

MEDIA RELEASE

AMP Subordinated Notes 2 (ASX: AMPHA) rating lowered to A-/Orange from A+/Orange AMP Capital Notes (ASX: AMPPA) rating lowered to A-/Red from A+/Red by Australia Ratings

Melbourne, 17 May 2018 - Australia Ratings has lowered the ratings assigned to the AMP Subordinated Notes 2 (ASX: AMPHA) and the AMP Capital Notes (ASX: AMPPA) - under the ASX's Debt & Hybrid Research Scheme - by two notches to 'A-' from 'A+'.

Revelations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are likely to have a significant but unquantifiable impact on the future prospects of the AMP Group, at this time.

Australia Ratings' analyst Philip Bayley said "The cost of recent actions and the financial consequences for AMP's future earnings capacity are expected to be severe. Capital adequacy is likely to be strained as a result and AMP's future capacity to raise capital in need is open to question."

Mr Bayley continued "For these reasons the credit rating assigned to AMPHA and AMPPA notes are being lowered to 'A-' from 'A+'. Further rating action may be taken as greater clarity emerges around the extent of the damage done to AMP's financial position."

A group that was the market leader in Australia and New Zealand's independent wealth management industry now faces a very uncertain future. The culture and governance of the AMP Group has been shown to be weak and lacking in integrity and its reputation as a custodian of wealth may be irreparably damaged.

Disclosures of misconduct and compliance concerns among AMP's 2,800 affiliated financial planners reflect a lack of organisational oversight and control at the grass roots level but problems extend right to the highest levels of the group. AMP has been shown to have continued to pay commissions to its planners in breach of the FOFA reforms of 2013. AMP has also charged customers for services that were never provided.

AMP has admitted that affected customers have not been compensated or even informed of their eligibility for compensation for poor advice and other adverse practices that have led to losses being incurred by the customers. AMP has been unable to say when customers will be contacted.

In total, 15,000 customers are affected and AMP has allegedly misled ASIC on 20 occasions about these matters. The drafting of an independent report dealing with the situation, being prepared by Clayton Utz for submission to ASIC, went through some 25 drafts due to re-wording required by AMP's former Chairman, and Legal Counsel. Some of these actions have led to recommendations of criminal charges being laid.

A new Chairman has been appointed to AMP, and an interim CEO is in place until a permanent appointment is made. There is considerable work to be done at the board level, among senior management and throughout the organisation to repair the damage that has been done. But in the meantime, more than half of the members of the board of directors

have resigned and some shareholders are calling for all board members to be replaced by the end of 2018. Turning around the fortunes of an organisation the size of AMP will be more than challenging when continuity and corporate memory at the highest levels of the organisation are lost in this manner.

Compounding the challenges confronting AMP, the group is facing the prospect of multiple class actions being initiated by aggrieved customers and a \$2 billion class action by shareholders was initiated last week. AMP is also facing the loss of institutional investment mandates. Australia Post is reviewing its default superannuation plan arrangements and an ethical investment fund will be removing its funds from AMP.

The on-going viability of AMP's advice business is also under threat. ASIC is intending to ban grandfathered commission payments, which underpin the viability of AMP aligned financial planners.

For these reasons the credit rating assigned to AMPHA and AMPPA notes are being lowered to 'A-' from 'A+'.

Login to view www.australiaratings.com for full rating reports.

For further information contact:

Philip Bayley, Director
philip.bayley@australiaratings.com
 03 8080 6684

Chris Dalton, Managing Director
chris.dalton@australiaratings.com
 0403 584 600
 03 8080 6684

About Australia Ratings

Australia Ratings is Australia's local credit rating agency with over 60 years of experience in assessing and rating credit risk. Australia Ratings was formed in 2010 following regulatory reforms to the operation of credit rating agencies in Australia. Australia Ratings Pty Limited holds Australia Financial Services License No. 346138.

Opinions of Australia Ratings are determined by its analytical team in accordance with its rating methodology. The Board of Australia Ratings, whose members include Jarrod Brown, Chris Dalton and Mike Dontschuk, oversee the application of Australia Ratings rating methodology and the integrity of the rating process.

What an Australia Ratings Credit Rating and Product Complexity Indicator (PCI) mean

Rating	
AAA	Highest creditworthiness
AA	Very high creditworthiness
A	High creditworthiness
BBB	Moderate creditworthiness
BB	Modest creditworthiness
B	Vulnerable creditworthiness
CCC	Highly Vulnerable creditworthiness
CC	Extremely vulnerable creditworthiness
C	Very high probability of default
PCI	
Red	A very complex investment product
Orange	A more complex investment product
Yellow	A complex investment product
Blue	A relatively simple investment product
Green	A simple investment product