

AMP Limited

22 November 2023

Disclaimer

This bond or financial product has not been reviewed or recommended by FIIG research nor should this document be considered as credit research. This Factsheet is only a summary document, designed to assist Investors identify the key elements of the company bond or financial product referred to in this document and should be read in conjunction with the other offering documentation available in relation to the financial products. This Factsheet is not complete information concerning any financial product and should not be relied on as such.

Issuer Outline

AMP Limited (AMP, Group) is an Australian-based retail wealth management and banking business. It is listed on the Australian Stock Exchange with a market capitalisation of AUD2.36bn as at 21 November 2023. The Group provides various services to its customers via three business segments:

- **AMP Bank** (residential mortgages, deposits and other banking services);
- **Australian Wealth Management**, including Platforms, Master Trust, and Advice (superannuation, retirement income, and managed investments); and
- **New Zealand Wealth Management** (financial advice, wealth management, and general insurance).

In recent years, AMP has reduced the scope of its operations including the sale of its life insurance operations to Resolution Life in 2020, and ongoing sale of its private markets' operations (AMP Capital). In mid-2023, AMP announced it will dissolve its wealth management business by the end of 2023 as it continues to simplify its operations. The Group will however continue to operate the segments within the wealth management business (Platforms, Master Trust, and Advice), but not under one umbrella.

Sector: Financials
Sub-sector: Wealth Management & Banking
Country: Australia
Ownership: Public

Key Financials (AUDm)

LTM (30 Jun)	2023
Net interest income	406
AUM based revenue	758
EBIT	248
NPAT (Underlying)	184
NPAT (Statutory)	179
AUM	134,500
Loans under management (AMP Bank)	24,537
Gross nonperforming loans (AMP Bank, %)	0.55
CET1 Ratio (AMP Bank, %)	10.4
Interest cover ratio (actual)	4.2x

Source: Company

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call ¹	Maturity Date
XS2712618615 ²	AUD 275m	Senior Unsecured	3M BBSW + 3.15%	Quarterly	N/A	9 Nov 2026
AU3FN0072161 ³	AUD 200m	Sub. Unsec. T2	3M BBSW + 4.65%	Quarterly	7 Oct 2027	7 Oct 2032

¹Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.

²Issued by AMP Limited. ³Issued by AMP Bank Ltd.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

AMP Limited

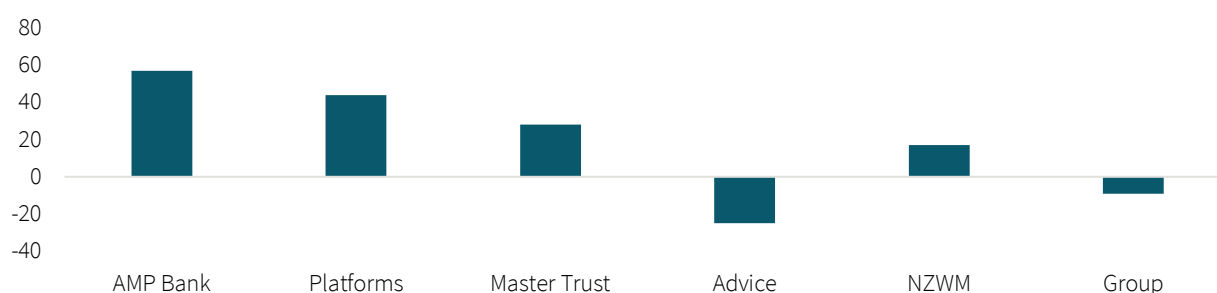
Tier 2 Structure

Interest Deferral/Cancellation	Interest will be deferred only in the highly unlikely circumstances that the payment would result in the insurer becoming insolvent. Any missed interest payment will accumulate.
Non-Viability Trigger	If APRA determines that the issuer requires capital support to prevent it becoming non-viable (a 'non-viability event'), it may be required to write-off some or all the face value of the notes.

Strengths

- Banking operations are strongly capitalised:** Following the recent restructuring of AMP Group (including the ongoing sale of AMP Capital), AMP has seen a significant increase in capital holdings. The bank is strongly capitalised, with a Common Equity Tier 1 ratio of 10.4% as at 30 June 2023, comfortably above regulatory minimums and in line with regional bank peer averages. The high level of capitalisation provides a healthy buffer to absorb an unexpected increase in losses. Capitalisation also benefits from AMP's strong earnings generation capacity; the bank's return on equity is generally higher compared to regional and smaller peers, which is in part a function of its low-cost distribution model (generally reporting a cost-to-income ratio in the mid-30s), although recent investments in growth (including digitisation) and margin compression has seen this ratio increase to around 50% (43.9% in 1H23). This is however still lower than peers. We see this reducing as digital solutions roll out across bank products.
- Simpler operating model:** The exit from business segments which were either capital intensive, required significant scale, or volatile, has arguably made AMP a more viable long-term business. Its remaining operations, including AMP Bank and the standalone wealth management businesses (Platform, Master Trust, Advice, and New Zealand) will become an even more integral part of the Group's operations. In our view, the bank will be the predominant contributor, considering as at 30 June 2023, it contributed approximately 51% of group earnings and continues to perform solidly in terms of capital position and margins. The wealth management operations, despite earnings declining over a number of years (particularly in Advice, see Figure 1), remain large market participants; it sits in the top three for market share in terms of superannuation, retirement income, and retail managed funds in Australia, and corporate superannuation in New Zealand.

Figure 1: Underlying net profit after tax by business segment, 1H23



Source: Company

- Low risk mortgage-focused lending portfolio:** AMP's lending operations are relatively low-risk and are overwhelmingly concentrated on residential mortgage lending (which accounts for around 99% of lending assets). Owner-occupiers account for around two-third of all mortgage loans, and 94% of loans are originated through broker channels. Mortgage arrears (90+days past due) have trended downwards over the last few years and are currently at 0.50% (and comparable with peers), although the current financial and economic environment could see this rise (as it did over 1H23). AMP does have an exposure to SMEs (which are viewed as riskier than owner-occupier loans) through its practice finance loans (SME loans provided to financial planners). However, these only account for 1.0% of AMP's lending assets and are typically are well-provisioned for.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

AMP Limited

- **Sound regulatory oversight:** Australian financials benefit from operating in an economy characterised as having a very high degree of economic resilience with low susceptibility to event risk. While the Australian economy has recovered relatively strongly from the direct impacts of the pandemic, the current high inflation environment and associated interest rate increases by the Reserve Bank of Australia have the potential to put strain on the post-pandemic recovery, with increased pressure on consumers. The current low level of unemployment and significant savings accumulated over the past two years should provide a buffer. Nevertheless, AMP maintains adequate level of credit provisioning to account for this uncertain outlook. Australian banks including AMP are overseen by a highly regarded prudential regulator, APRA, who oversees banking, insurance and superannuation, with the aim of maintaining the integrity, safety and soundness of financial institutions.

Risks

- **Strategic execution risk:** AMP has undergone significant changes over the last five years, following the findings from the Royal Commission in 2017. It has undergone changes in leadership and executed the sale of the life insurance, infrastructure debt and most recently, its real estate business (Collimate). There are risks around execution of these changes, such as failure to sell its assets, although this hasn't yet been a problem for AMP and is coming to a conclusion. In our view though, the exit from life insurance (capital intensive and requires scale to succeed) and private markets (likely to perform better as a standalone unit) makes strategic sense, since execution risks are high and there are no guarantees the strategy will succeed.
- **Susceptibility to increased competition:** Simplification of AMP's structure has resulted in a focus on wealth management and banking operations. Although the bank maintains sound asset quality and its earnings provide greater revenue stability, it also creates concentrations to revenue streams, with a heavy reliance on interest income. Furthermore, AMP Bank's market share is less than 1% of total bank lending (making them price takers), leaving them susceptible to increased competitive pressures. We note that AMP Bank's lending has grown consistently above system in the last few years (currently 1.11x as at 30 June 2023), and rising interest rates generally provide a tailwind to the bank's interest margins (although has started to reverse given competitive pressures).
- **Divestments in recent years have reduced earnings diversity:** AMP's earnings diversity has declined in recent years as the group divested substantial operations (especially its life insurance operations). While the performance and contribution from the banking operations (in particular) have not only remained relatively stable and also contributed to an increasing proportion of the group's earnings (in an absolute and relative sense), the reduced diversity does heighten the exposure to earnings headwinds specific to a particular division.

Risks relevant to Subordinated Unsecured Tier 2 instrument

- **Basel III compliant structural features:** The Notes are classified as Basel III compliant Tier 2 capital instruments. As such, they contain the following features:
 - **Non-viability trigger event:** If APRA, the Australian Prudential Regulator, determines that AMP requires capital support to prevent it becoming non-viable (a 'non-viability event'), the insurer may be required to write-off some or all the face value of the notes. Whether a non-viability trigger event will occur is solely at the discretion of APRA. APRA does not define what constitutes a non-viability event and there are currently no precedents under Basel III to determine non-viability.
 - **Optional call dependent on regulatory approval:** The Notes include an early call feature where the face value of the Tier 2 notes may be repaid early in cash at a pre-defined call date and each subsequent interest payment date up the Maturity Date. The optional redemption requires regulatory approval, which may not be provided.

In general, regulators are unlikely to provide approval for a Tier 2 instrument to be called if it results in a reduction in the issuer's capitalisation; regulators are unlikely to provide approval for a redemption or resale unless the issuer has, or is expected to, issue an instrument of similar size to replace the instrument subject to that call. To the extent the

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

AMP Limited

optional call was expected not to be exercised, it is likely that the price of the notes will be negatively affected, with this negative price movement being potentially material.

Financials

The financial summary below represents the consolidated operations of AMP Limited (AUDm, FYE 31 December).

Income Statement	FY18	FY19	FY20	FY21	FY22
AUM based revenue	1,978	1,773	1,586	1,062	794
Net interest income	388	387	391	399	382
Total revenue	2,579	2,668	2,331	1,625	1,355
EBIT	680	649	371	338	252
Interest expense	(68)	(96)	(85)	(66)	(62)
Investment income	113	87	118	102	46
Net profit (underlying)	680	439	295	280	184
Net profit (statutory)	28	(2,467)	177	(252)	387
Balance Sheet	FY18	FY19	FY20	FY21	FY22
Cash and equivalents	3,932	4,426	2,428	2,916	1,816
Customer loans	20,008	20,684	20,579	22,058	24,033
Total assets	145,368	147,684	32,164	32,204	34,938
Customer deposits	13,304	14,414	16,110	17,783	20,922
Other borrowings	5,541	5,216	4,479	3,774	3,102
Net assets	6,791	4,978	4,282	3,983	4,171
Credit Metrics	FY18	FY19	FY20	FY21	FY22
Net interest margin	1.70%	1.69%	1.59%	1.62%	1.38%
Nonperforming loans	0.47%	0.66%	0.62%	0.50%	0.30%
CET1 ratio	10.9%	10.7%	11.8%	10.4%	10.5%
Interest cover (underlying)	11.0x	8.1x	6.1x	8.0x	4.8x

Source: Company, FIIG Estimates

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

AMP Limited

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced or distributed to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Certain statements contained in the information may be statements of future expectations and other forward-looking statements. These statements involve subjective judgement and analysis and may be based on third party sources and are subject to significant known and unknown uncertainties, risks and contingencies outside the control of the company which may cause actual results to vary materially from those expressed or implied by these forward looking statements. Forward-looking statements contained in the information regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Opinions expressed are present opinions only and are subject to change without further notice.

No representation or warranty is given as to the accuracy or completeness of the information contained herein. There is no obligation to update, modify or amend the information or to otherwise notify the recipient if information, opinion, projection, forward-looking statement, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

FIIG shall not have any liability, contingent or otherwise, to any user of the information or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the information. In no event will FIIG be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using information even if it has been advised of the possibility of such damages.

FIIG provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. A copy of FIIG's current Financial Services Guide is available at www.fiig.com.au/fsg.

An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation (unless otherwise stated), foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.
