particularly in the UK, and a number of issues are yet to be determined. Further announcements on strategy and the financial implications of proposed strategic changes will be made when available.

Chief Executive Officer Andrew Mohl said the review was undertaken because of increasingly difficult and competitive market conditions.

"Tough times call for tough measures. The business needs to change – to become more efficient, more productive, more competitive and more cost effective," he said.

"Our focus is simple: doing the basics really well. When we've done that, we will have the platform to pursue a more aggressive growth strategy.

"All these changes are aimed at turning around AMP and improving returns to shareholders."

Changes to date include:

1. Australian Financial Services (AFS)

AFS has made a number of changes across the business to become even more operationally efficient and competitive, further enhancing its financial strength.

"Under the direction of new Managing Director Craig Dunn, AFS has taken a completely fresh look at its operations and is positioning itself for the next stage of growth," Mr Mohl said.

Changes being made include the integration of AMP Direct into other parts of AFS, as the Direct business is not large enough to be profitable as a stand-alone operation. In addition, there are aggressive cost saves across support functions as well as lower spending on IT.

The changes are expected to reduce the AFS cost base by 10 per cent, or A$60 million, in 2003.

As a result of expense savings, the value of new business is expected to rise slightly in 2002 with strong growth in 2003.

The changes in AFS are expected to result in a reduction of approximately 550 roles, which includes around 90 contract positions.

Redundancy costs are expected to be around A$30 million. Details of other restructuring costs and the financial impacts of these decisions will be made available when finalised.

Mr Mohl said that initiatives undertaken in AFS this year had released over A$1 billion in capital. However some of this capital had been retained in the business, reflecting current market conditions.

2. Banking

The review of AMP Banking considered a number of options, including outright sale. It has been determined that the best approach is for the Bank to be significantly restructured to ensure it operates only in profitable areas where it can leverage its strong brand name.

Mr Mohl said AMP remained committed to providing Australian retail deposits and mortgages, where it has achieved strong growth in recent years. In the Australian retail financial services market, these core banking products account for more than 50 per cent of revenues and more than 60 per cent of profits.

"The Bank currently operates in a number of different geographies and product areas - and we have realised that we cannot afford to be all things to all people," he said.

"Our review has shown that if we focus on our strengths – primarily distribution and packaging – we can more effectively compete and grow a profitable, high-return banking operation.

"This is a smart solution, enabling AMP to play to its strengths and reduce the balance sheet risk."

As a result, AMP will:

- Continue to provide retail deposits and mortgage products to Australian customers – but use securitisation programmes to minimise capital invested in the business, and potentially outsource set-up and servicing functions to external providers;
- Exit manufacturing of banking products in New Zealand and the United Kingdom;
- Exit manufacturing of credit card products in Australia and New Zealand;
- Exit the property finance business in Australia and New Zealand; and
- Offer products on a targeted basis in alliances with external manufacturers in the UK and New Zealand.

These changes are expected to enable AMP to reduce the amount of capital supporting the Bank by around A$500 million by the end of 2003, while allowing it to grow its banking volumes at a faster rate than previously.

AMP aims to have its new banking structure in place by December 2003. Banking will then form part of AFS as one of the product streams being offered to customers.

By the end of 2003, less than A$100 million in capital will be required. By 2005, return on capital is expected to be well above the cost of capital.

Employee numbers in banking will depend on the sale process and potential outsourcing of various functions. If the outsourcing proceeds, it is expected AMP Banking will have less than 100 employees by the end of 2003 (compared with about 600 currently).

AMP will undertake a structured sale process over the next few months for the sale of the property finance, as well as the UK and New Zealand mortgage businesses. AMP has already entered exclusive discussions with American Express over the credit card portfolio in Australia and New Zealand.

The UK and New Zealand savings deposits will either be wound back or transferred to other banks.

AMP-branded credit cards will still be distributed in Australia. Mortgages and deposits will be offered in New Zealand and the UK through distribution agreements.

3. Corporate office

The Corporate office has also been significantly cut back and its role redefined.

"Our review found that Corporate office was not focused on the essentials. It will now be refocused on strategy and governance and work more closely in partnership with individual business lines," Mr Mohl said.

"This new 'partnership' approach will facilitate cost reductions and deliver better business results."

A number of changes relate to the former AMP International (AMPI) operations, reflecting the renewed focus on core businesses. Changes include the closure of the AMPI corporate centre; the closure of AMP New Ventures; and a winding back of AMP Asia including the closure of the Singapore office, a reduction in Sydney-based development activities and the scaling back of the Beijing office. Other areas of AMPI remain under review.

As previously announced, the Global IT function has been closed.

The changed focus of the Corporate office, as well as the scaling back of AMPI, means a number of structural changes can be made. The number of corporate roles in Australia and the UK has been reduced by about 160 to a total of 215, or about 40 per cent. About 40 of these 160 roles will be transferred to Business Units.

Cost savings of A$40 million are expected in 2003 with run-rate savings of A$50 million by the end of 2003.

Redundancy costs are expected to be around A$20 million. Details of other restructuring costs and the financial impacts of these decisions will be made available when finalised.

4. UK Contemporary Financial & Life Services

These UK businesses are still undertaking their review with more details expected to be available in early December.

However some changes have already been made including the disbanding of the European development team and the outsourcing of a number of IT functions. In addition, the AMP UK brand campaign has been scaled back.

Mr Mohl said that AMP was continuing to determine the impact of the change in strategic direction on previously announced cost reduction programmes.

"We remain on track with the cost saves already announced. However, we believe the changes we are making to the UK businesses will enable us to achieve greater cost savings than those previously disclosed," he said.

5. Overall changes

Mr Mohl said that AMP's new senior management team was moving quickly and decisively to implement changes, all aimed at creating a more successful organisation.

"Many of the decisions we have had to make are difficult because they affect people. We are committed to managing the impacts of these decisions on our employees as well as we possibly can," he said.

"In a more benign market environment, we would have managed this transformation differently – for example, through natural attrition.

"Unfortunately, we do not have the luxury of time to do it this way given AMP's recent performance and the current tough market conditions.

"We have a pretty tough road in front of us to realise the potential of this company. But I am confident that we have the skills, expertise and capability inside AMP to enable us to deliver on our reform agenda.

"Once we get the basics right, we'll be in a much stronger position to grow in the future."

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