ALLIANCE FINANCIAL
GROUP BERHAD (6627-X)

Banking Made Personal

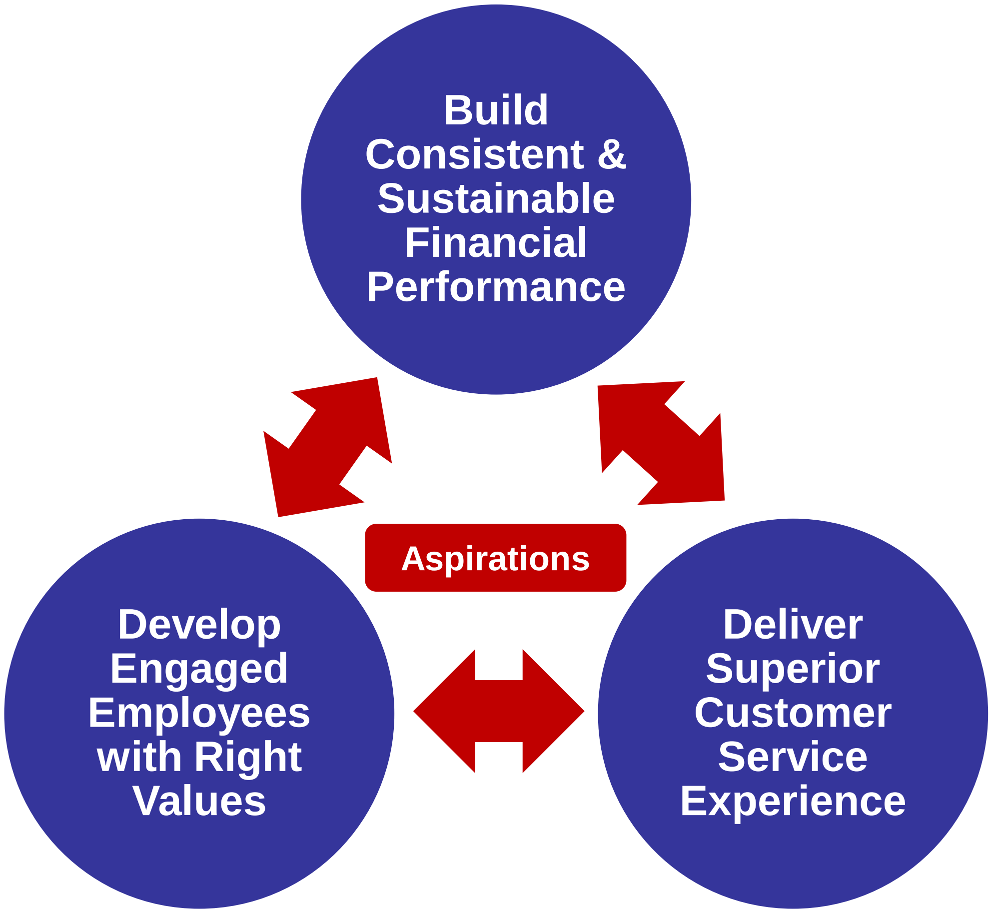
ANALYST BRIEFING

1st Half FY2014

2 December 2013

Contents

We have Built a Strong Franchise in Consumer & SME Banking



- ❑ Clear niche in Consumer & SME Banking:
  - ✓ Increasing market share in target segments with year-on-year net loans growth of 13.1%, faster than industry
  - ✓ Winning market recognition
- ❑ Focused on building sustainable long term revenue growth:
  - ✓ Accelerated non-interest income activities
  - ✓ Sustainable CASA ratio at 33.4%
  - ✓ 0.9% net impaired loans ratio
  - ✓ 14.79% total capital ratio
- ❑ Dividend policy to pay up to 50% of net profits

Q2FY14: Good Progress Against Our 3-Year Medium Term Targets FY2012 – FY2015

Alliance Financial Group

	Target	FY2011	1HFY14
Asset Quality	… net impaired loans to be better than industry average	1.9%	0.9%
Non-Interest Income Ratio	… to increase non-interest income to 30% of total revenue	20.8%	29.8%
Cost to Income Ratio	… move to industry average (45%-48%) through: • targeted revenue growth • improved productivity	48.3%	47.0%
Return on Equity	… achieve industry average (14%-16%) through: • focus on underlying earnings momentum • effective capital management	12.8%	13.3%
Dividend Policy	… progressively raising dividend payout up to 50% of net profits after tax, subject to regulatory approvals and strong capital ratios	26.2% (Interim 3.3 sen)	42.5% (Interim 7.5 sen)

Summarised Income Statement

Sustainable & Consistent Financial Performance: 4.9% Operating Profit Growth

Income Statement	1HFY14 RM mil	1HFY13 RM mil	Change (y-o-y)	
			RM mil	%
Net Interest Income	**377.1**	364.6	12.5	3.4%
Islamic Banking Income	**105.6**	124.4	-18.8	-15.1%
Non-Interest Income	**196.2**	169.3	26.9	15.9%
Net Income	**678.9**	658.3	20.6	3.1%
Operating Expenses	**319.2**	315.4	3.8	1.2%
Pre-Provision Operating Profit	**359.7**	342.9	16.8	4.9%
Write-back of losses on loans & financing and other losses	**0.4**	14.2^	-13.8	-97.2%
Pre-tax profit	**360.1**	357.1	3.0	0.8%
Net Profit After Taxation	**269.0**	266.5	2.5	0.9%

- +3.4% rise in ***net interest income*** from 13.1% net loans growth, but interest margins remain under pressure.
- +15.9% growth in ***non-interest income***, contributed by:
  - Recurring income from transaction banking, wealth management and brokerage and treasury activities
  - One-off sign-on fee in respect of a bancassurance arrangement amounting to ~RM30 million
- +1.2% increase in ***overhead expenses*** mainly due to:
  - investments in IT infrastructure and human capital
  - one-off staff rationalisation cost of ~RM22.3 million

^ Includes share of results of associates

Net Loans Growth at 13.1% Y-o-Y, Driven By Consumer Lending

Balance Sheet	1HFY14 RM bil	1HFY13 RM bil	Change	
			RM bil	%
Total Assets	**45.9**	40.6	5.3	13.1%
Treasury Assets	**12.6**	11.5	1.1	9.2%
Net Loans	**29.5**	26.1	3.4	13.1%
Customer Deposits	**36.7**	32.1	4.6	14.3%
CASA Deposits	**12.3**	11.1	1.2	10.8%
Shareholders' Funds	**4.1**	3.9	0.2	5.6%
Net Loans Growth (y-o-y)	**13.1%**	13.6%	-	-0.5%
Customer Deposits Growth (y-o-y)	**14.3%**	5.7%	-	8.6%

- +13.1% y-o-y ***net loans*** growth: above industry - targeting profitable Consumer and SME segments.
- +14.3% y-o-y ***customer deposits*** growth, keeping pace with loans expansion to maintain healthy loans to deposit ratio.
- +10.8% y-o-y growth in ***CASA deposits***, contributing to 33.4% of total deposits.

Note:
Treasury assets comprise financial assets (HFT, AFS & HTM), derivative financial assets & placements with FIs
Industry y-o-y loans growth for Sep 2013 = 9.5% (household 11.9%; business 6.5%)

Key Financial Ratios

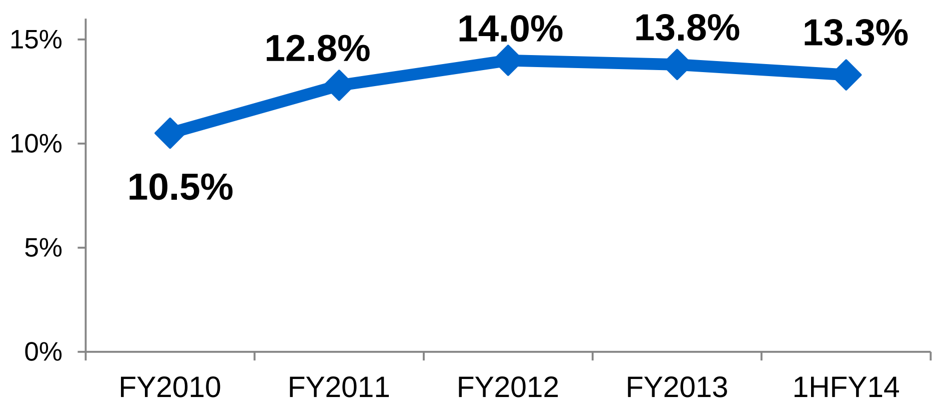
	Financial Ratios	1HFY14	1HFY13	Change
Share-holder Value	**Return on Equity**	**13.3%**	13.7%	-0.4%
	Return on Assets	**1.2%**	1.3%	-0.1%
	Earnings per Share	**17.7 sen**	17.5 sen	+1.1%
	Interim Dividends per Share	**7.5 sen**	6.6 sen	+13.6%
	Net Assets per Share	**RM2.67**	RM2.52	+RM0.15
Efficiency	**Non-Interest Income Ratio**	**29.8%**	27.2%	+2.6%
	Cost to Income Ratio	**47.0%**	47.9%	-0.9%
Asset Quality	**Gross Impaired Loans Ratio**	**1.7%**	2.3%	-0.6%
	Net Impaired Loans Ratio	**0.9%**	1.2%	-0.3%
	Loan Loss Coverage Ratio	**86.7%**	86.4%	+0.3%
Liquidity	**Loans to Deposit Ratio**	**81.6%**	82.8%	-1.2%
	CASA Ratio	**33.4%**	34.5%	-1.1%
Capital	**Common Equity Tier 1 Capital Ratio**	**10.76%**	-	n/a
	Tier 1 Capital Ratio	**12.17%**	12.08%	+0.09%
	Total Capital Ratio	**14.79%**	15.18%	-0.39%

- ***Non-interest income*** – improving steadily each year with focus on building recurring fee income
- ***Cost to income ratio*** – due to continued investments in IT infrastructure and human capital *(excluding one-off staff rationalisation cost ~45.7%).*
- 13.6% rise in ***interim dividends paid***, maintaining a dividend policy to payout up to 50% of net profits
- ***Asset quality*** better than industry average.
- Maintaining high ***CASA ratio*** in line with expansion of CASA deposits.
- Strong ***capitalisation*** under Basel III.

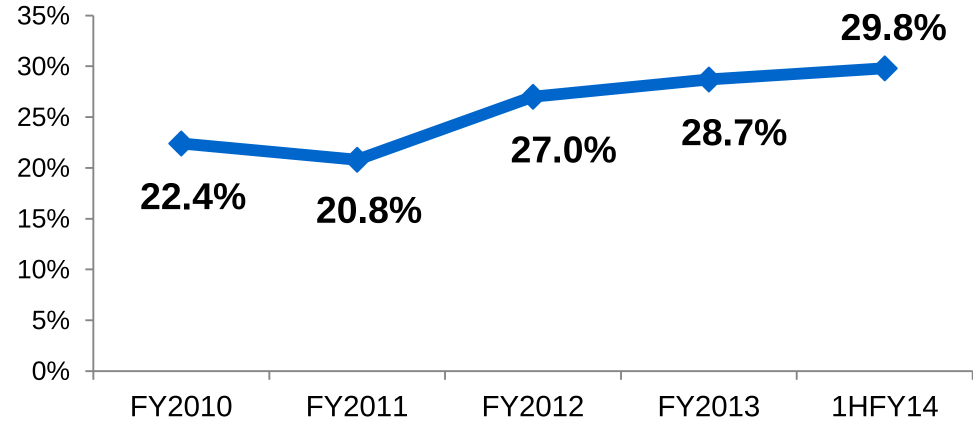
Trend: Key Financial Ratios

Sustained Financial Performance, with Key Metrics in the Right Direction

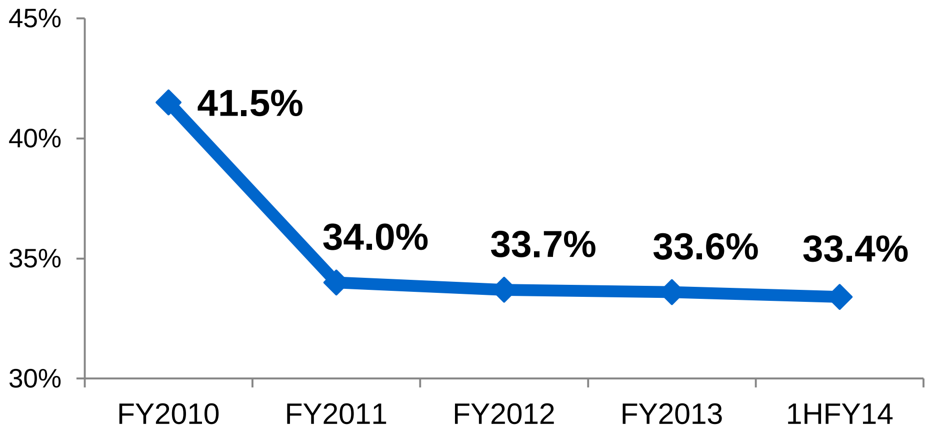
Return on Equity



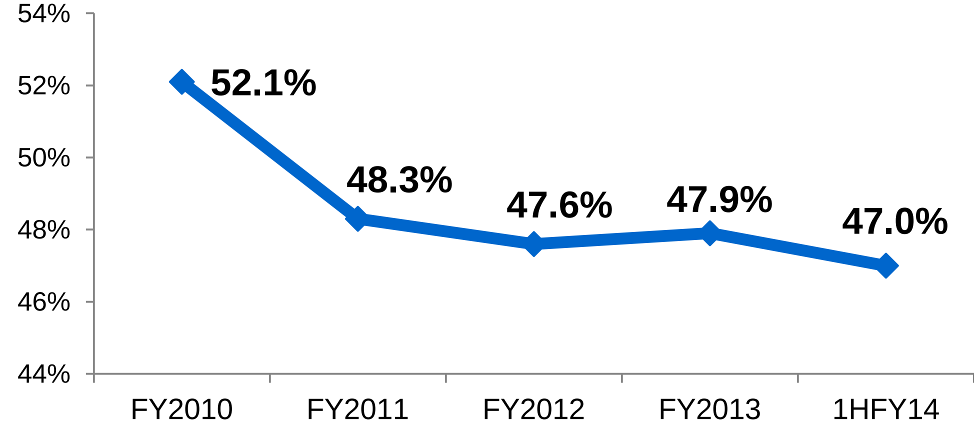
Non-Interest Income Ratio



CASA Ratio



Cost-to-Income Ratio



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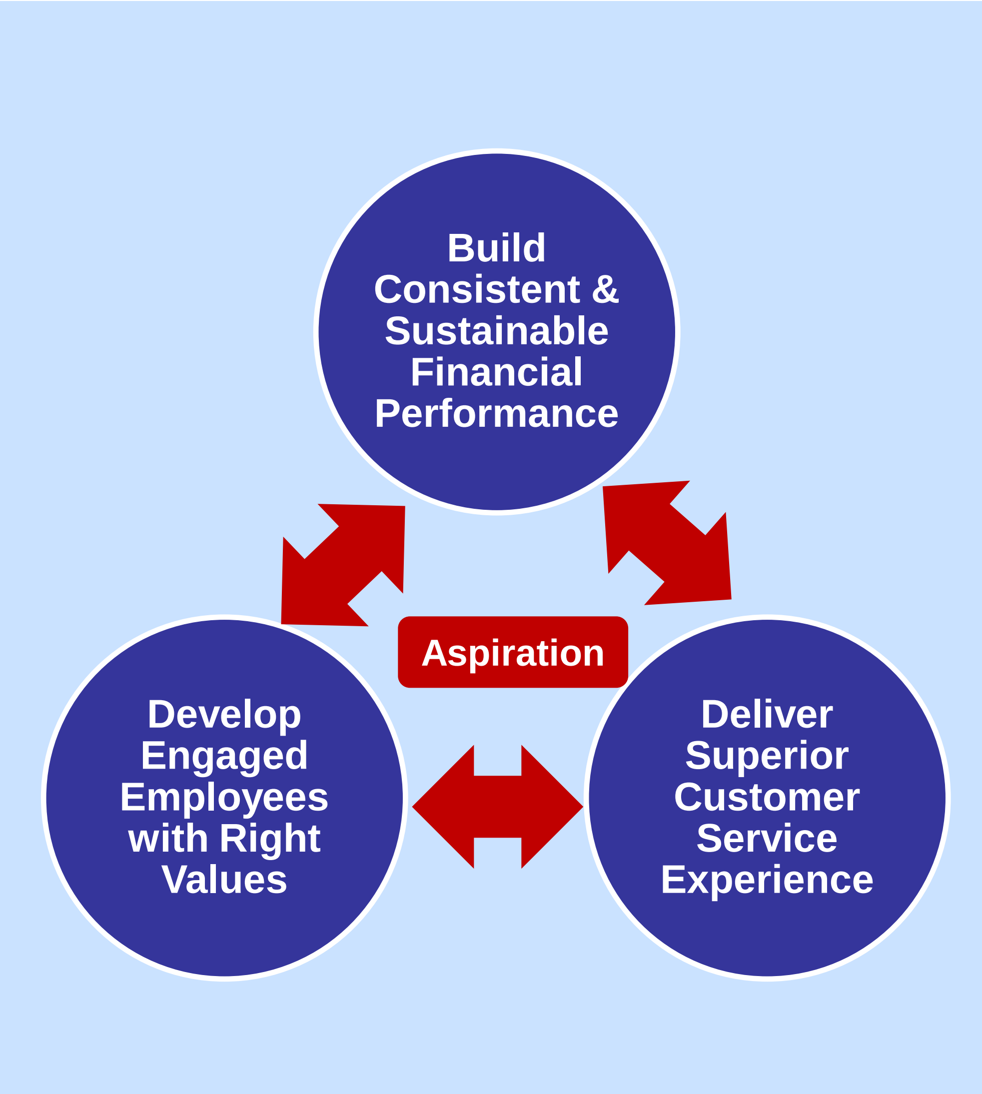
Continue To "Deliver Consistent and Sustainable Financial Performance"



Our Priorities

- Build on strengths and niche in Consumer and Business Banking
- Improve branch profitability and overall performance in terms of productivity and efficiency
- Strengthen customer relationships by enhancing the customer service
- Ensure impactful investments in technology and infrastructure
- Strengthen investment banking and Islamic banking capabilities

… We will continue to exercise caution & implement vigilant risk management to deliver consistent & sustainable results…

Key Initiatives: Project APEX

Project APEX Is A Major Group Wide InitiativeTo Improve Customer Service For Lending Products

Phase I: Consumer Project Completed In October 2013
Phase 2: SME Project In Progress. To Complete In February 2014

Our Vision:
"The Best Customer Service Bank"

Our Mission	To build Consistent and Sustainable Financial Performance	To Deliver Superior Customer Service Experience	To Develop Engaged Employees With the Right Values

Core Values	Respect	Integrity	Teamwork	Excellence

Alliance Process EXcellence (APEX)

Cross Functional Initiative:
To Drive Customer Satisfaction by Improving Turnaround Time for Key Retail & SME Lending Products via Streamlining of Processes & Raising Staff Productivity

Alliance Bank BizSmart Academy – SME Innovation Challenge Inspires & Nurtures Malaysia's Entrepreneurs

Alliance Bank BizSmart Academy:

- Is the **first-of-its-kind Academy** aimed at **nurturing & inspiring** the next generation of **young SMEs**
- Be the **'go-to' resource** for up-and-coming entrepreneurs
- **assist young SMEs to take their business to the next level**, and their experiences will be further shared with the rest of the business community to **inspire other businesses**

Log on to:

www.bizsmart.com.my

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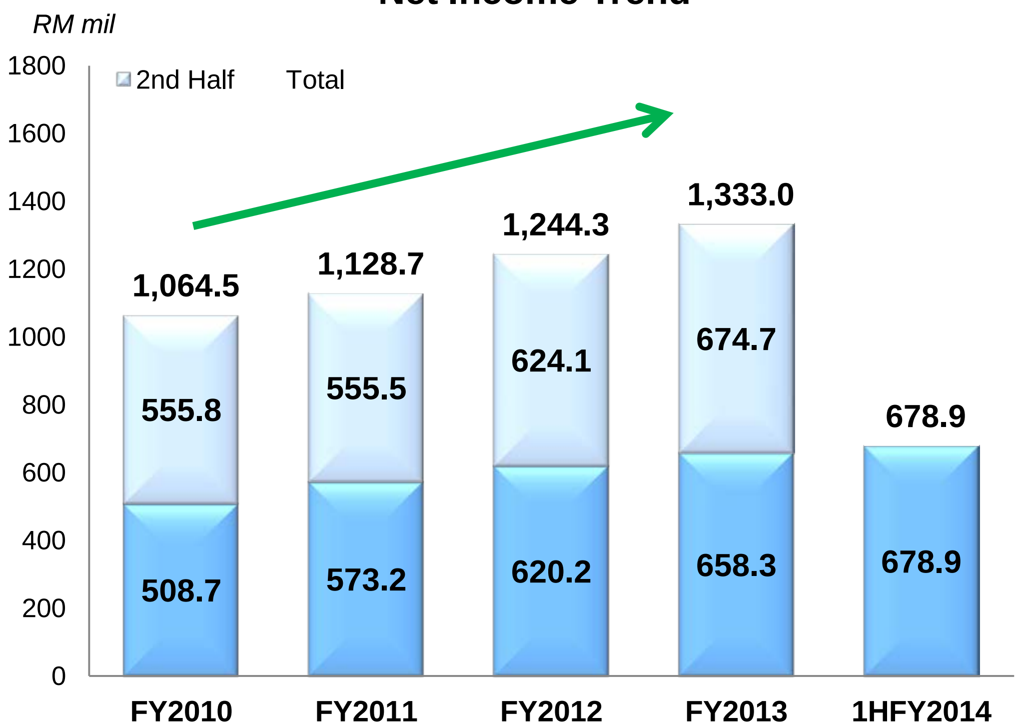
Steady Growth in Net Income Driven by Higher Loans Growth

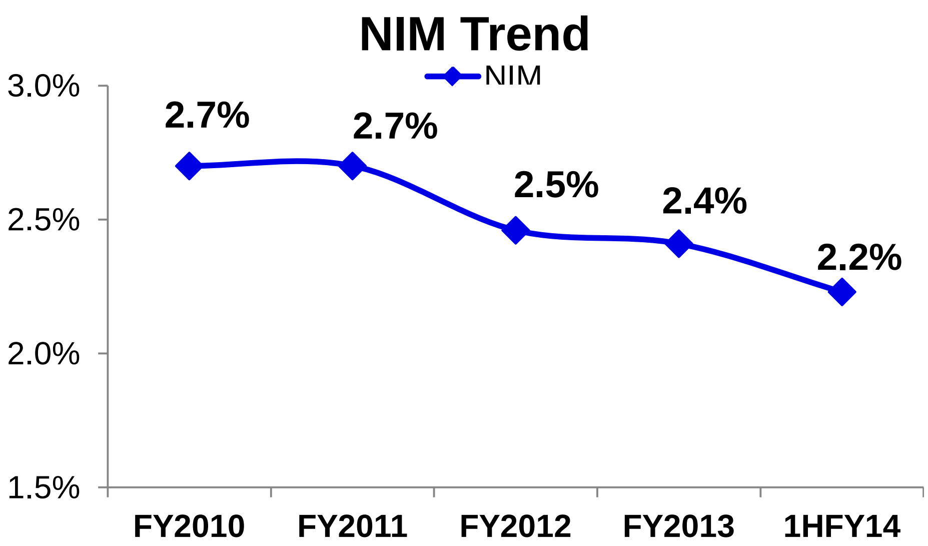
Net Income Trend

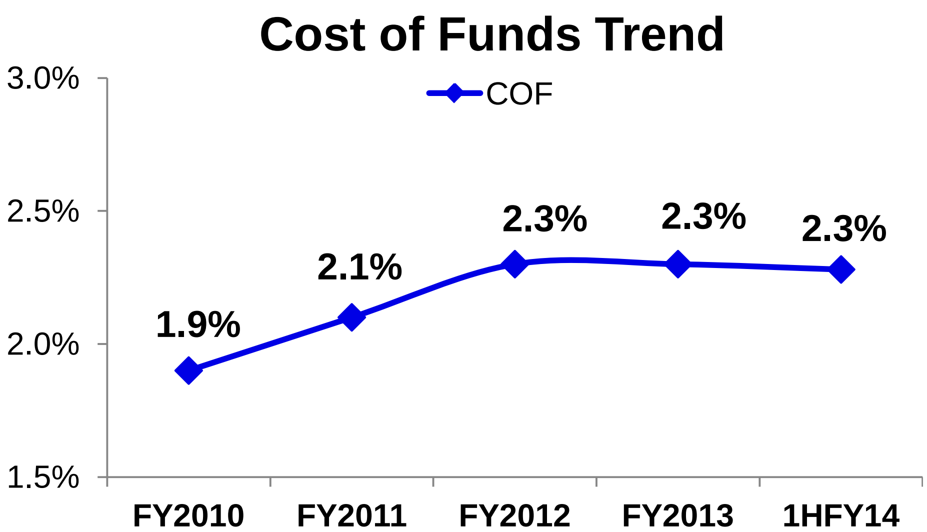


1HFY14 vs 1HFY13
+ RM 20.6mil
+ 3.1%

- ***Net income*** for 1HFY14 grew RM20.6 million or 3.1% year-on-year (y-o-y), driven by:
  - ***Net interest income*** growth of RM12.5 million or 3.4% y-o-y
    - +RM58.1 million increase in interest income primarily from loans growth; but offset by
    - +RM45.6 million rise in interest expense from expansion in deposits and stiffer competition for deposits
  - ***Net income from Islamic Banking*** contracted by RM18.8 million or 15.1% mainly due to the run-off of high-yield Co-op personal financing
  - ***Non-interest income*** grew by RM26.9 million or 15.9% mainly due to the one-off bancassurance fee in Q1FY14

Net Interest Margin Continues To Be Under Pressure

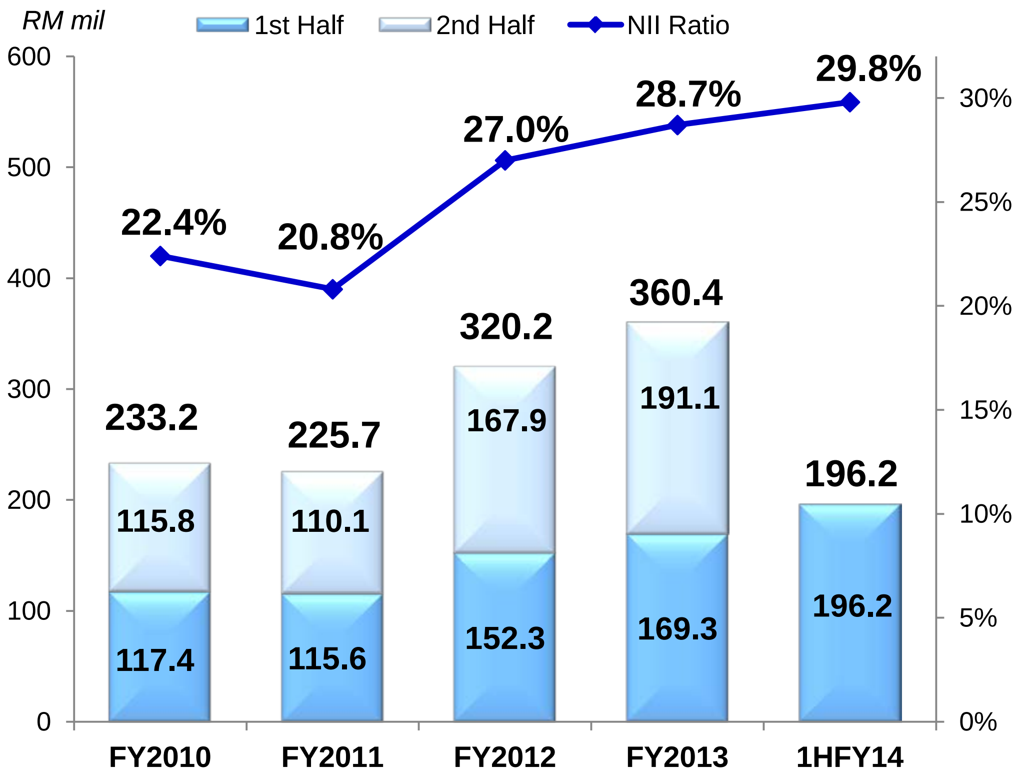




- ***Net Interest Margin (NIM)*** was 2.23% for 1HFY14, down 18 bps since Mar 2013
- Continuing margin compression due to:
  - Run-off from repayments of higher yielding loans:
    - ✓ Co-op loans continue to run down:
      - RM454.4 million as at Sep 2013
      - RM616.6 million as at Sep 2012
      - RM1,023.1 million as at Mar 2011
    - ✓ Mortgage loan repayments
  - New mortgage loans at lower yield
  - Housing loans as a % of total Loans:
    - 39.1% as at Sep 2013
    - 38.9% as at Sep 2012
    - 37.1% as at Mar 2011
  - Intensified competition for fixed deposits
- Margin compression expected to continue
- ***Cost of Funds (COF)*** has stabilized at 2.3%, as interest cost has been supported by sustained CASA deposits.

Non-Interest Income Gaining Momentum

Non-Interest Income Trend



1HFY14 vs 1HFY13
+ RM26.9m
+ 15.9%

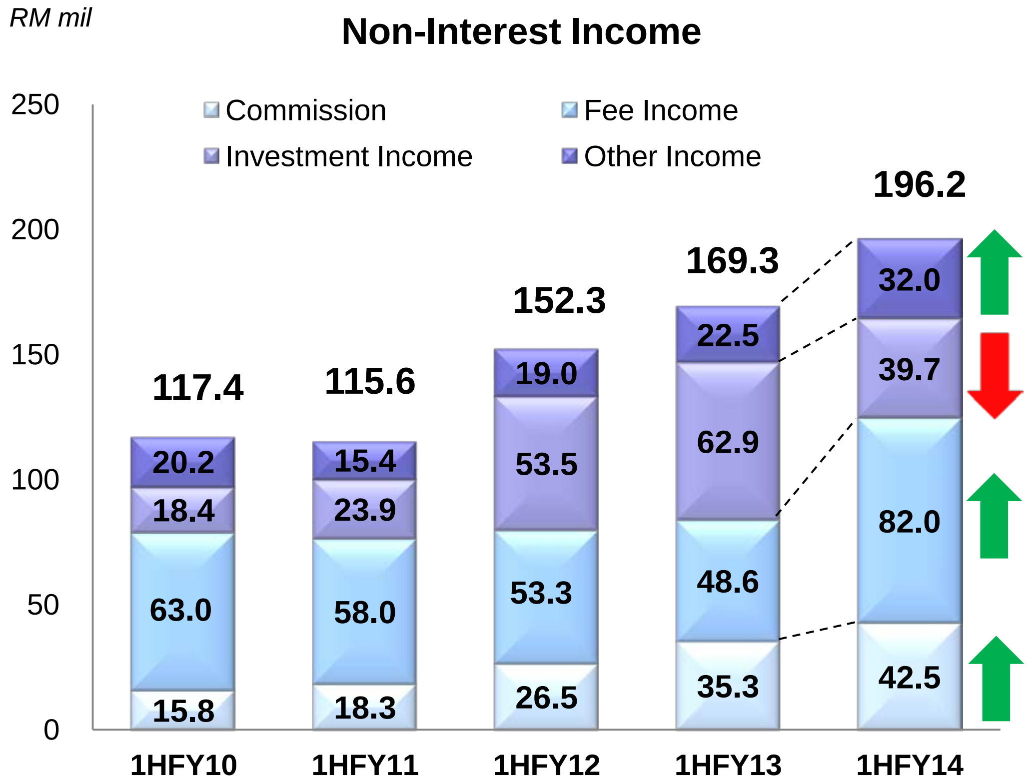
- ***Non-interest income (NII)*** in 1HFY14 increased by RM26.9 million or 15.9%, mainly contributed by:
  - ***Recurring income*** from transaction banking, wealth management and brokerage and treasury activities
    - Commissions on unit trust increased by RM4.7 million
    - Higher forex and derivative instruments gain by RM6.4 million
  - One-off sign-on fee in respect of a ***bancassurance*** arrangement of RM30 million

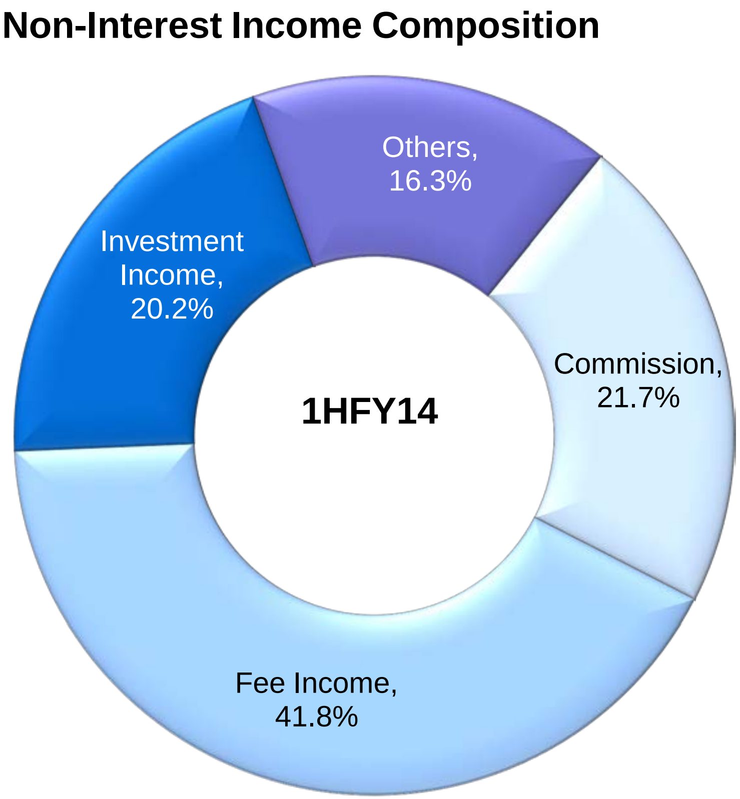
offset by:

- Lower ***investment income*** by RM23.2 million compared to 1HFY13 due to steepening of yield curves:
  - Lower gain from sale of Available-For-Sale investments; and
  - Lower valuation of derivative instruments

Non-Interest Income

Recurring Fee Income but Lower Investment Income due to impact from Steepening Yield Curves

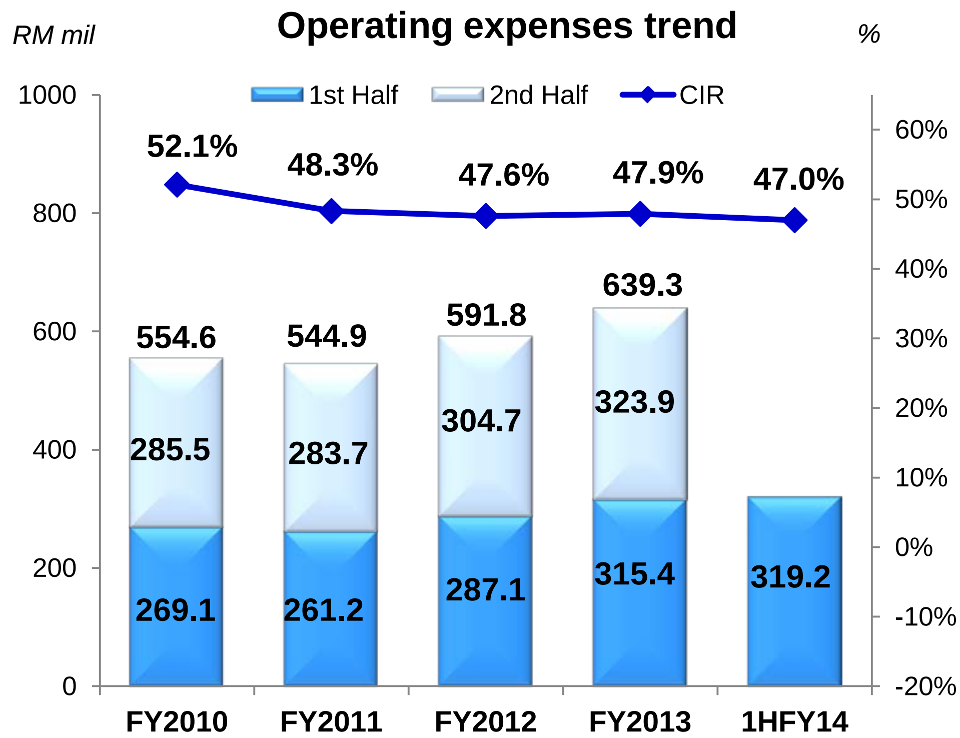




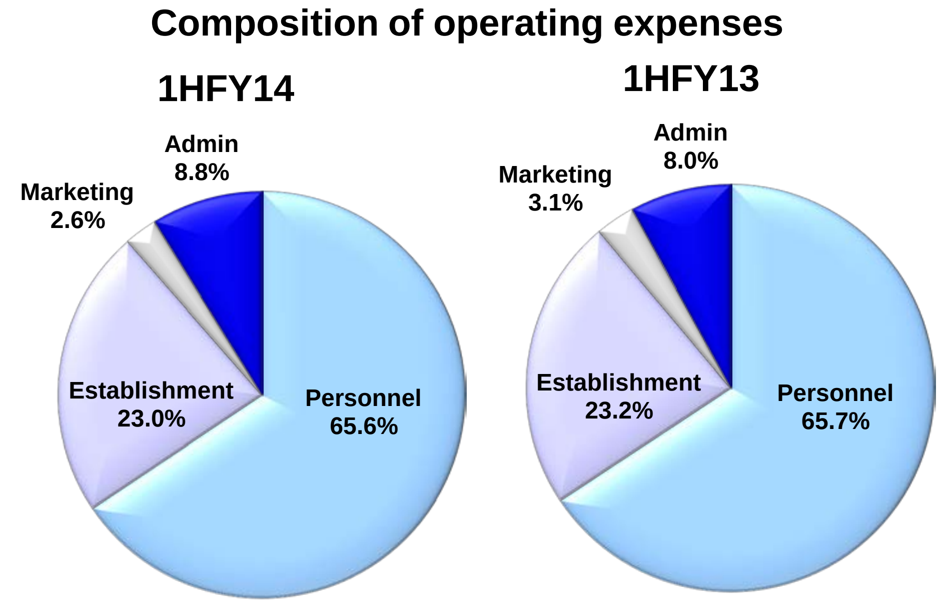
- Steady growth in ***fee income***, particularly from transaction banking activities.
- Excluding one-off bancassurance fee of ~RM30 million, fee income grew by 7.1% in 1HFY14 compared to last year.
- 1HFY14 ***investment income*** dropped to RM39.7 million from RM62.9 million in 1HFY13 due to:
  - lower gain from sale of Available-For-Sale investments by RM15 million; and
  - lower valuation of derivative instruments by RM12 million.

Operating Expenses

Cost-to-income Ratio remains stable at 47.0%



1HFY14 vs 1HFY13
+ RM3.8 mil
+ 1.2%

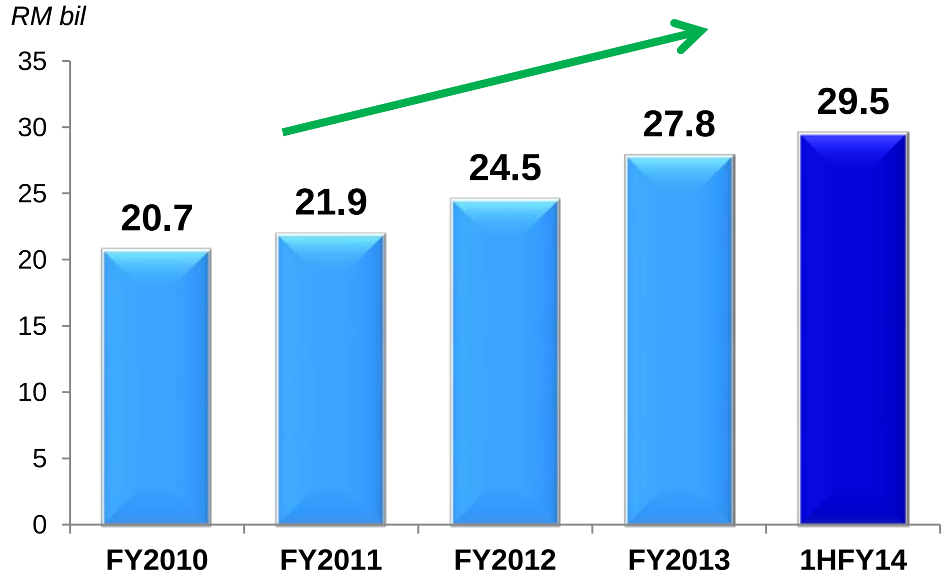


OPEX Contribution	1HFY14 RM mil	1HFY13 RM mil	Change	
			RM	%
Personnel	209.2	207.1	2.1	1.0
Establishment	73.3	73.2	0.1	0.1
Marketing	8.3	9.8	-1.5	-15.4
Administration	28.4	25.3	3.1	12.3

- Increase in operating expenses as Group continues to invest in IT infrastructure and human capital.
- Personnel cost remains the main operating cost. Excluding one-off staff rationalisation expense of RM22.3 million incurred in 1st Quarter, personnel cost constitutes approximately 63% of total OPEX.

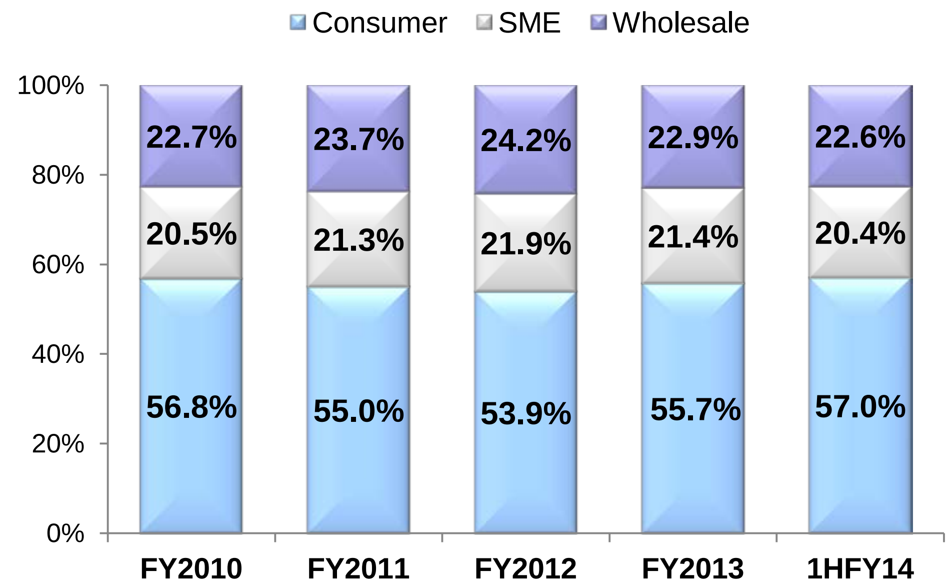
Net Loans Growth Momentum at 13.1% Y-o-Y, Driven By Consumer Lending

Net loans, Advances and Financing Trend



1HFY14 vs 1HFY13
+ RM 3.4 bil
+ 13.1%

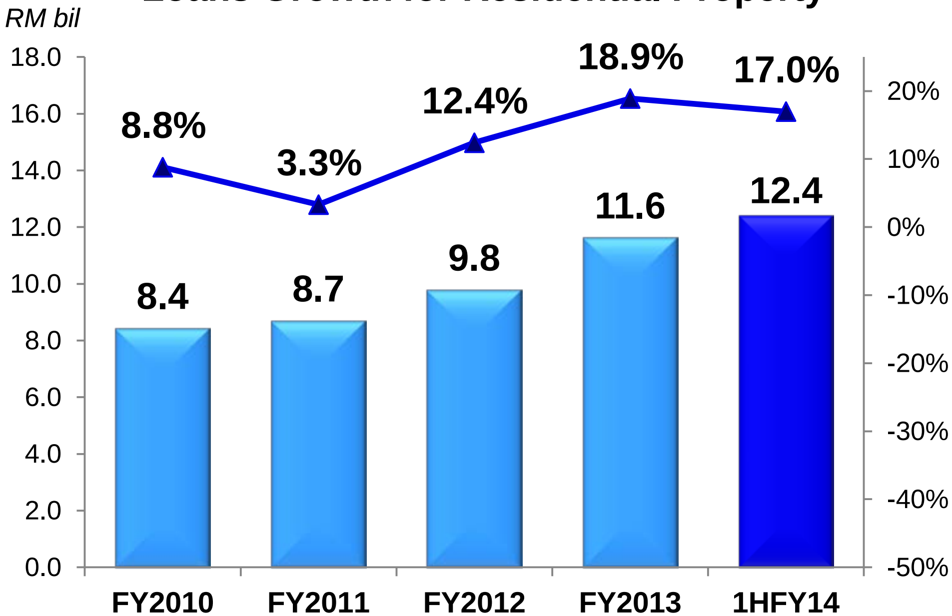
Loans Composition by Business Segments



- ***Net loans growth*** of 13.1%, higher than industry loans growth
- Balanced loans composition with 57.0% Consumer; 20.4% SME and 22.6% for Wholesale Lending
- Effective management of interest rate risk: 10.7% of loan book is fixed rate (1HFY13: 9.7%)

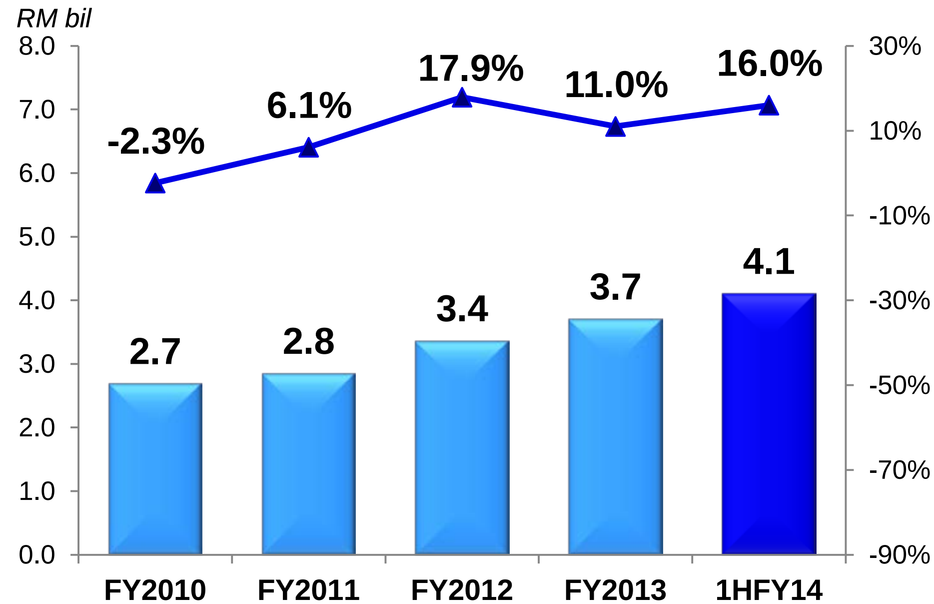
Residential Properties Expanded 17.0% Y-o-Y, Above Industry Loans Growth

Loans Growth for Residential Property



1HFY14 vs 1HFY13
+ RM 1.8 bil
+ 17.0%

Loans Growth for Commercial Property



1HFY14 vs 1HFY13
+ RM 0.6 bil
+ 16.0%

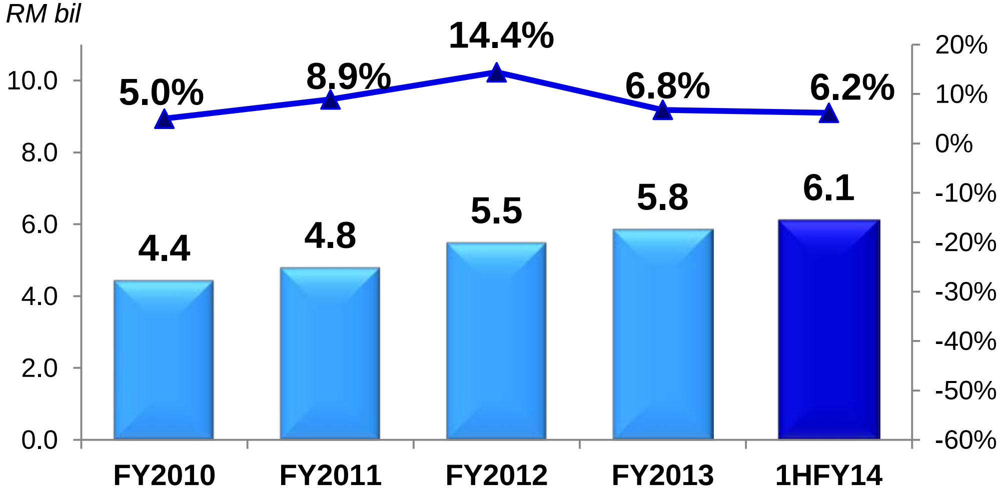
- Residential properties: + RM1.8 billion or 17.0% y-o-y growth, higher than the industry growth rate of 12.8%
- Commercial properties: + RM0.6 billion or 16.0% y-o-y growth
- Focus on high growth areas i.e. Klang Valley, Penang and Johor, with attractive housing loan packages for the right customer segments

ALLIANCE FINANCIAL GROUP

Loans Growth: SME & Transport Vehicles

Lending for SMEs Expanded 6.2% Y-o-Y; Resumed growth in Hire Purchase

Loans Growth for SME

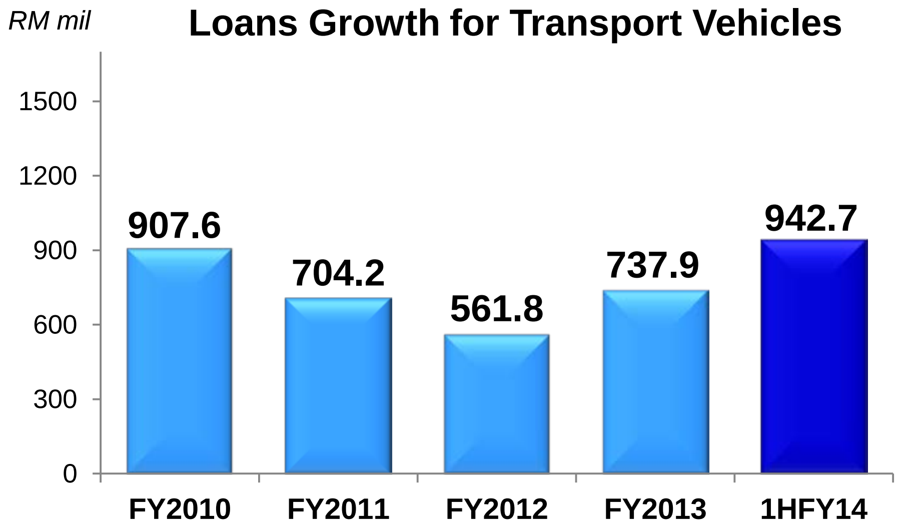


1HFY14 vs 1HFY13
+ RM 0.4 bil
+ 6.2%

- SME Lending: + RM 0.4 billion or 6.2% y-o-y loans growth.
- Lending to accelerate in 2HFY14, with flow-through impact of ETP Projects.

(RM'mil)	1HFY13	FY2013	1HFY14	Y-o-Y Growth	Annualised Growth
SME	5,747	5,849	6,114	6.2%	9.1%
Corporate	5,284	5,170	5,287	0.1%	4.5%

Loans Growth for Transport Vehicles



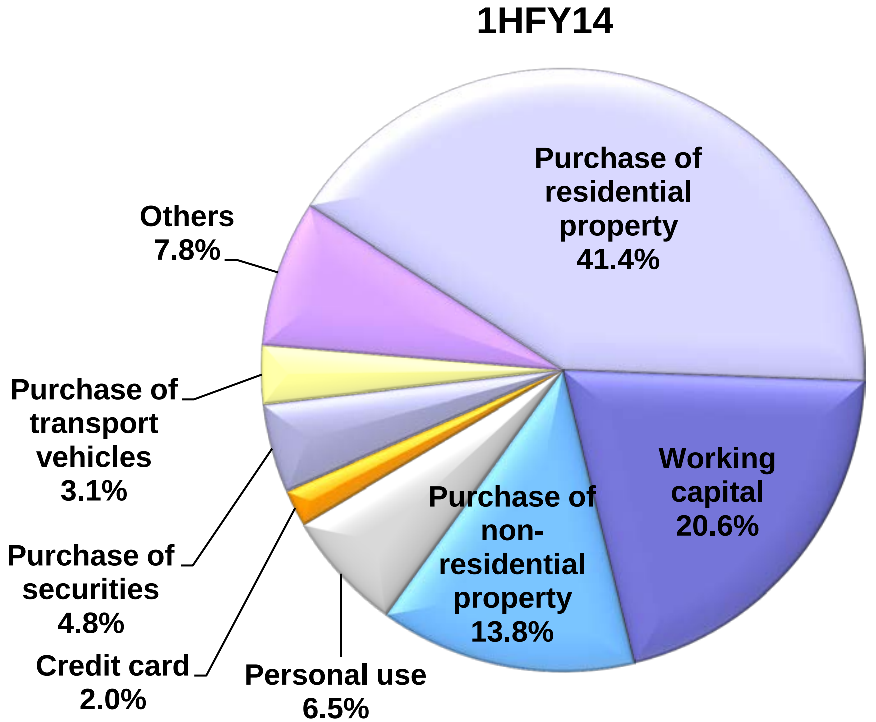
1HFY14 vs 1HFY13
+ RM 0.4 bil
+60.1%

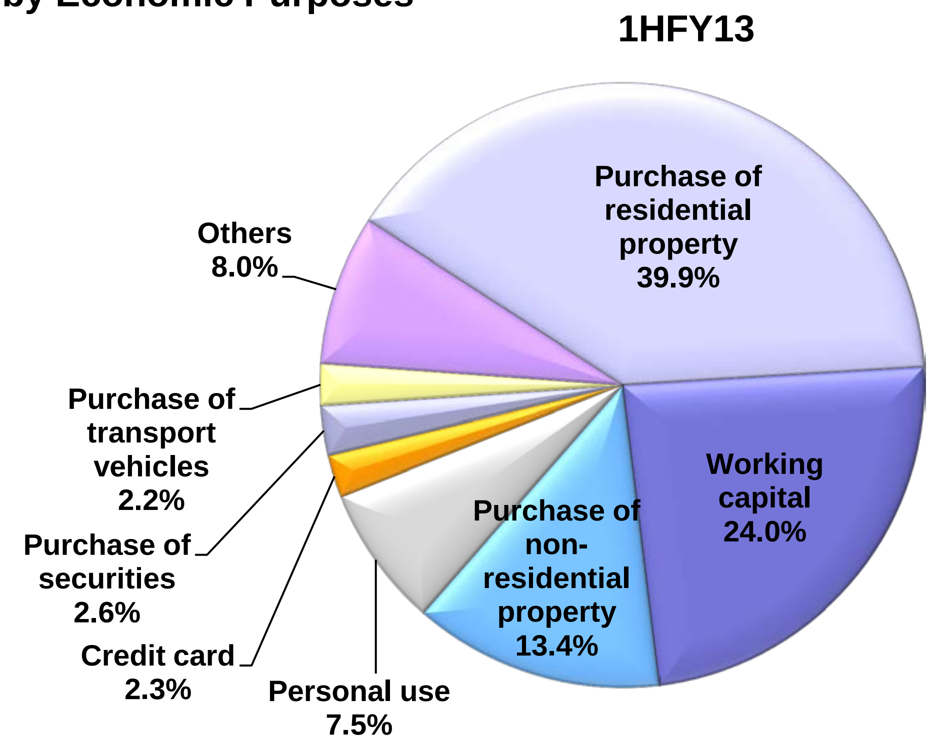
- Re-commenced Hire Purchase financing in April 2012, focusing on new and non-national marques.
- +RM353.9 million y-o-y growth with continued expansion of panel of car dealers and distributors

Composition of Loans Portfolio

Well Diversified & Secured Loans Portfolio

Loans Composition by Economic Purposes

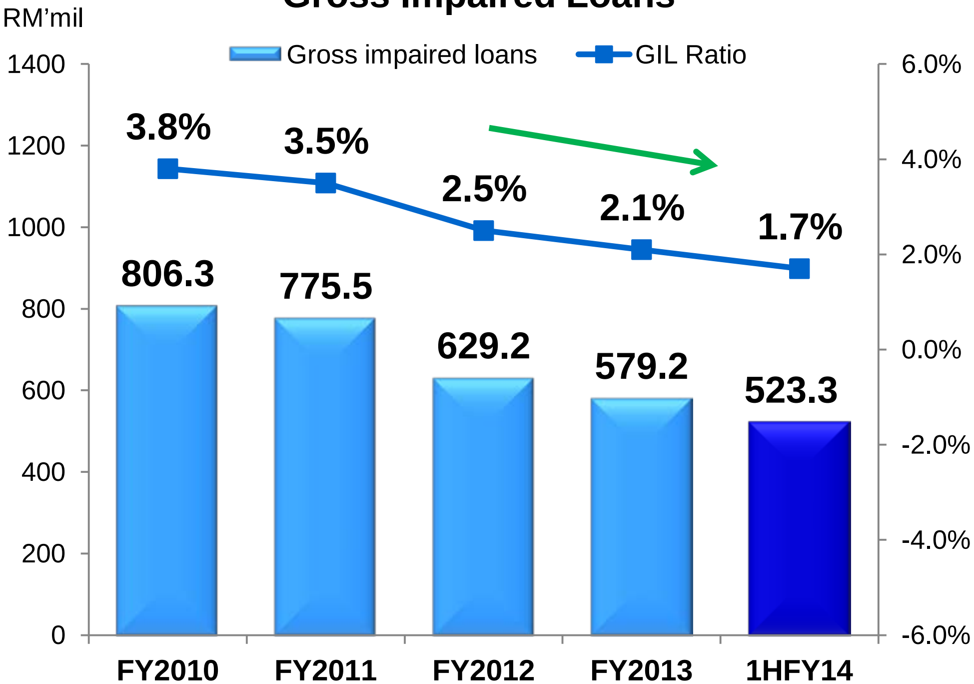




- Risk Management – well diversified and collateralised loan book
- Residential and non-residential properties account for 55.2% of gross loans portfolio:
  - 41.4% of loans portfolio is for residential properties, up from 39.9% as at 1HFY13
  - 13.8% for non-residential properties
- 20.6% of gross loans are for working capital compared to 24.0% in 1HFY13.

Continued Improvement In Asset Quality – Net Impaired Loans Ratio at 0.9%

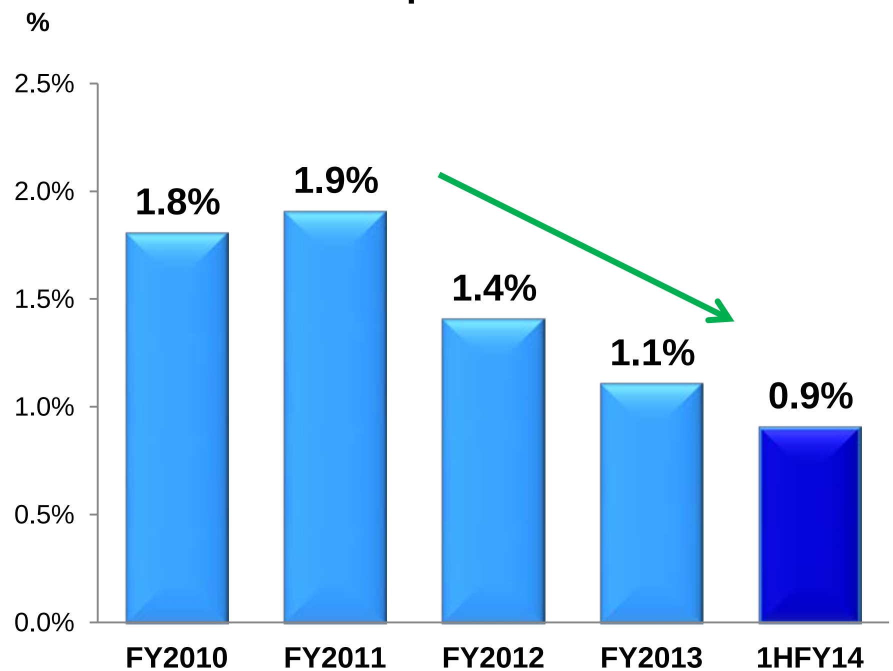
Gross Impaired Loans



1HFY14 vs 1HFY13
GIL: - RM 77 mil
-12.8%

1HFY14 vs 1HFY13
GIL Ratio: - 0.6%
(from 2.3% Sep 2012)

Net Impaired Loans Ratio



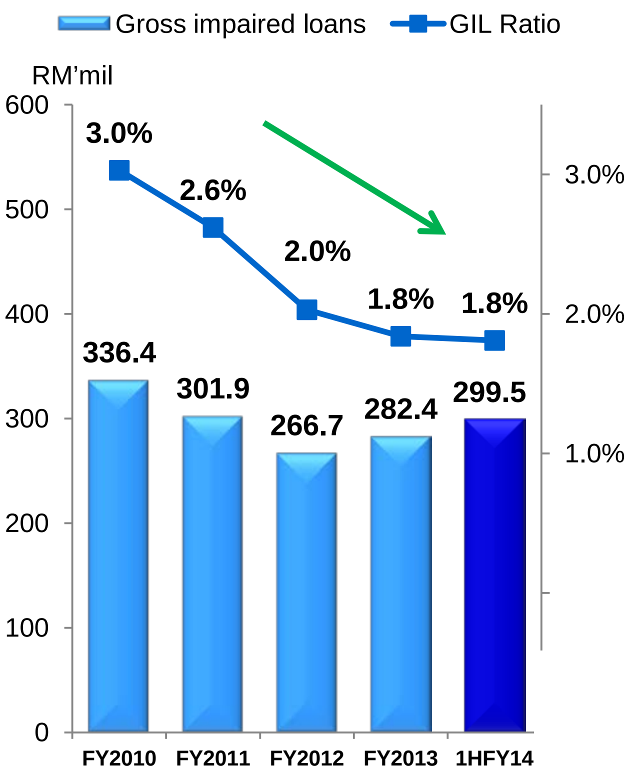
1HFY14 vs 1HFY13
NIL Ratio: - 0.3%
(from 1.2% Sep 2012)

- Net reduction in gross impaired loans of RM77 million y-o-y, despite a 12.6% y-o-y gross loans growth
- Continue to intensify collection efforts

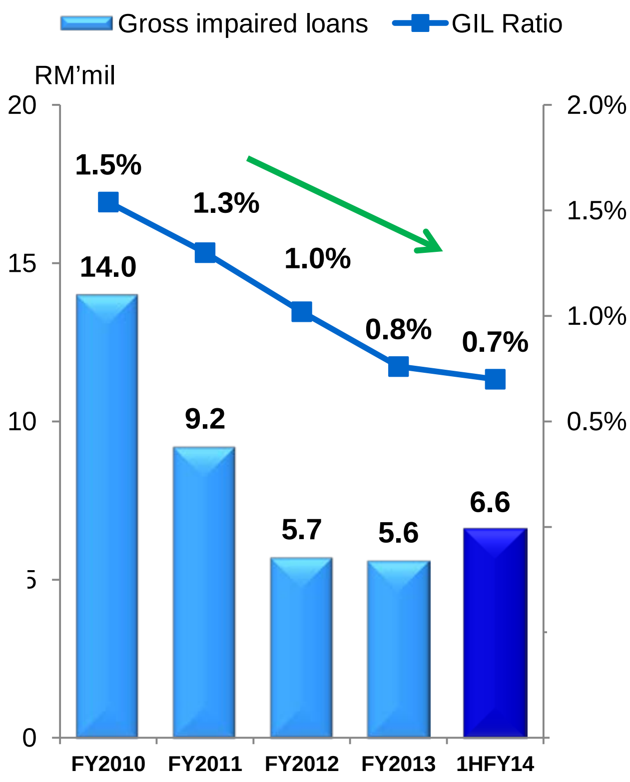
Asset Quality: Mortgages, Hire Purchase, SME

Continued Improvement in Asset Quality for Mortgages, Hire Purchase and SME segment

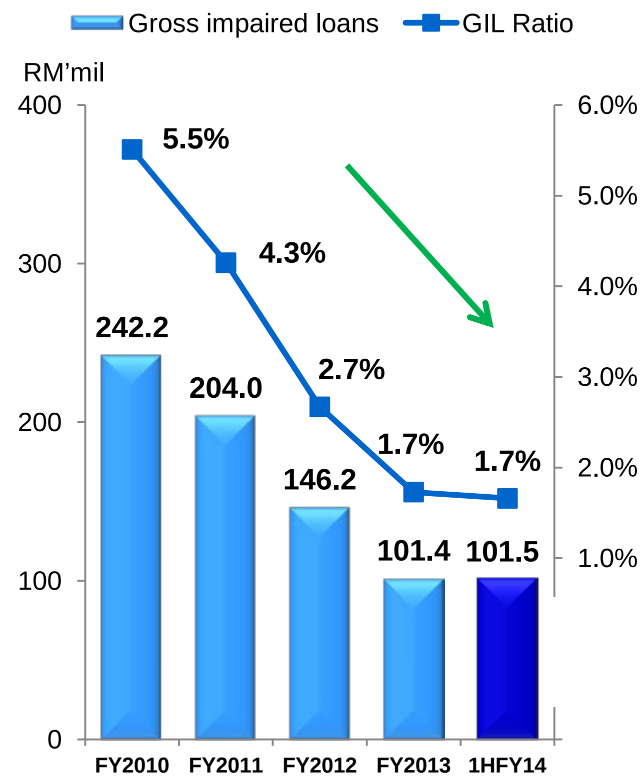
Purchase of Residential and non-residential Property



Purchase of Transport Vehicles



SME



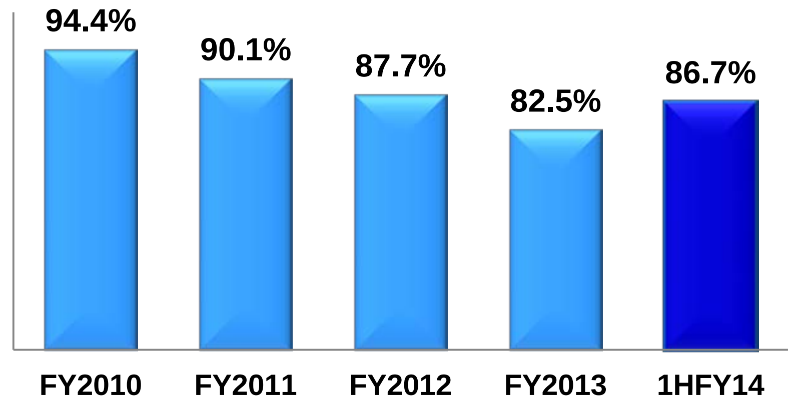
- The asset quality continued to improve, with the gross impaired loans ratio for the purchase of residential & non-residential property and transport vehicles further declined to 1.81% and 0.69% respectively.
- Gross impaired loan ratio for SME segment further improved to 1.66%.

1st Half FY2014: RM5.7 m Net Write-Back In Provisions Due to Recoveries

Net (Write-back) / Allowance of losses on Loans & Financing

- Net write-back in Q2FY14 is due to intensified recoveries.
- In Q1FY4, credit charge was ~2.5 bps
- CLO recoveries of RM0.9 million in 1HFY14.

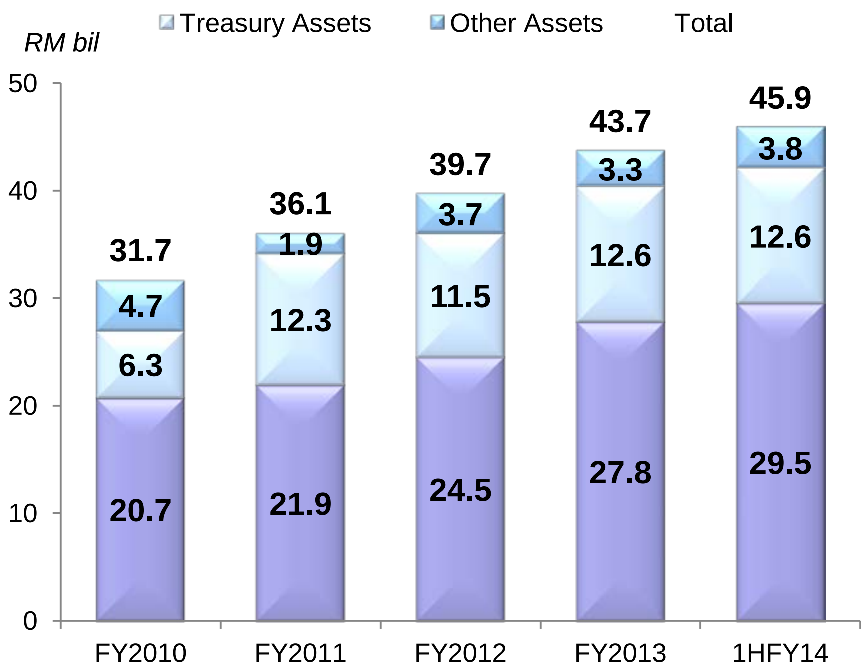
Loan Loss Coverage



RM'000	1HFY14	1HFY13
Individual assessment	(3,551)	13,121
Collective assessment	1,541	398
Bad debts recovered	(13,755)	(28,983)
Bad debts written off	9,682	7,099
Write-back of commitments /contingencies	-	(105)
Allowance for impairment on property, plant & equipment	1,243	1,420
Write-back of losses on loans and other losses	**(4,850)**	**(7,050)**
Write-back of impairment (CLO)	**(902)**	**-**
Total write-back	**(5,742)**	**(7,050)**

Effective Utilisation of Balance Sheet: Net Loans Constitute 64.3% of Total Assets

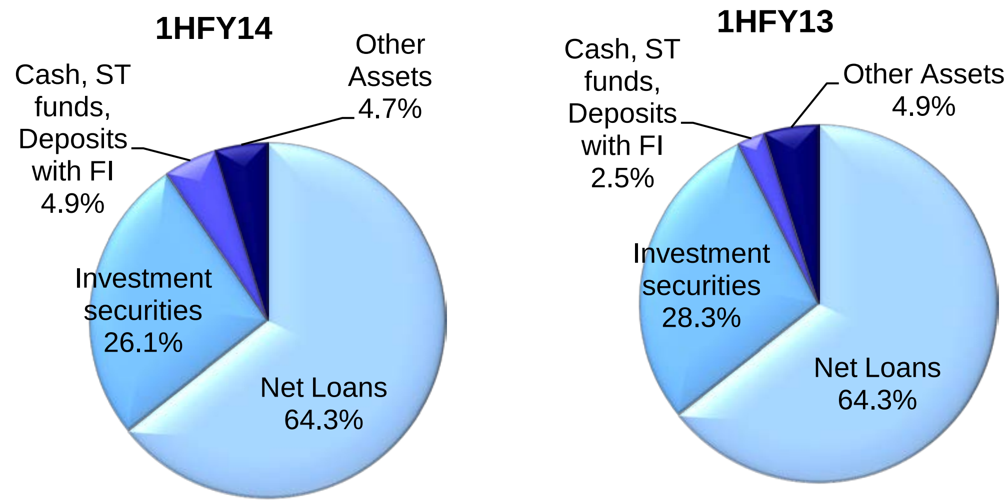
Total Assets Trend



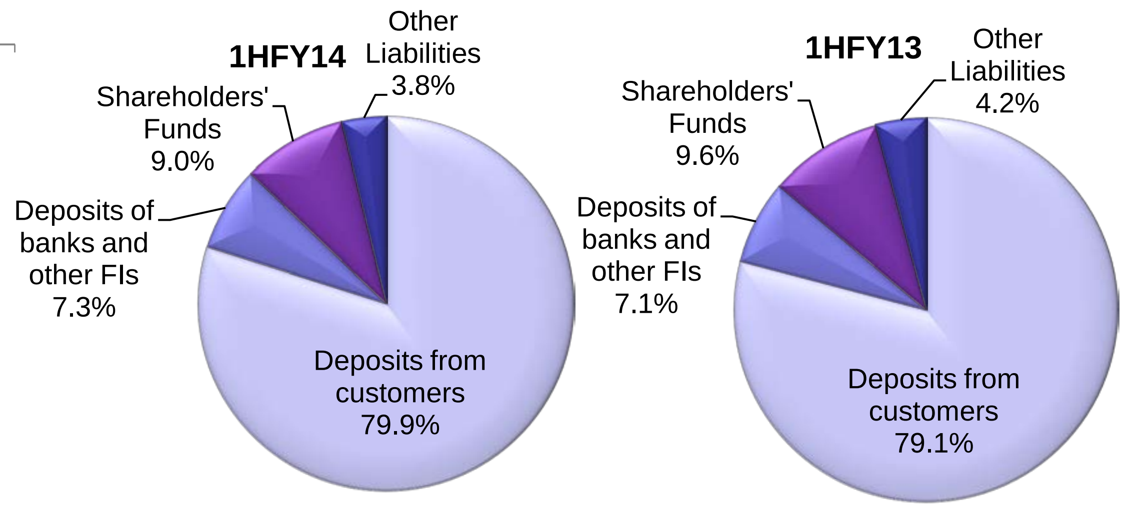
2QFY14 vs 2QFY13
+ RM 5.3bil
+ 13.1%

- Total assets expanded by RM5.3 billion or 13.1% y-o-y to RM45.9 billion.

Composition of Total Assets

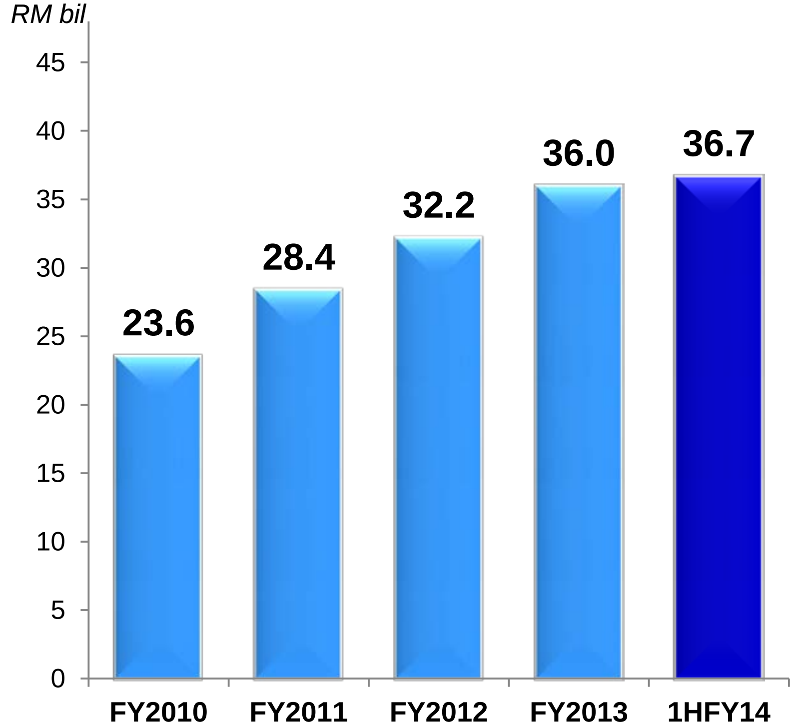


Composition of Total Liabilities/ Equity



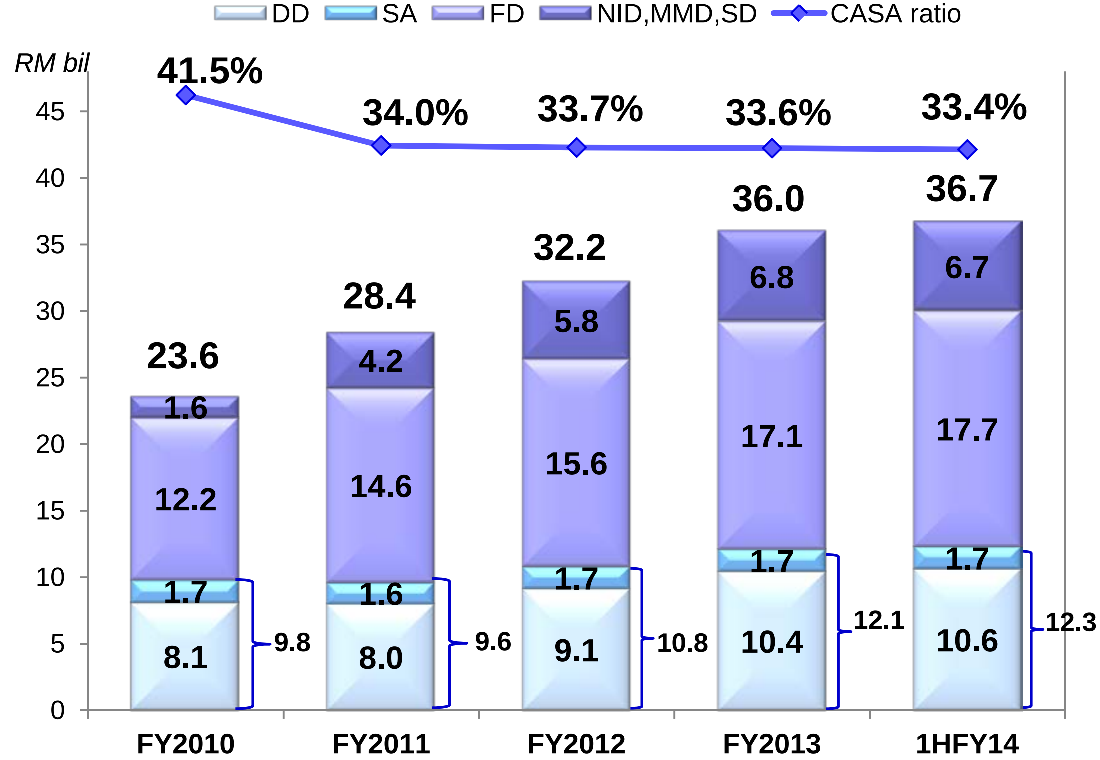
Robust Y-o-Y Deposit Growth of 14.3%, With CASA Deposits Up 10.8% to RM12.3 billion

Customer Deposits Trend



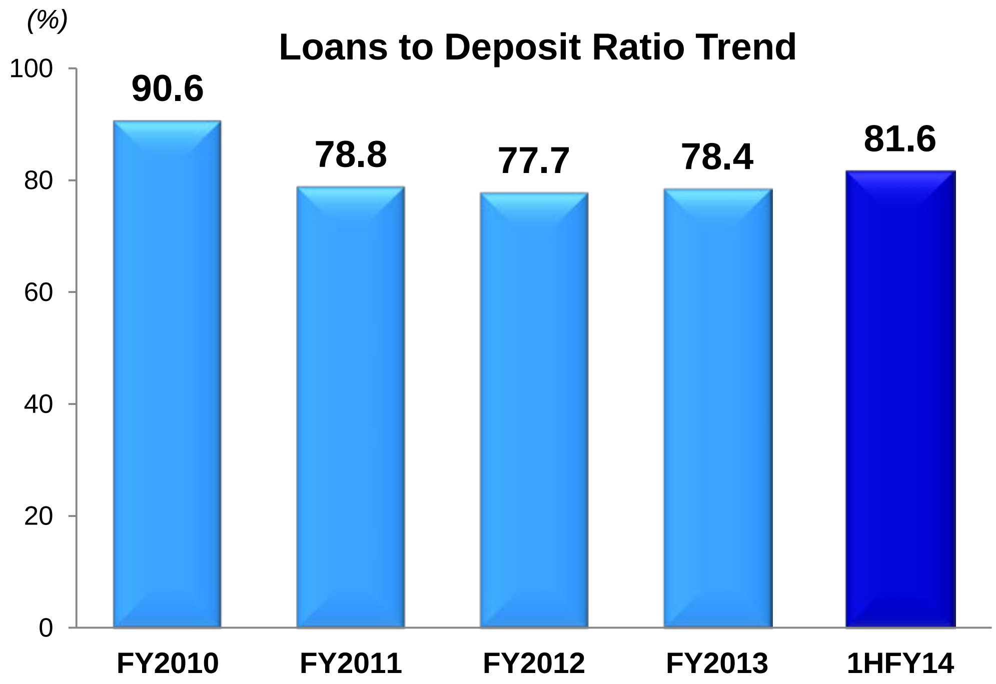
1HFY14 vs 1HFY13
+ RM4.6 bil
+ 14.3%

CASA Trend



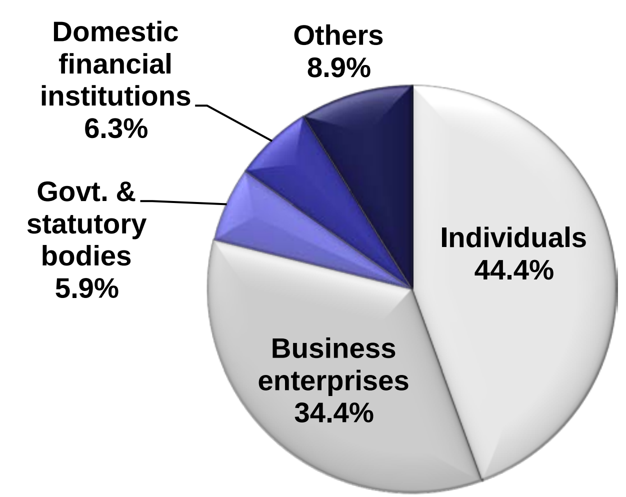
- Total customer deposits of RM36.7 billion as at 1HFY14, up 14.3% from the same period last year.
- CASA deposits expanded by RM1.2 billion or 10.8% y-o-y to RM12.3 billion in 1HFY14.

Strong Liquidity Position with Loans to Deposits Ratio at 81.6%

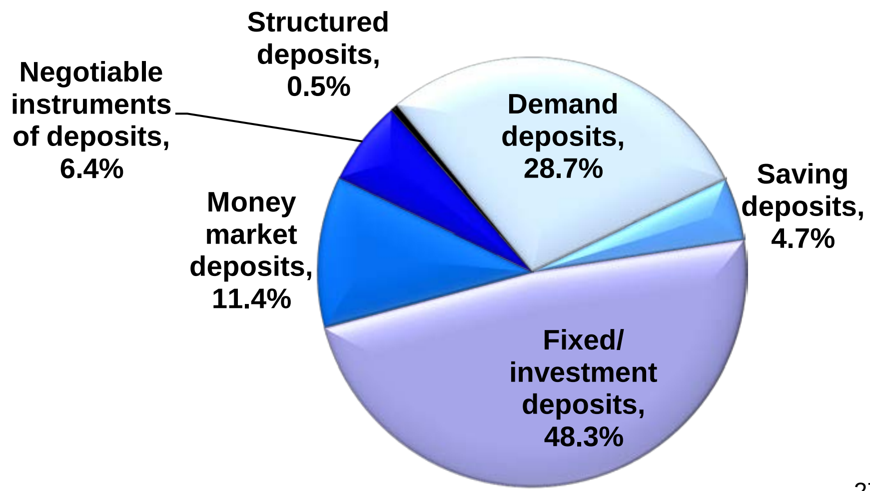


- Loans to Deposit Ratio of 81.6% as at September 2013.
- Our overall strategy is to eventually raise Loans to Deposit ratio closer to 85.0%:
  - for more efficient balance sheet management; and
  - to be in line with industry

Deposits Composition by Customer Type

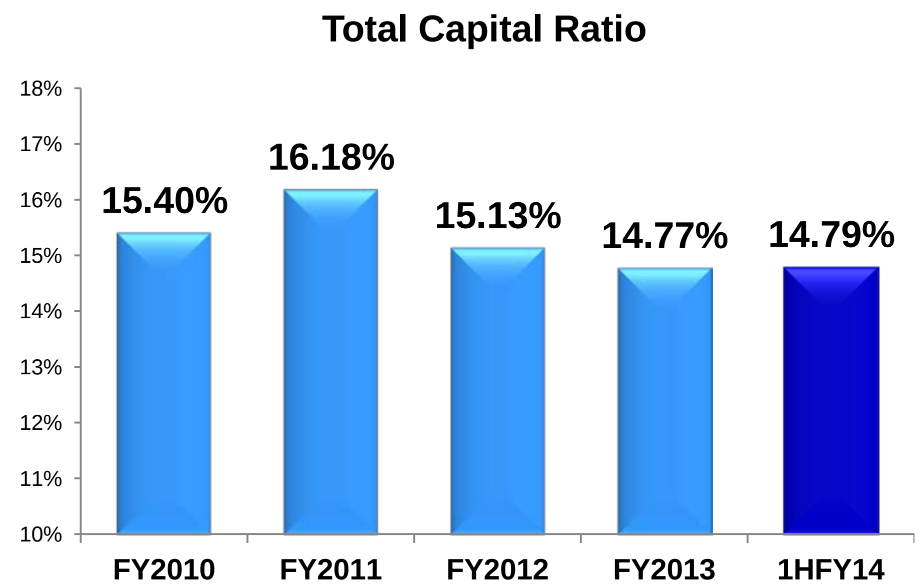


Deposits Composition by Product Type



Basel III: Capital Adequacy Ratios by Legal Entities

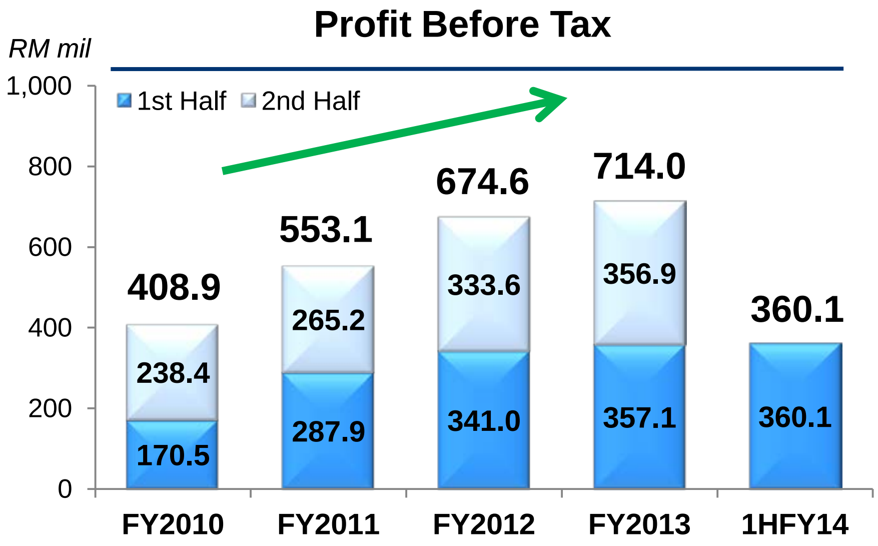
Legal Entities	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
AFG	**10.76%**	**12.17%**	**14.79%**
ABMB	11.50%	12.86%	12.86%
AIS	13.78%	13.78%	14.53%
AIBB	86.43%	86.43%	86.47%
Basel III Minimum regulatory capital adequacy ratio ^	***4.5%***	***6.0%***	***8.0%***

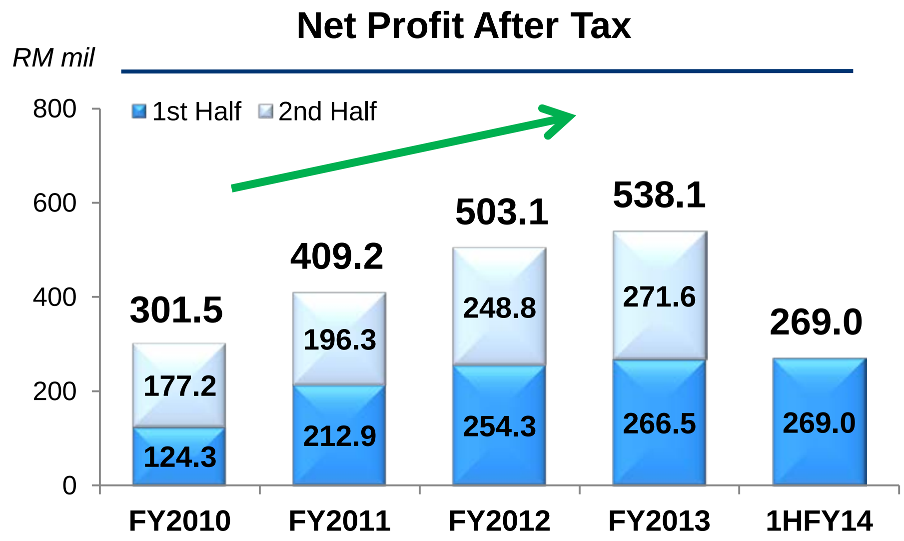


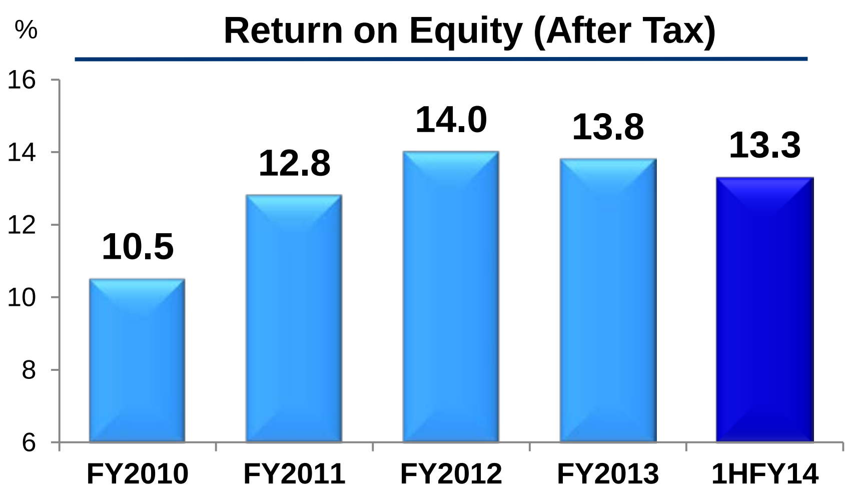
- Strong profit generation capacity to fund balance sheet expansion and targeted dividend payouts.
- Continuous enhancement of capital usage by focusing on:
  - Less capital intensive lending activities – Consumer, Mortgage and SME lending
  - Non-interest income and fee based activities – Wealth Management and Transaction Banking
  - Improving asset quality
- Capital adequacy ratios are well above Basel III requirements.

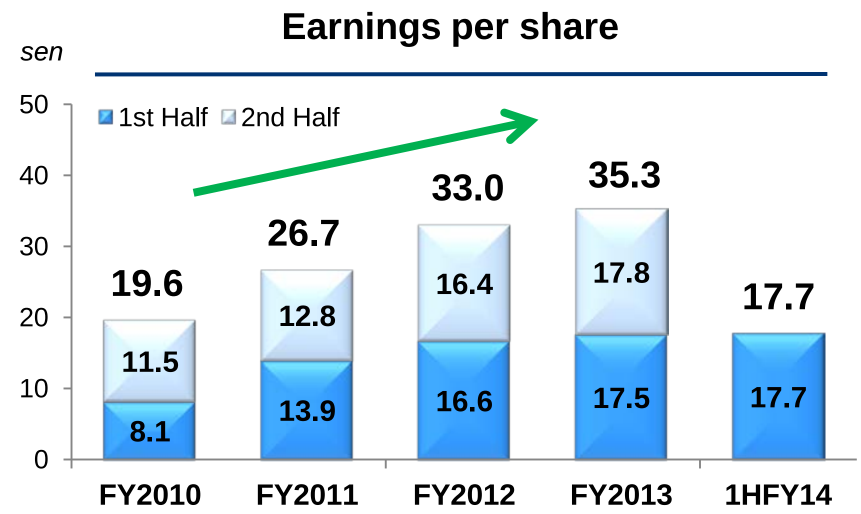
^ Based on the Basel III minimum capital ratios for calendar year 2015

Return on Equity at 13.3%, with Consistent Growth in Earnings Per Share







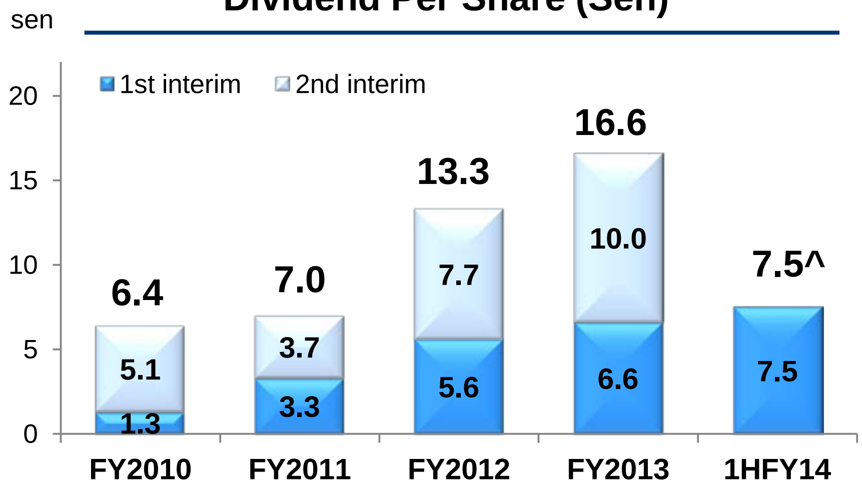


ALLIANCE FINANCIAL GROUP

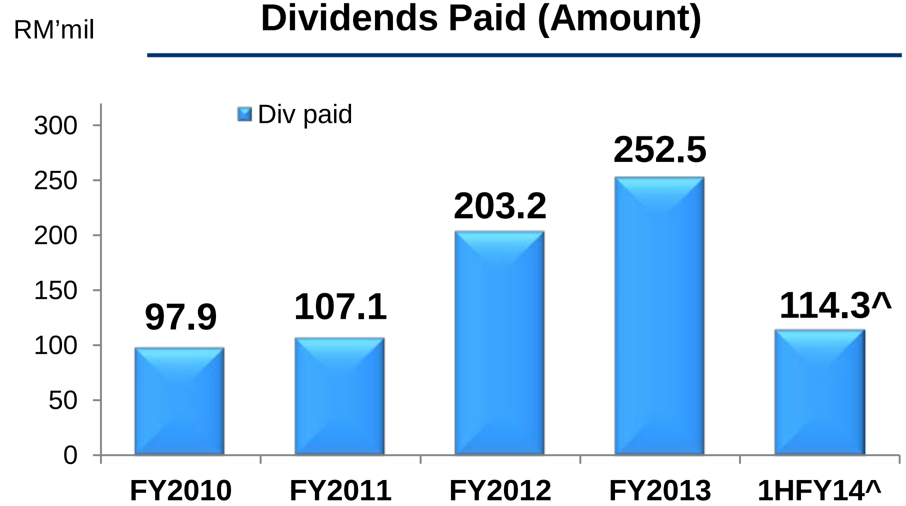
Enhanced Shareholder Value

1HFY14: Progressively Raising Dividend Payout in line with Policy of up to 50% of Net Earnings

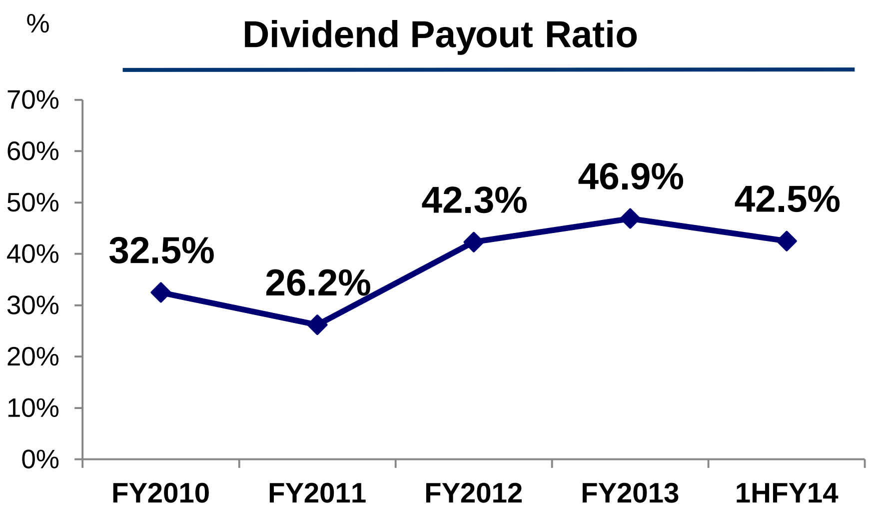
Dividend Per Share (Sen)



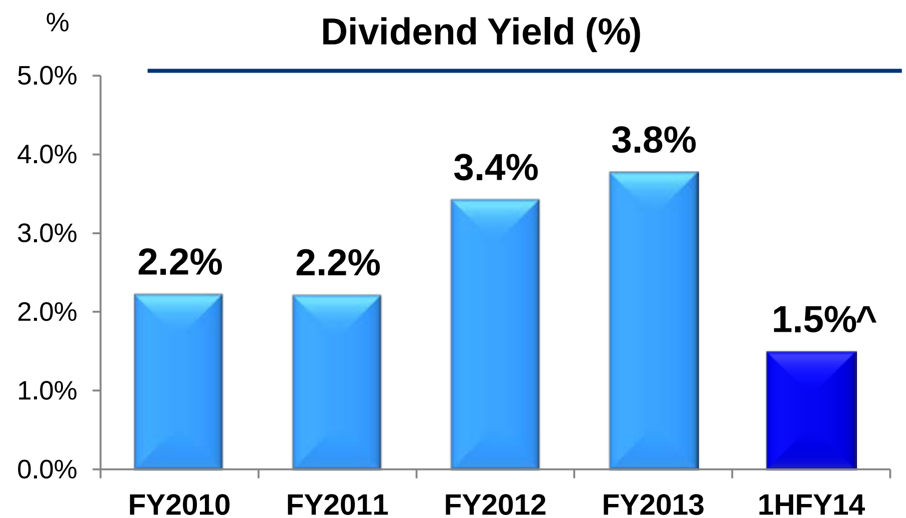
Dividends Paid (Amount)



Dividend Payout Ratio



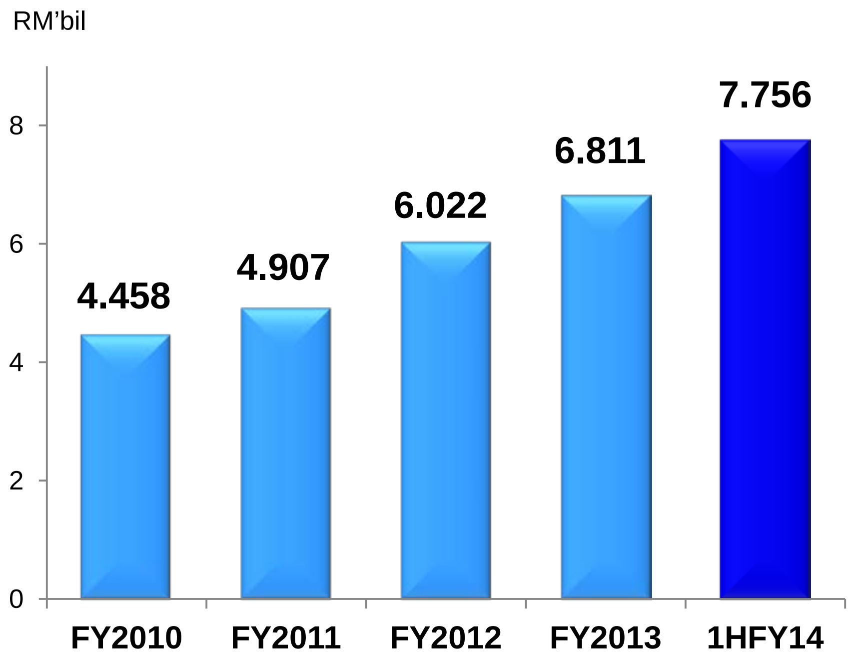
Dividend Yield (%)



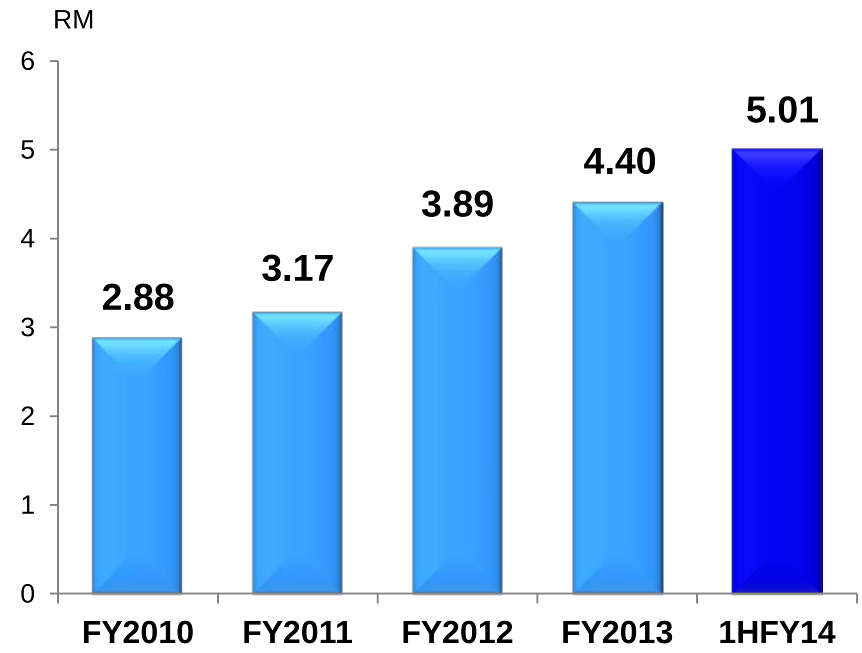
Note: ^ based on first interim dividend

1HFY14: Steady improvement in Market Capitalisation and Share Price performance

Market Capitalisation



Share Price Performance



- Market capitalisation and share price performance is improving steadily, with 3.5 years' CAGR at 17.1%.

THANK YOU

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