FIIG | Factsheet

AMP Limited

16 November 2021

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

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Issuer Outline

AMP is one of Australia's largest retail wealth managers. Historically associated with providing wealth and asset management, life insurance and banking, AMP has dramatically reduced the scope of its operations in recent years.

Following the demerger of its life insurance operations, and more recently, its private markets' operations (AMP Capital), the group is now primarily concentrated on a retail wealth management (wealth management, superannuation, retirement and investments) and banking.

The Issuer of the notes, AMP Limited, is the non-operating holding company of AMP.

AMP is listed on the Australian Stock Exchange with a market capitalisation of ~3.9bn as at November 2021.

Key Financials (AUDm)

LTM (31 Dec)	2020
Revenue	2,331
Gross profit	1,730
EBIT	371
NPAT (Underlying)	295
NPAT (Statutory)	177
AUM (AU Wealth Mgmt)	124,121
Loans under management (AMP Bank)	20,680
Gross non-performing loans (%) (AMP Bank)	3.2%
CET1 Ratio (AMP Bank)	11.8%

Source: Company Reports

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3FN0037917	AUD 250m	Subordinated Unsecured T2	3M BBSW+1.80%	Quarterly	01 December 2022	01 December 2027
AU3FN0045746	AUD 250m	Subordinated Unsecured T2	3M BBSW+2.75%	Quarterly	15 November 2023[2]	15 November 2028

[1]Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call
[2]And each interest payment date thereafter @100.00, subject to APRA approval

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

- Strong market position across Australia's asset management, managed funds, superannuation, and financial advice sectors: AMP has a strong market position reflecting its significant market share and top ranking amongst peers in retail and corporate superannuation, and retail managed funds. AMP's competitive position is enhanced by its strong control and influence over its distribution channels, which include one of the largest aligned financial planning network in Australia and New Zealand. Although aligned advisors decreased by about a third to 1,385 as of 30 June 2021, a smaller distribution network should result in greater operating efficiencies (increased assets under management per advisor).

  AMP's banking operations are insignificant in the context of Australia's banking system (accounting for less than 1% of total assets). Nevertheless, the bank contributes a relatively high proportion of AMP's earnings (between 50%-60% over the last 18 months), with recurring characteristics, with net interest income accounting for 95% of the bank earnings. The bank's earnings also benefit from a low-cost distribution model,

- Banking operations are strongly capitalised: It should be noted that while AMP's subordinated tier 2 instruments are issued by AMP Limited, the non-operating holding company of the group, they are on-lent to AMP Bank; the risk of capital loss, however unlikely, will largely reflect the performance of its banking operations.

  AMP Bank is strongly capitalised, with a Common Equity Tier 1 ratio at 11.6% as at 30 June 2021, comfortably above regulatory minimums and 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 with regional and smaller peers, in-part a function of its low-cost distribution model, generally reporting a cost-to-income ratio in the mid-30's, considerably lower relative to peers.

- Low risk mortgage-focused lending portfolio: AMP's lending operations are relatively low risk and are overwhelmingly concentrated on residential mortgage lending, accounting for around 98% of lending assets; owner-occupiers account for around two-third of all mortgage loans. Mortgage arrears (90-days past due) are comparable with peers at around 70 basis points.

  While total non-performing loans are presently higher relative to peers, this largely relates to the bank's practice finance loans (SME loans provided to financial planners), which account for only 2% of AMP's lending assets, but more than 70% of impaired loans. The loans are well-provisioned for.

- Sound regulatory oversight: Australian financial conglomerates, including AMP, benefit from operating in an open economy characterised as having a very high degree of economic resilience. Institutional and governance frameworks compare well with overseas jurisdictions. Australian financial institutions are overseen by a highly regarded regulator in APRA. APRA oversees banking and superannuation (thus covering the entirety of AMP's Australian operations), with the aim of maintaining the integrity, safety and soundness of financial institutions.

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Risks

- Strategic execution risk: AMP has undergone significant change over the last four years. Following findings from the Royal Commission in 2017, a number of senior executives and members of AMP's board resigned, including AMP's CEO and Chairperson. A number of other senior executives have also since resigned, including the replacement CEO.

  The management transition comes amid a similarly significant business transition, with the group recently concluding the exit of its life insurance operations, and is well-progressed on its more recent decision to exit its private market operations. AMP is now primarily concentrated on a retail wealth management (wealth management, superannuation, retirement and investments) and banking.

  Although 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, execution risk is high and there are no guarantees the new strategy will succeed.

- AMP remains exposed to reputation risk: AMP continues to face reputational damage, not helped by recent (and high-profile) resignations for misconduct (in addition to the findings from the Royal Commission). While it is practically impossible to conclude, it is difficult to not come to the conclusion that the reputational damage has in-part contributed to the outflow of some funds under management, including the loss of some corporate superannuation mandates.

  It should be noted that the performance of AMP's banking operations continue to operate seemingly impervious to the near-term challenges facing the broader group.

- Divestments in recent years have reduced earnings diversity: AMP's earnings diversity has declined in recent years as the group divested (historically) substantial operations (esp. its life insurance operations). While the performance and contribution from the banking operations (in particular) have not only remained relatively stable, but 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 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.

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Summary Financials

The financial summary below represents results for AMP's banking operations, as well as asset under management for its Australian Wealth Management operations.

AMP Bank FYE December 31 (AUDm)	2016	2017	2018	2019	2020
Profit and Loss					
Net interest income	316	247	283	316	314
Non-interest expenses	(120)	(78)	(88)	(107)	(125)
Pre-provision operating income	**209**	**180**	**201**	**228**	**195**
Credit loss provisions (net new)	(18)	(6)	(5)	(13)	(10)
Net profit after tax	**203**	**149**	**76**	**120**	**(108)**
Balance Sheet					
Cash and investments	1,763	2,812	2,744	2,789	3,620
Customer loans (gross)	17,214	19,566	20,127	20,792	20,680
Total assets	**19,014**	**22,425**	**22,893**	**23,603**	**24,322**
Customer deposits	11,458	12,254	13,330	14,454	16,129
Other borrowings	6,159	8,330	8,064	7,305	5,959
Total liabilities	**18,156**	**21,407**	**21,762**	**22,351**	**23,006**
Net assets	**858**	**1,018**	**1,131**	**1,252**	**1,316**
Credit metrics					
Gross non-performing loans (%)	0.9%	0.9%	1.8%	3.9%	3.2%
Loan Loss Reserves/Gross NPAs (%)	9.0%	10.0%	10.3%	16.2%	23.3%
New Loan Loss Provisions/Average Customer Loans (%) (credit losses)	0.04%	0.03%	0.07%	0.05%	0.15%
Core Deposits/Funding Base (%)	63.2%	57.5%	61.5%	65.1%	70.7%
Tier 1 Capital Ratio (%)	10.2%	11.5%	12.8%	13.6%	14.5%

Source: S&P Capital IQ

Australia Wealth Management Assets Under Management (AUDm)	2Q19	4Q19	2Q20	4Q20	2Q21
AMP Platforms					
Net cashflows	(61)	281	225	(145)	(2)
Total AMP Platforms	63,077	66,049	61,167	63,170	68,007
Retail Superannuation					
Net cashflows	(1,132)	(1,362)	(425)	(1,144)	(989)
Total Retail Superannuation	37,744	36,227	32,615	32,829	33,644
Corporate Superannuation					
Net cashflows	(134)	(223)	(2,214)	(703)	(215)
Total Corporate Superannuation	31,882	32,185	27,257	28,122	29,574
Total Australian Wealth Management	132,703	134,461	121,039	124,121	131,225

Source: Company

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