ALLIANCE FINANCIAL GROUP BERHAD (6627-X)

Banking Made Personal

ANALYST BRIEFING

1QFY2015

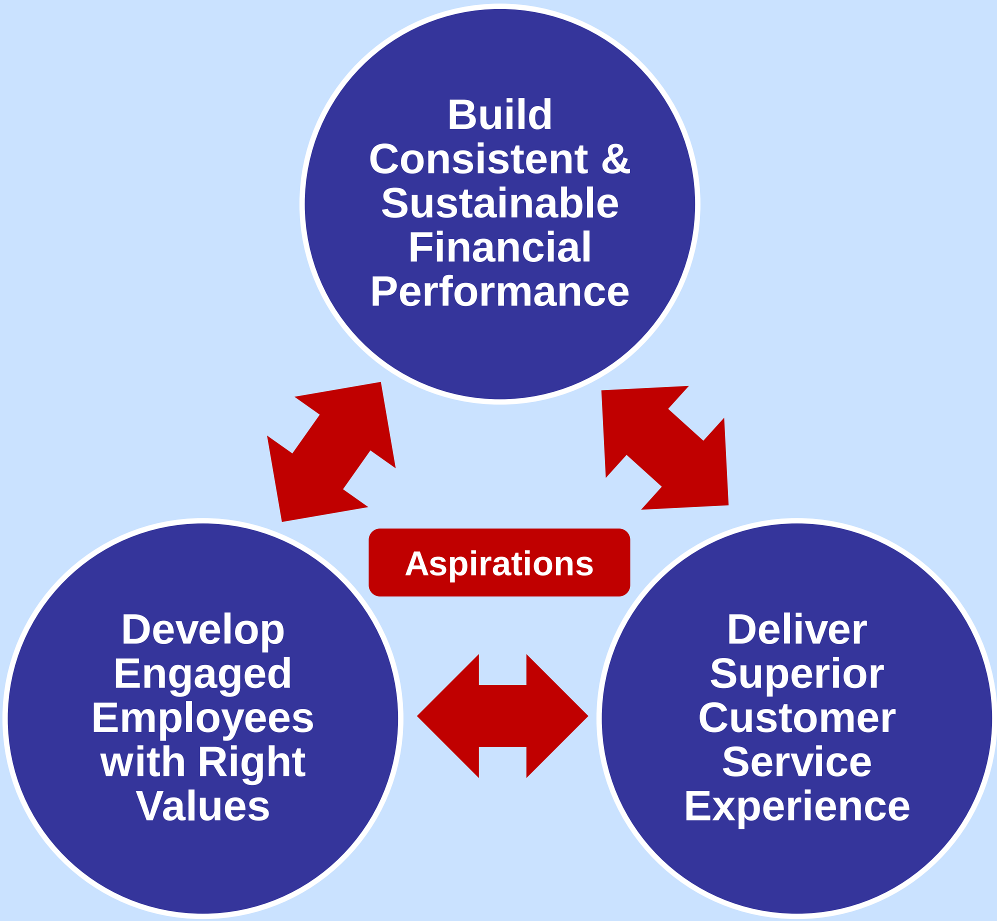
11 August 2014

FINANCIAL INSIGHTS INNOVATION AWARDS 2014

ASIA'S BEST ONLINE BANKING

Contents

We have Built a Strong Franchise in Consumer & SME Banking



- Clear niche in Consumer & SME Banking:
- Focused on delivering long term sustainable financial performance:
  - ✓ Loans growth faster than industry at 15.7%
  - ✓ Improved asset quality with net impaired loans ratio at 0.8%
  - ✓ Effective funding structure with CASA ratio at 34.7%
  - ✓ Strong capital ratio at 13.2%
- Dividend policy to pay up to 60% of net profits

1QFY2015 : Good Progress Against Our 3-Year Medium Term Targets FY2012 – FY2015

Alliance Financial Group

		FY2011	Q1FY15
Asset Quality	… net impaired loans to be better than industry average	1.9%	0.8%
Non-Interest Income Ratio	… to increase non-interest income to 30% of total revenue	20.8%	25.7%
Cost to Income Ratio	… move to industry average (45%-48%) through: • targeted revenue growth • improved productivity	48.3%	48.0%
Return on Equity	… achieve industry average (14%-16%) through: • focus on underlying earnings momentum • effective capital management	12.8%	12.8%
Dividend Policy	… pay up to 60% of net profits after tax, subject to regulatory approvals and strong capital ratios	26.2%	N/A

ALLIANCE FINANCIAL GROUP

Summarised Income Statement

Sustainable & Consistent Financial Performance: 8.3% Net Interest Income Growth

Income Statement	1QFY15 RM mil	1QFY14 RM mil	Change (y-o-y)	
			RM mil	%
Net Interest Income	199.8	184.5	15.3	8.3
Islamic Banking Income	53.7	53.9	-0.2	-0.3
Non-Interest Income	83.2	125.9	-42.7	-33.9
Net Income	336.7	364.2	-27.5	-7.6
Operating Expenses	161.7	174.9	-13.2	-7.5
Pre-Provision Operating Profit	175.1	189.3	-14.2	-7.5
Allowance for losses on loans, advances & financing and other losses & impairment	1.8	5.4	-3.6	-67.4
Pre-tax profit	173.3	184.0	-10.7	-5.8
Net Profit After Taxation	130.8	137.8	-7.0	-5.1

- +8.3% rise in ***net interest income*** from 15.7% net loans growth, but interest margins remain under pressure.
- Lower Non-Interest Income in 1QFY15:
  - 1st Quarter last year included one-off upfront sign-on fee income of RM30 million from Bancassurance agreement with Manulife.
  - Lower gain from disposal of financial investments by RM9.5 million due to the sluggish treasury and capital market

  Note: Excluding the one-off Bancassurance fee income of RM30 million, non-interest income declined by 13.2% compared to the corresponding period last year.

- -7.5% reduction in ***operating expenses*** contributed by effective cost management. The Group incurred MSS cost of RM10.6 million this quarter, compared to VSS cost of RM22.3 million last year.

Summarised Balanced Sheet

Net Loans Growth at 15.7% Y-o-Y, Driven By Consumer & SME Lending

Balance Sheet	1QFY15 RM bil	1QFY14 RM bil	Change	
			RM bil	%
Total Assets	50.1	44.1	6.0	13.6
Treasury Assets	12.8	12.2	0.6	4.4
Net Loans	32.8	28.4	4.4	15.7
Customer Deposits	39.6	35.7	3.9	10.9
CASA Deposits	13.7	12.8	0.9	7.6
Shareholders' Funds	4.1	4.1	-	0.1
Net Loans Growth (y-o-y)	15.7%	11.9%	-	3.8%
Customer Deposits Growth (y-o-y)	10.9%	13.0%	-	-2.1%

- +15.7% y-o-y ***net loans*** growth: above industry - targeting profitable Consumer and SME segments.
- Loans growth momentum accelerated following streamlining of processes from loan origination to disbursements
- +10.9% y-o-y ***customer deposits*** growth, raising loans to deposits ratio to 83.8% for more effective balance sheet management.
- +7.6% y-o-y growth in ***CASA deposits***, contributing to 34.7% of total deposits.

Note: Treasury assets comprise financial assets (HFT, AFS & HTM), derivative financial assets & placements with Financial Institutions

Key Financial Ratios

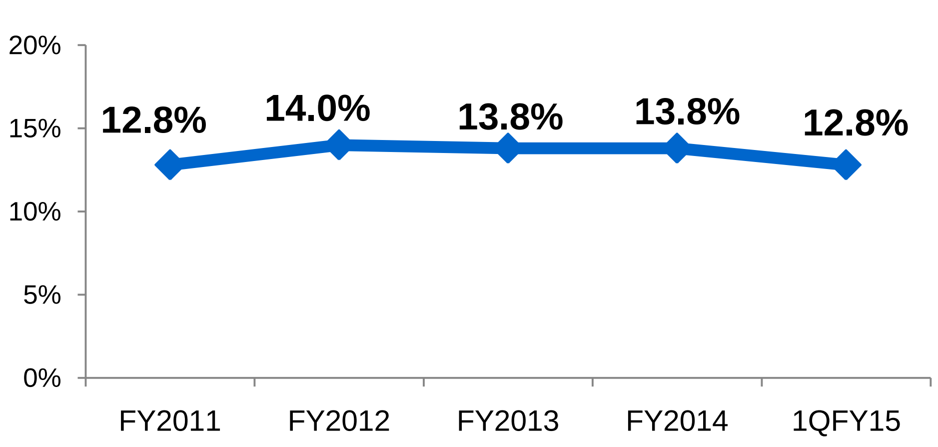
	Financial Ratios	1QFY15	1QFY14	Change
Share-holder Value	Return on Equity	12.8%	13.5%	-0.7%
	Return on Assets	1.1%	1.2%	-0.1%
	Earnings per Share	8.6 sen	9.0 sen	-0.4%
	Net Assets per Share	RM2.68	RM2.68	-
Efficiency	Non-Interest Income Ratio	25.7%	35.4%	-9.7%
	Cost-to-Income Ratio	48.0%	48.0%	-
Asset Quality	Gross Impaired Loans Ratio	1.4%	1.9%	-0.5%
	Net Impaired Loans Ratio	0.8%	1.1%	-0.3%
	Loan Loss Coverage Ratio	90.2%	84.7%	+5.5%
Liquidity	Loans to Deposit Ratio	83.8%	80.7%	+3.1%
	CASA Ratio	34.7%	35.8%	-1.1%
Capital	Common Equity Tier 1 Capital Ratio	10.0%	10.3%	-0.3%
	Tier 1 Capital Ratio	11.1%	11.7%	-0.6%
	Total Capital Ratio	13.2%	14.4%	-1.2%

- ***Cost-to-income ratio*** – maintained at 48.0% with effective cost management.
- ***Net Impaired Loans*** – further improvement to 0.8%.
- ***Loans to deposits ratio*** – raised ratio to 83.8% for more effective balance sheet management, while maintaining strong liquidity position.
- ***CASA ratio*** – improved to 34.7% on the back of CASA growth of 7.6%, slightly outpacing overall deposits growth.
- Strong ***capitalisation*** under Basel III.

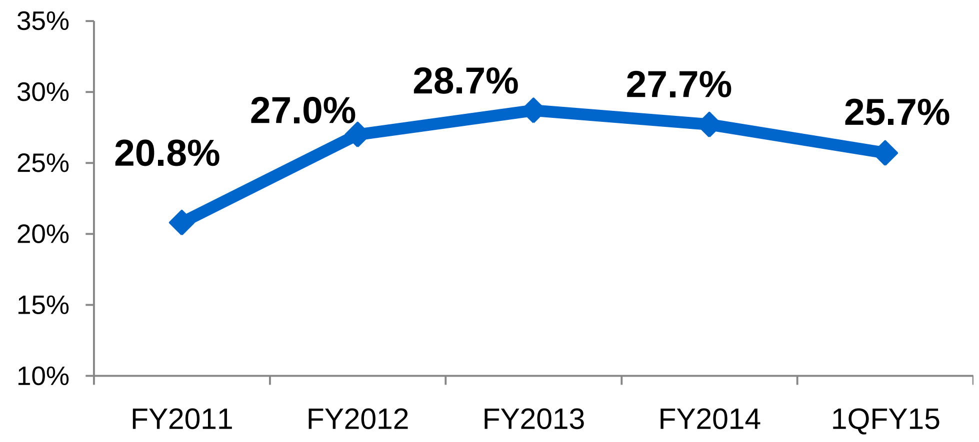
Trend: Key Financial Ratios

Sustained Financial Performance

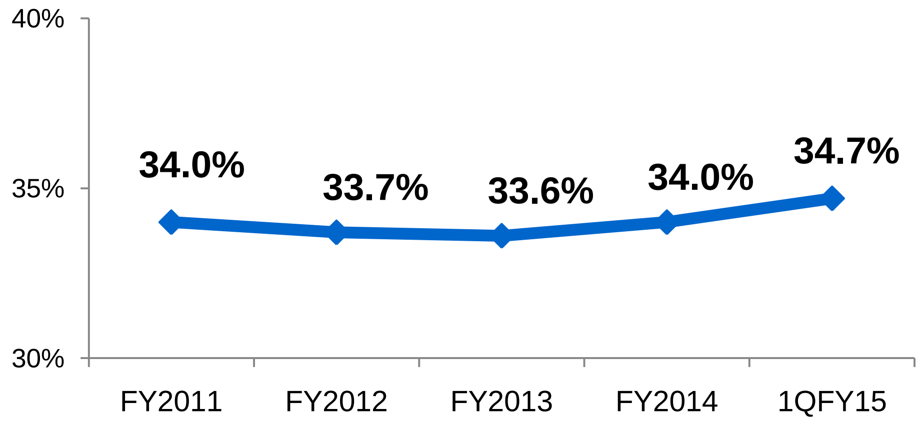
Return on Equity



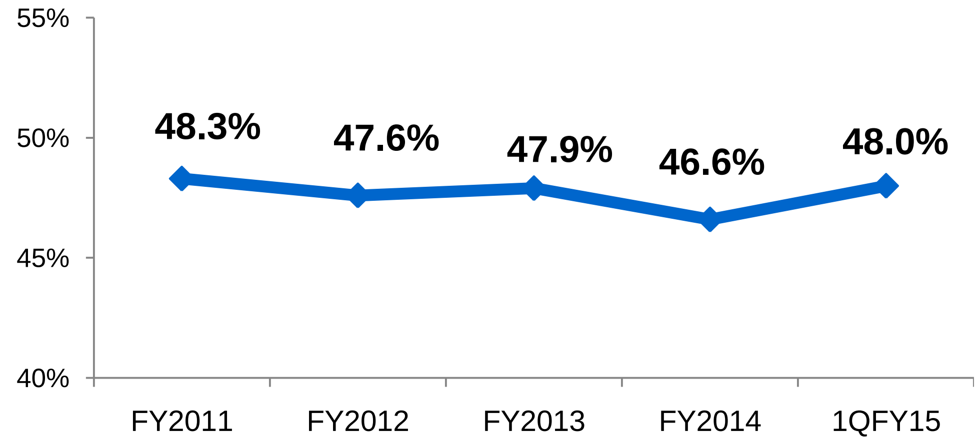
Non-Interest Income Ratio



CASA Ratio



Cost-to-Income Ratio



Franchise Building

THE ASIAN BANKER
EXCELLENCE IN RETAIL FINANCIAL SERVICES
INTERNATIONAL AWARDS 2013
BEST SME BANK
in Asia Pacific, Gulf region & Africa

GLOBAL BANKING & FINANCE REVIEW AWARDS 2013

Best SME Bank Malaysia 2013

advertising+marketing MAGAZINE'S MARKETING EXCELLENCE AWARDS 2013
AWARD WINNER GOLD

Excellence in Consumer Insights/ Market Research/ Data-Driven Marketing
Alliance OneBank Rewards

RETAIL BANKER INTERNATIONAL
Asia Trailblazer Awards 2014
Service Excellence in SME Banking

Sahabat SME Award
for 4 consecutive years
2010, 2011, 2012 & 2013

advertising+marketing MAGAZINE'S MARKETING EXCELLENCE AWARDS 2013
AWARD WINNER SILVER

Excellence in CRM & Loyalty Marketing
Alliance OneBank Rewards

Asian Banking & Finance Retail Banking Awards 2013
Credit Card Initiative Of The Year - Malaysia

Banking & Payments ASIA TRAILBLAZER AWARDS
Service Excellence in SME Banking & Service Provider Excellence in Virtualization 2013

Promotions Marketing Awards of Malaysia 2013

Best Brand Loyalty Campaign
Alliance OneBank Rewards

VISA Malaysia Bank Awards 2012
Highest Payment Volume Growth for Visa Platinum Card

FIIA
Financial Insights Innovation Awards
Excellence in SME Banking 2012

Franchise Building

THE ASIAN BANKER®
TECHNOLOGY IMPLEMENTATION AWARDS 2014
SELF SERVICE BANKING PROJECT

FINANCIAL INSIGHTS INNOVATION AWARDS 2014 — ASIA'S BEST ONLINE BANKING

FINANCIAL INSIGHTS INNOVATION AWARDS 2014 — ASIA'S MOST CUSTOMER FRIENDLY BANK

ASIAN BANKING & FINANCE RETAIL BANKING AWARDS 2014

IDC Financial Insights - Financial Insights Innovation Awards 2014

Online Banking Initiative Of The Year – Malaysia

Malaysia's 100 Leading Graduate Employers 2013

THE HIGHEST CUSTOMER SATISFACTION INDEX SCORE IN MALAYSIA
ABM and MPC
2013

ABM & MPC Highest CSI* Index Score in Malaysia 2013

Enterprise & IT Architecture Global Excellence Awards 2012
SOA Vision for Enterprise Services

GLOBAL FINANCIAL MARKET REVIEW AUTHENTIC AWARD

The Best SME Bank Malaysia 2014

* Note: Customer Satisfaction Index

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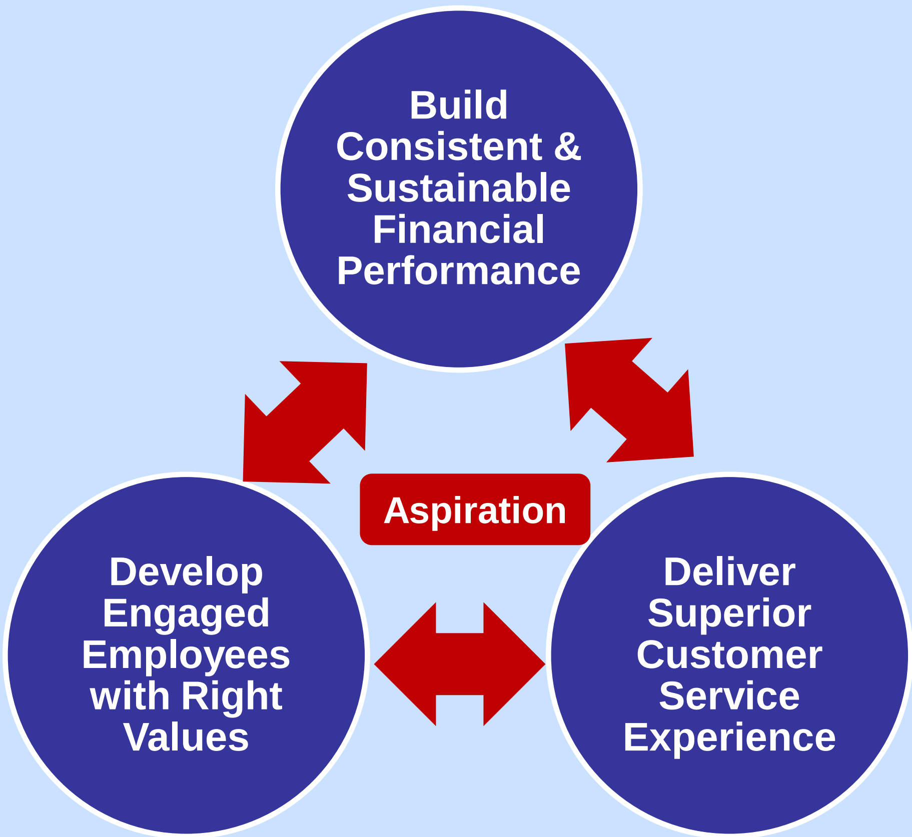
Continue To “Deliver Consistent and Sustainable Financial Performance”



Our Priorities

- Build on strengths and niche in Consumer and Business Banking
- Enhance existing branch network and leverage on alternate channels
- Enhance customer service through streamlining of processes and raising staff productivity
- Improve efficiency in resource utilisation, ensuring impactful investments in technology and infrastructure
- Strengthen investment banking and Islamic banking capabilities

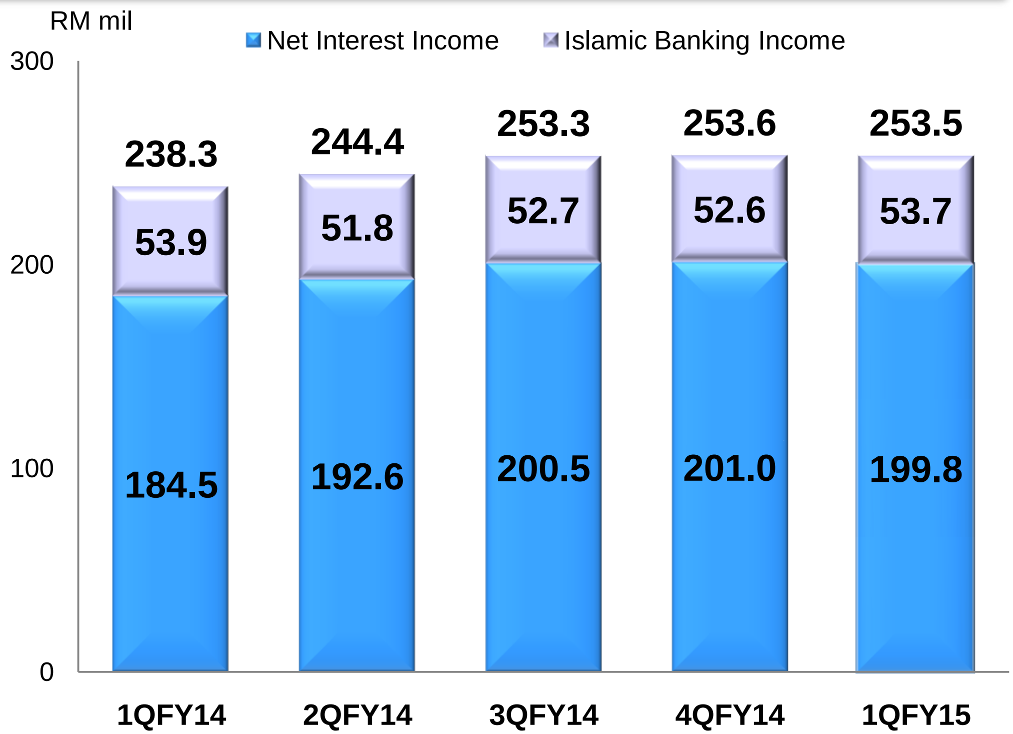
… We will continue to exercise caution & implement vigilant risk management to deliver consistent & sustainable results…

Contents

Interest & Islamic Banking Income

Steady Growth in Net Income Driven by Higher Loans Growth

Net Interest Income & Islamic Banking Income

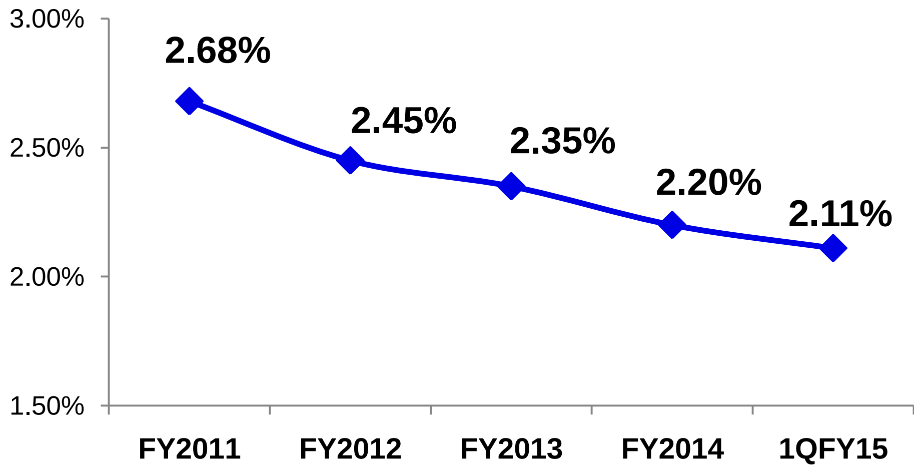


1QFY15 vs 1QFY14
+ RM 15.2 mil
+6.4%%

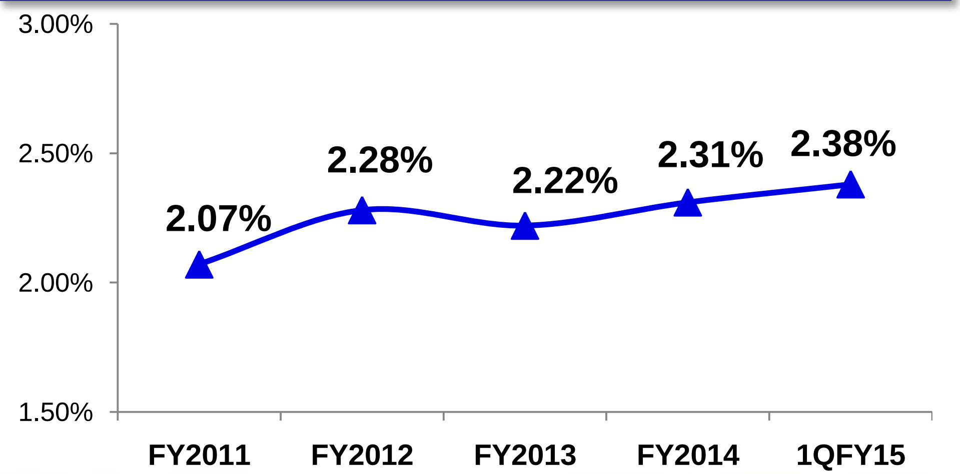
- **Net interest income** growth of RM15.3 million or 8.3% y-o-y:
  - ✓ +RM48.4 million increase in interest income primarily from loans growth; but offset by
  - ✓ +RM33.1 million rise in interest expense from 10.9% y-o-y expansion in deposits and stiffer competition for deposits, as deposit rates re-priced ahead of OPR rise.
- **Net income from Islamic Banking**:
  - ✓ On the uptrend in FY15, with expansion in hire purchase lending offsetting the run-off of the high yield Co-op personal financing.

Net Interest Margin Continues To Be Under Pressure

Net Interest Margin Trend



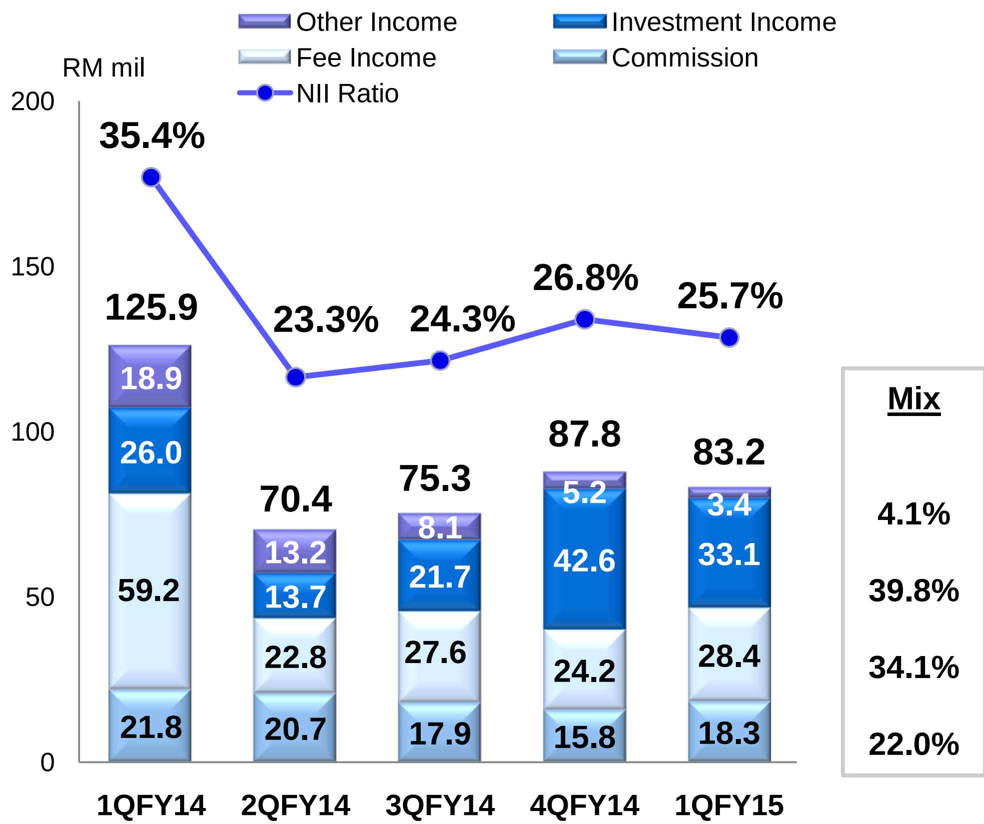
Cost of Funds Trend



- **Net Interest Margin (NIM)** was 2.11% for 1QFY15, down 14 bps since June 2013.
- Continuing margin compression mainly due to:
  - Run-off from repayments of higher yielding loans:
    - ✓ Co-op loans continue to run down:
      - RM420.1 million as at June 2014
      - RM477.0 million as at June 2013
      - RM699.5 million as at June 2012
    - ✓ New mortgage loans are at lower yield
  - Housing loans as a % of total Loans:
    - 41.7% as at June 2014
    - 39.5% as at June 2013
    - 37.4% as at June 2012
  - Intensified competition for fixed deposits
- **Cost of Funds (COF)** was slightly higher to 2.38%, as deposits repriced higher ahead of OPR rise in July 2014.
- Margin compression expected to continue mainly due to intensified competition for lending activities.

Non-Interest Income Supported by Continuing Focus on Building Recurring Income

Non-Interest Income Trend



1QFY15 vs 1QFY14
- RM42.7m
- 33.9%

- **Non-interest income (NII)** in 1QFY15 decreased by RM42.7 million or 33.9%, mainly due to:
  - One-off sign-on fee income of RM30 million from Bancassurance agreement with Manulife in 1QFY14.
  - Lower gain from disposal of financial investments by RM9.5 million due to the sluggish treasury and capital market.

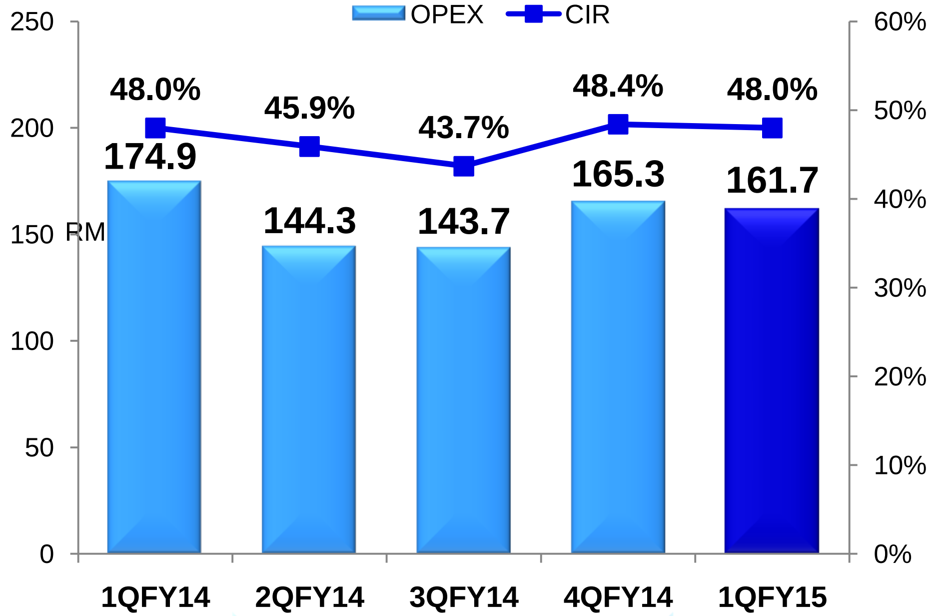
  Note: Excluding the one-off Bancassurance fee income of RM30 million, non-interest income declined by 13.2% compared to the corresponding period last year.

- **Recurring income** from transaction banking, wealth management and brokerage activities continue to contribute consistently, representing 56% of non-interest income.

Operating Expenses

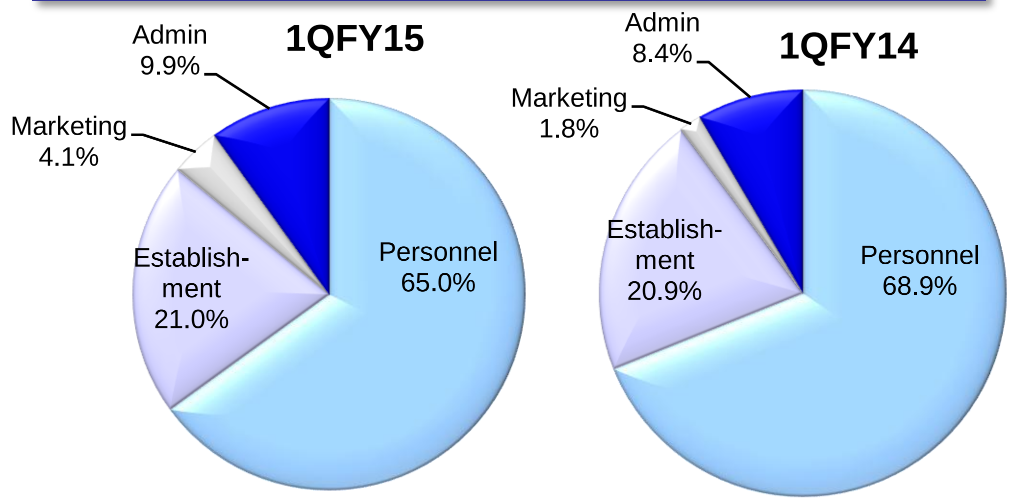
Cost-to-income Ratio improved to 48.0%, from Effective Cost Management

Operating Expenses Trend



1QFY15 vs 1QFY14
- RM13.2mil
- 7.5%

Composition of Operating Expenses

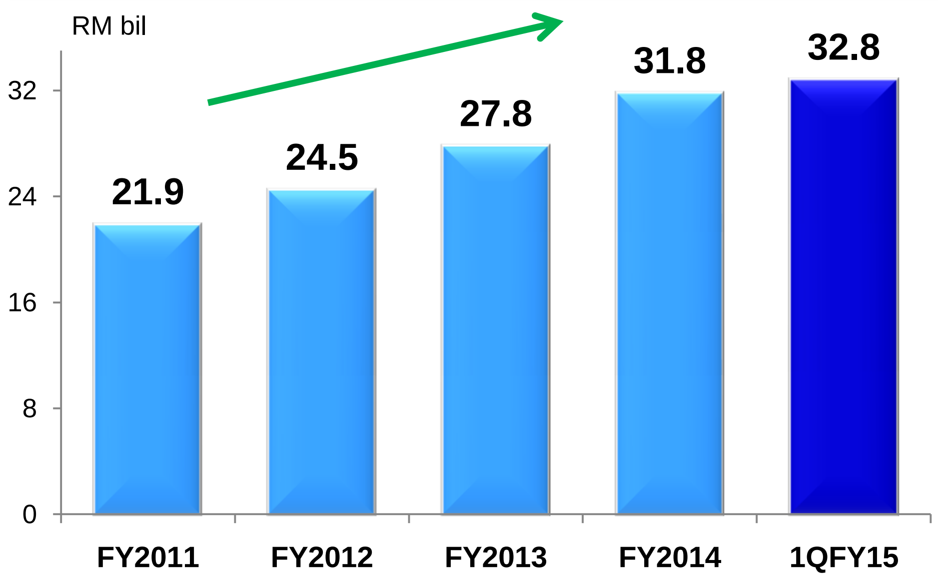


OPEX Contribution	1QFY15 RM mil	1QFY14 RM mil	Change	
			RM	%
Personnel	105.0	120.5	- 15.5	-12.8%
Establishment	33.9	36.5	- 2.6	-7.0%
Marketing	6.6	3.2	3.4	>100.0%
Administration	16.1	14.6	1.5	10.0%

- Operating expenses reduced, contributed by effective cost management with investments in IT infrastructure and marketing cum brand building.
- Overall personnel cost reduced by 12.8% to RM105.0 mil in 1QFY15. The Group incurred a one-off MSS cost of RM10.6 million in June 2014 quarter, compared to VSS cost of RM22.3 million in June 2013 quarter.
- Excluding the impact of one-offs, cost-to-income ratio would have improved to 44.9% from 45.7% last year.

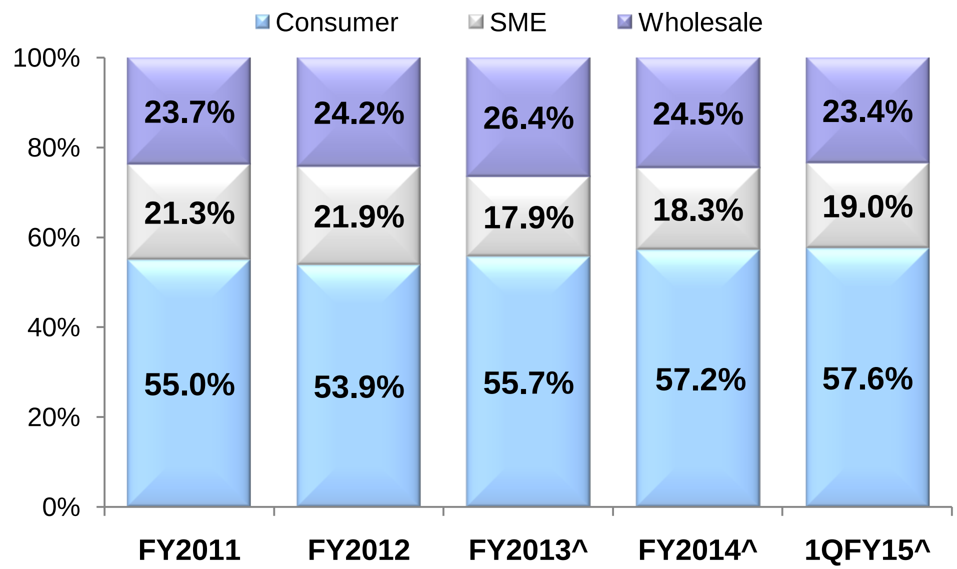
Net Loans Growth Momentum at 15.7% Y-o-Y, Driven By Consumer Lending

Net Loans, Advances and Financing Trend



1QFY15 vs 1QFY14
+ RM4.4 bil
+ 15.7%

Loans Composition by Business Segments



- **Net loans growth** of 15.7%, higher than industry loans growth
- Balanced loans composition with 57.6% Consumer; 19.0% SME and 23.4% for Wholesale Lending
- Effective management of interest rate risk: 89.6% of loan book is floating rate (FY2014: 89.7%, 1QFY14: 89.6%)

Note: ^ BNM's revised SME definition effective from 1 January 2014. FY2013 SME loans have been restated based on BNM's revised SME definition.

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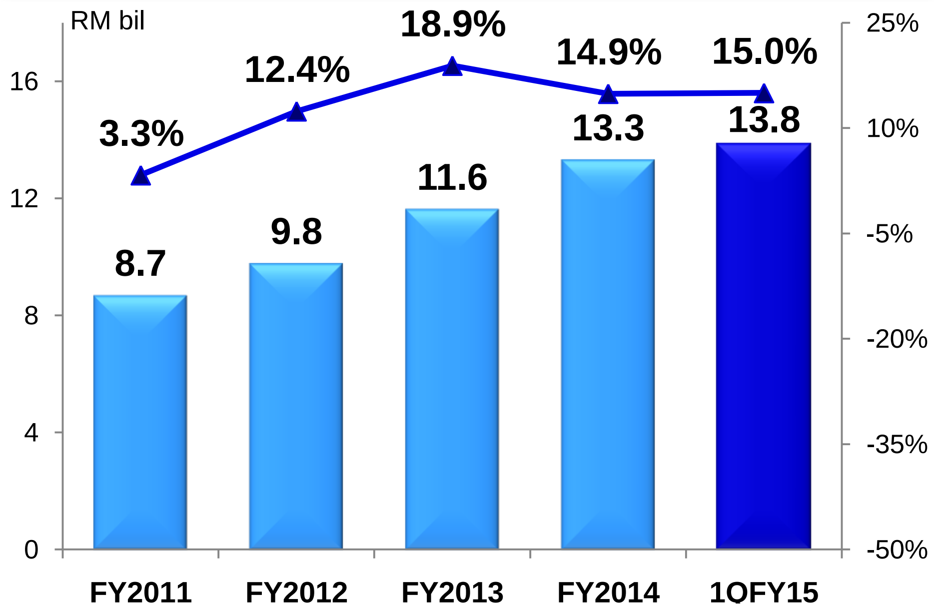
Loans Growth: Residential & Commercial

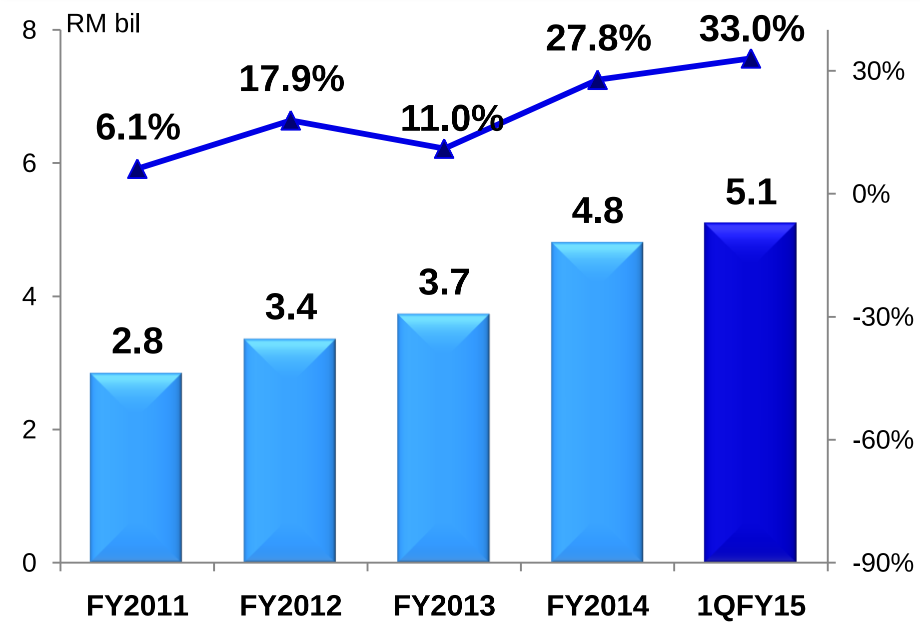
Maintained Double-digit Growth Y-o-Y for Residential & Commercial Properties

Loans Growth for Residential Property



1QFY15 vs 1QFY14
+ RM1.8 bil
+ 15.0%

Loans Growth for Commercial Property



1QFY15 vs 1QFY14
+ RM1.3 bil
+ 33.0%

- Residential properties: +RM1.8 billion or 15.0% y-o-y growth, higher than industry growth rate of 13.6%
- Commercial properties: +RM1.3 billion or 33.0% 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, and business premises financing for SMEs

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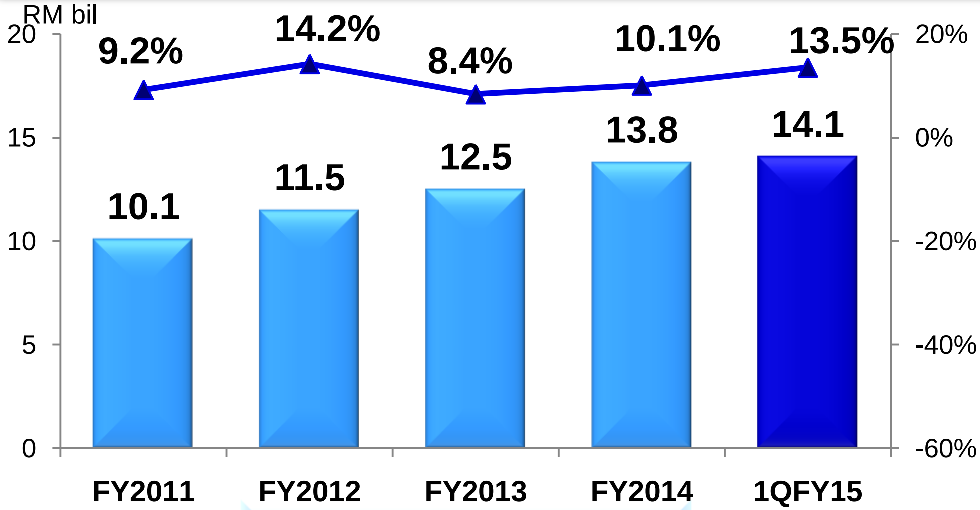
Loans Growth: BIZ & SME

Business Loans Growth Momentum Pick-Up, with Lending to SMEs at 19.9% Y-o-Y Growth

Loans Growth for Business Banking

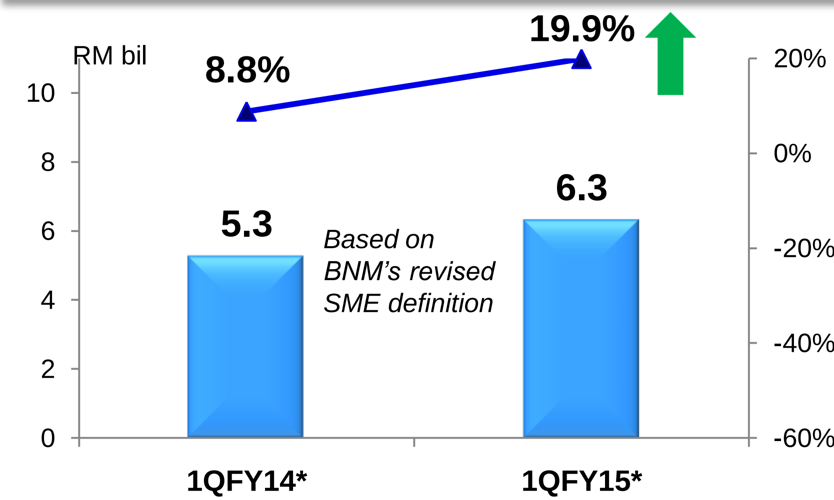


1QFY15 vs 1QFY14
+ RM1.7 bil
+ 13.5%

RM'mil	1QFY15	1QFY14	Y-o-Y Growth
SME	6,312	5,266	19.9%
Corporate & Commercial	7,753	7,123	8.8%

- Overall business loans: +RM1.7 billion or 13.5% y-o-y.
- Corporate & commercial loans: +RM0.6 million or 8.8% y-o-y, mainly attributed by growth in commercial loans.

Loans Growth for SME



1QFY15 vs 1QFY14
+ RM1.0 bil
+ 19.9%

Note:
* BNM's revised SME definition effective from 1 January 2014. FY2013 SME loans have been restated based on BNM's revised SME definition.

- SME Lending: up RM 1.0 billion or 19.9% y-o-y (based on BNM's revised SME definition).

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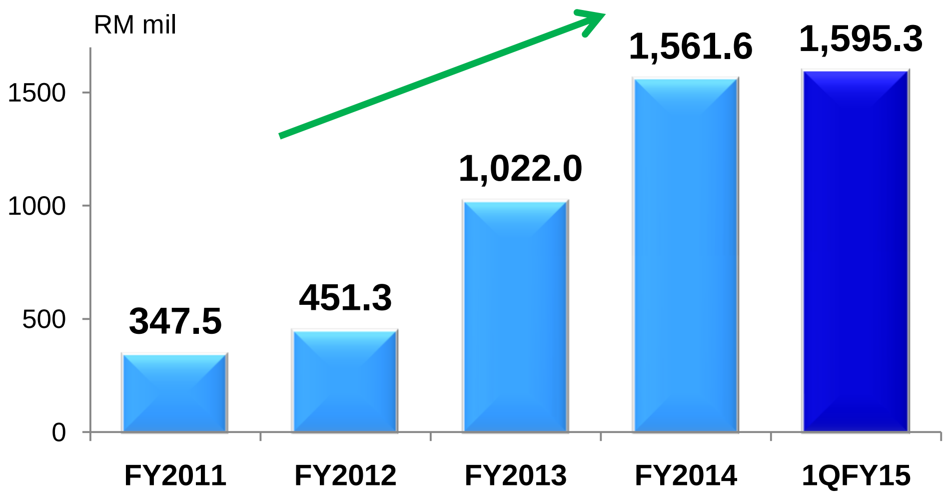
Loans Growth: Share Margin & Transport Vehicles

Growth in Share Margin Financing and Hire Purchase Loans

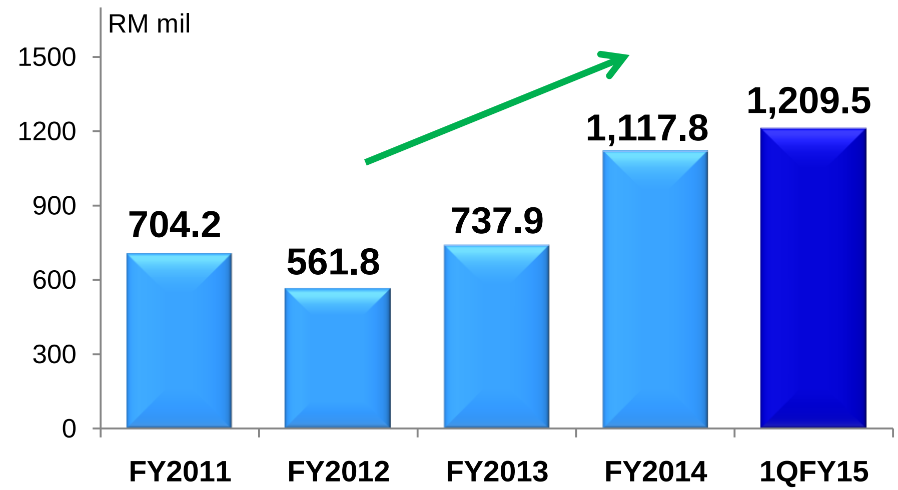
Share Margin Financing Growth



1QFY15 vs 1QFY14
+ RM 0.4 bil
+28.5%

- Steady growth in Share Margin Financing in line with greater focus on wealth management and re-organisation of retail broking business.
- + RM354.1 million or 28.5% year-on-year (y-o-y) growth

Loans Growth for Transport Vehicles

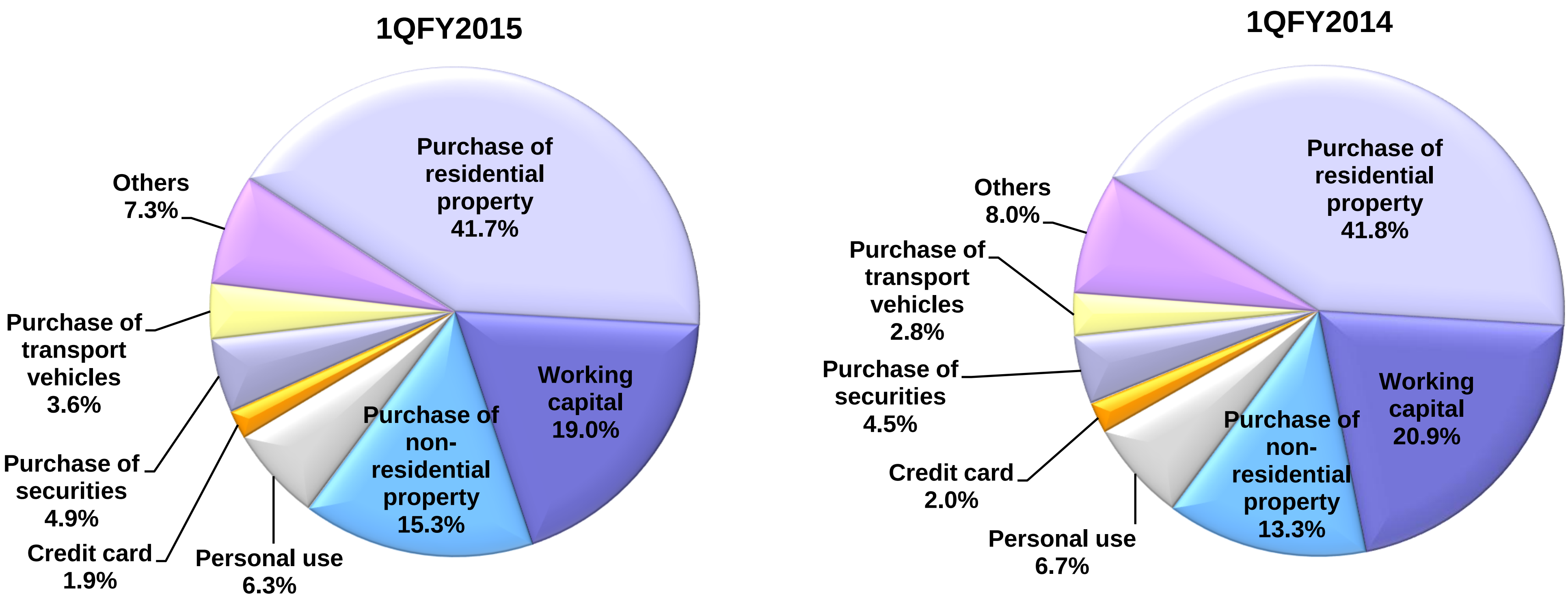


1QFY15 vs 1QFY14
+ RM0.4 bil
+47.6%

- Re-commenced Hire Purchase financing in April 2012, focusing on new cars and non-national marques.
- +RM390.3 million y-o-y growth with continued expansion of panel of car dealers and distributors.

Composition of Loans Portfolio

Well-diversified & Secured Loans Portfolio

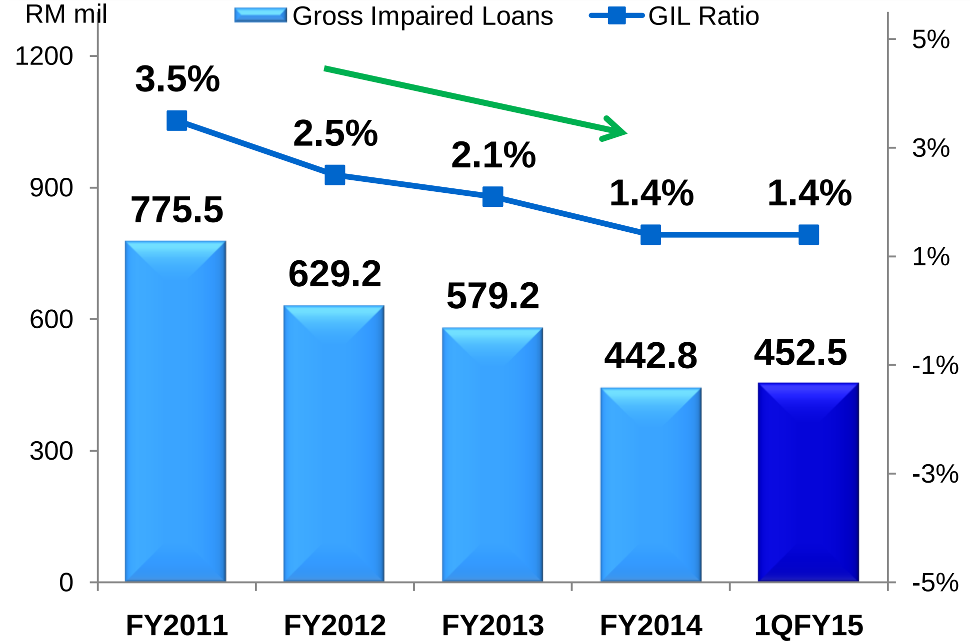


Loans Composition by Economic Purposes

- Risk Management: well-diversified and collateralised loan book.
- Residential and non-residential properties account for 57.0% of gross loans portfolio:
  - 41.7% of loans portfolio is for the purchase of residential properties (slightly down from 41.8% in 1QFY14)
  - 15.3% is for the purchase of non-residential properties (up from 13.3% in 1QFY14)
- 19.0% of loans is for working capital, compared to 20.9% in 1QFY14.

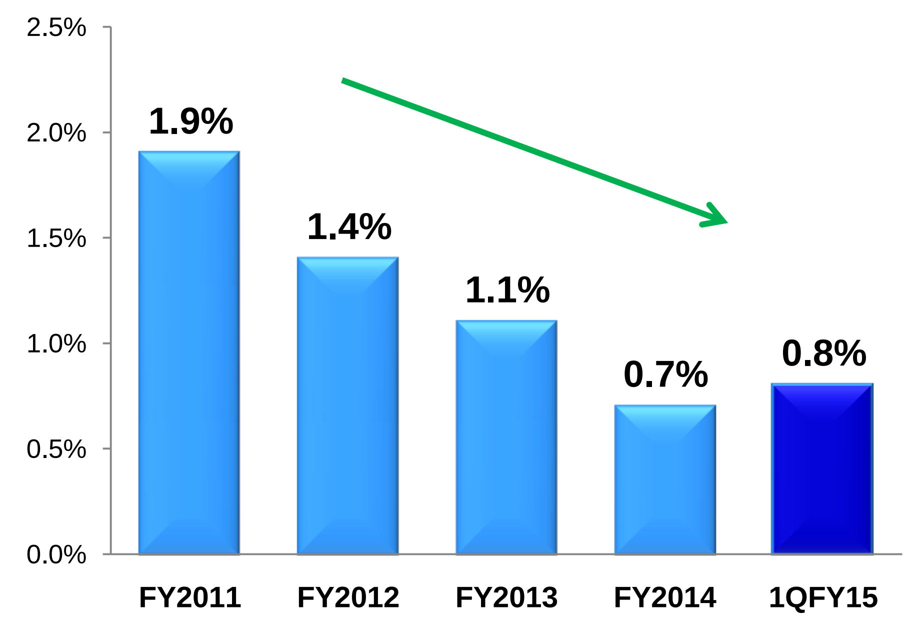
Continued Improvement In Asset Quality – Net Impaired Loans Ratio at 0.8%

Gross Impaired Loans



1QFY15 vs 1QFY14	1QFY15 vs 1QFY14
GIL: - RM107.2 mil - 19.2%	**GIL Ratio: - 0.5%** *(from 1.9% June 2013)*

Net Impaired Loans Ratio



1QFY15 vs 1QFY14
NIL Ratio: - 0.3%
(from 1.1% June 2013)

- ❑ Net reduction in gross impaired loans of RM107.2 million y-o-y, despite a 15.2% y-o-y gross loans growth.
- ❑ However, slight uptick of RM9.7 million in gross impaired loans this quarter due to housing loans & hire purchase.
- ❑ Continuing efforts to refine credit origination processes, credit scoring models and intensify collections.

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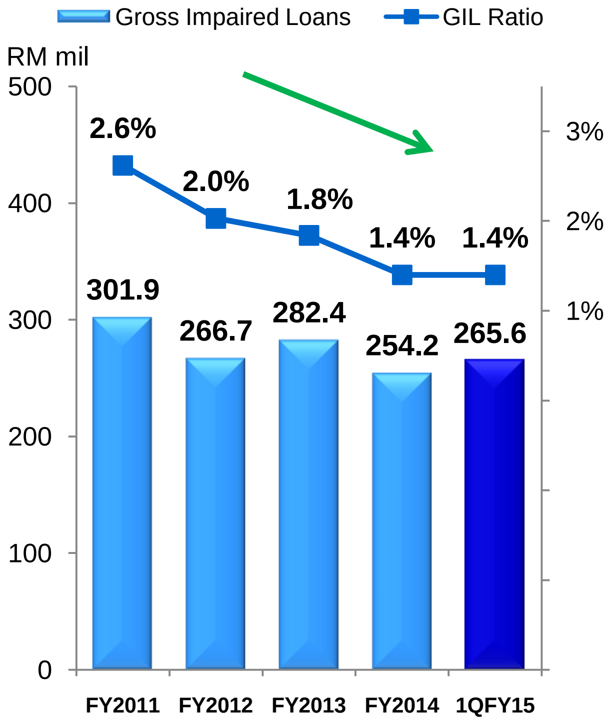
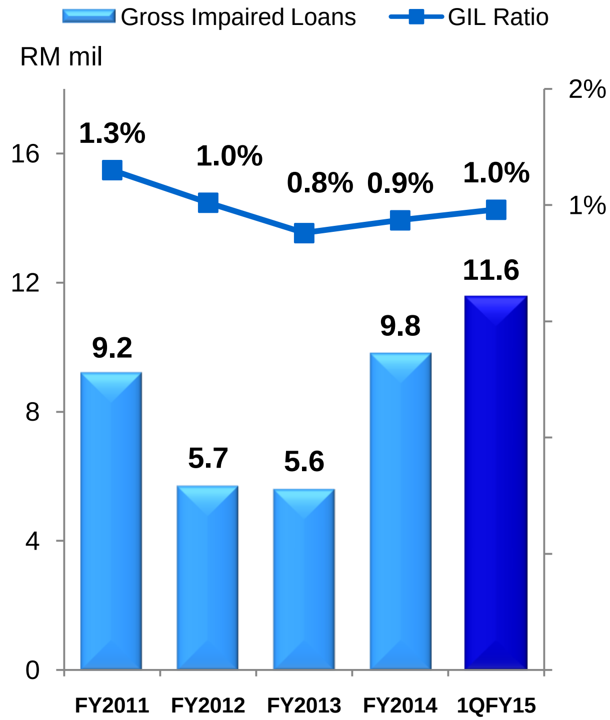
Asset Quality: Mortgages, Hire Purchase, SME

Continued Improvement in Asset Quality for Mortgages and SME segments

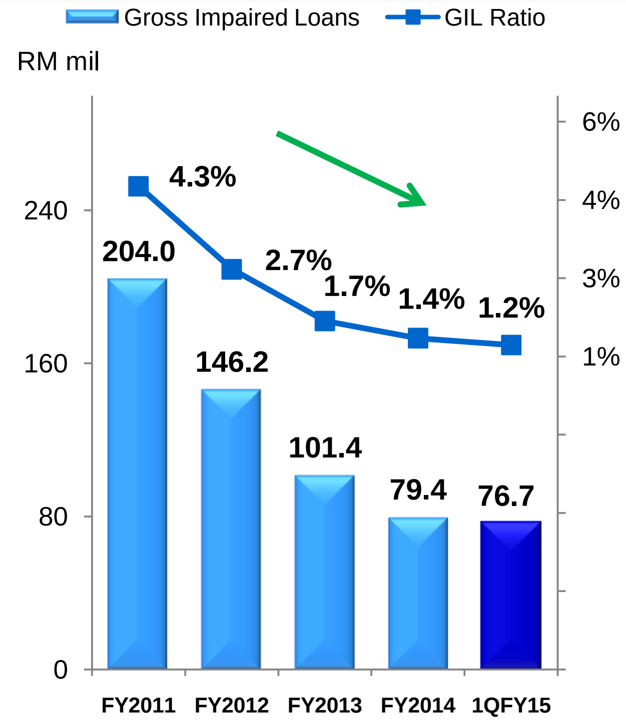
Purchase of Residential and Non-Residential Properties



Purchase of Transport Vehicles



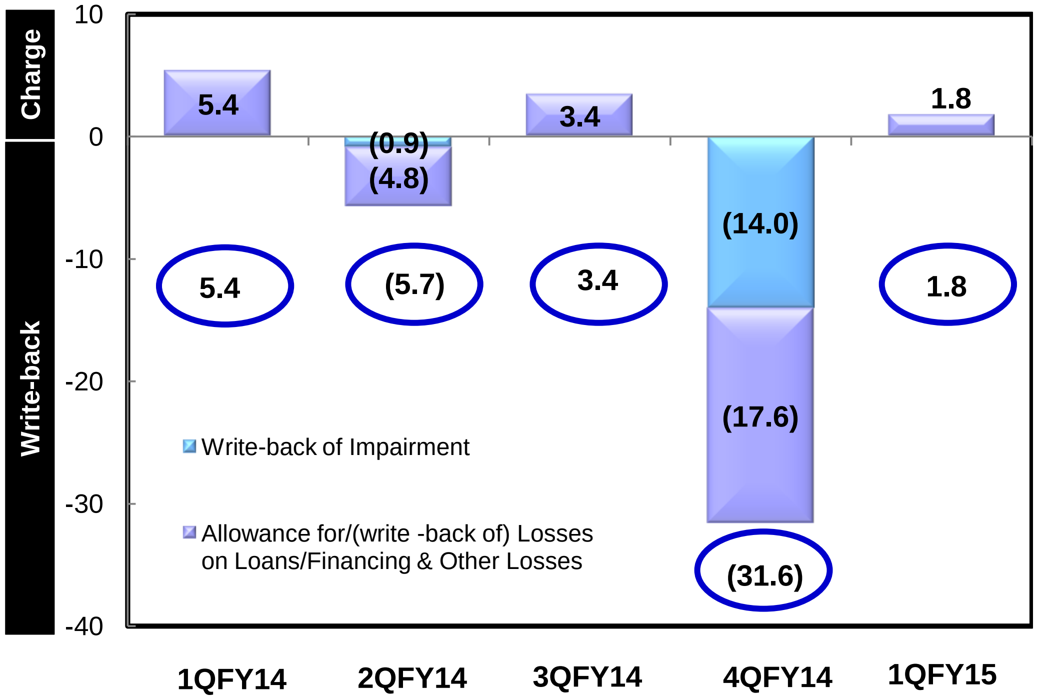
SME



- Gross impaired loans ("GIL") ratio for the purchase of residential & non-residential properties maintained at 1.4% on combined basis.
- GIL ratio for purchase of transport vehicles increased to 1.0%, however the q-o-q increase is only RM1.8 million on the back of q-o-q loans growth in this segment of RM91.7 million in 1QFY15.
- GIL ratio for SME segment further improved to 1.2%.

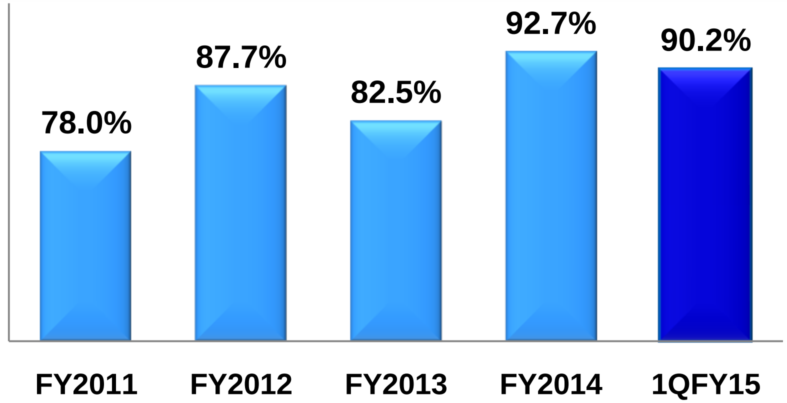
1QFY15: Credit Charge at ~ 2.9 bps

Allowance for /(Write-back of) Losses on Loans/Financing and Impairment



- Allowance in 1QFY15 is mainly due to higher collective assessment from loans growth.
- For 1QFY15, credit charge was ~2.9bps (as compared to credit charge of ~4.0bps for 1QFY14)
- No CLO recoveries in 1QFY15.

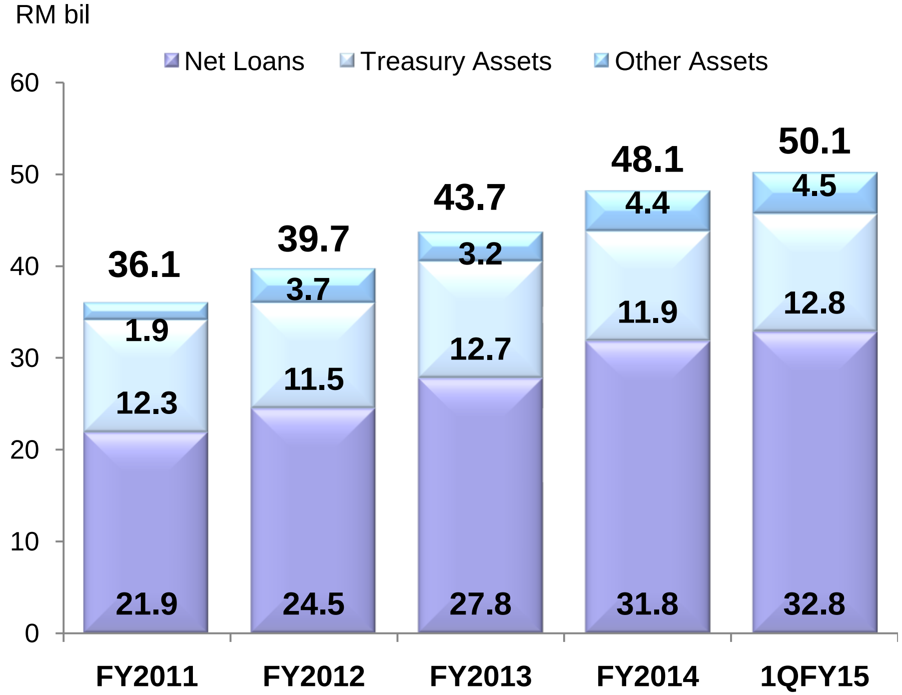
Loan Loss Coverage



RM'000	1QFY15	1QFY14
Individual assessment	(5,972)	6,620
Collective assessment	15,563	5,041
Bad debts recovered	(12,688)	(11,735)
Bad debts written off	4,171	5,172
Allowance for other assets	678	270
Allowance for losses on loans/ financing and other losses	1,752	5,368
Write-back of impairment (CLO)	**-**	-
Total charge/(write-back)	1,752	5,368

Effective Utilisation of Balance Sheet: Net Loans Constitute 65.5% of Total Assets

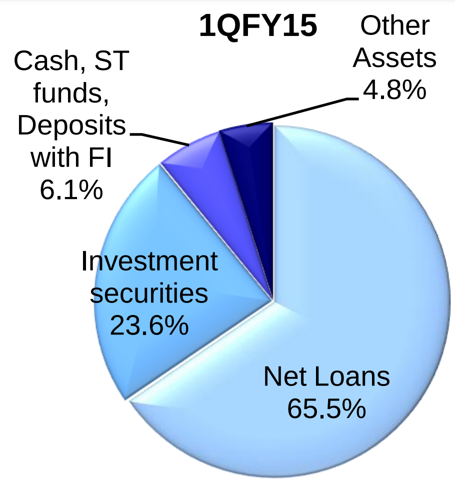
Total Assets Trend

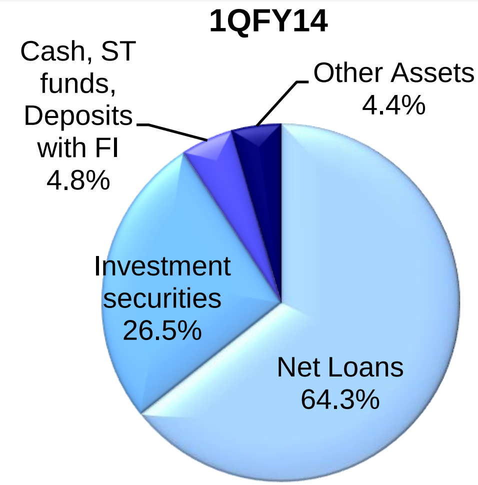


1QFY15 vs 1QFY14
+ RM6.0 bil
+ 13.6%

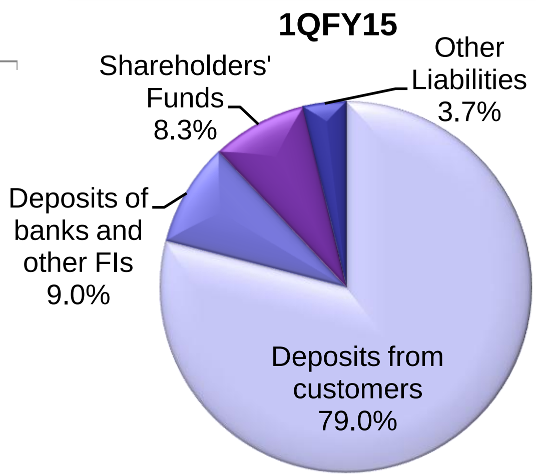
- Total assets expanded by RM6.0 billion or 13.6% y-o-y to RM50.1 billion, driven mainly by lending.

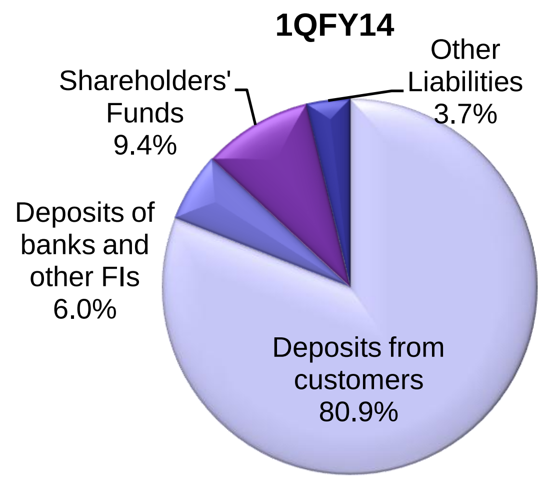
Composition of Total Assets





Composition of Total Liabilities/Equity



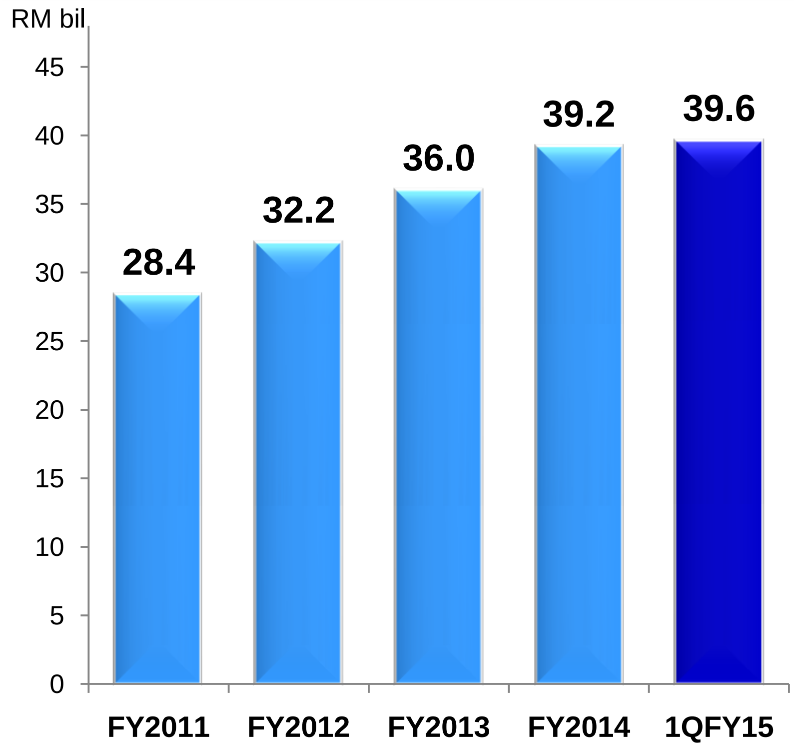


Note: Investment securities comprise financial assets (HFT, AFS & HTM) & derivative financial assets

ALLIANCE FINANCIAL GROUP

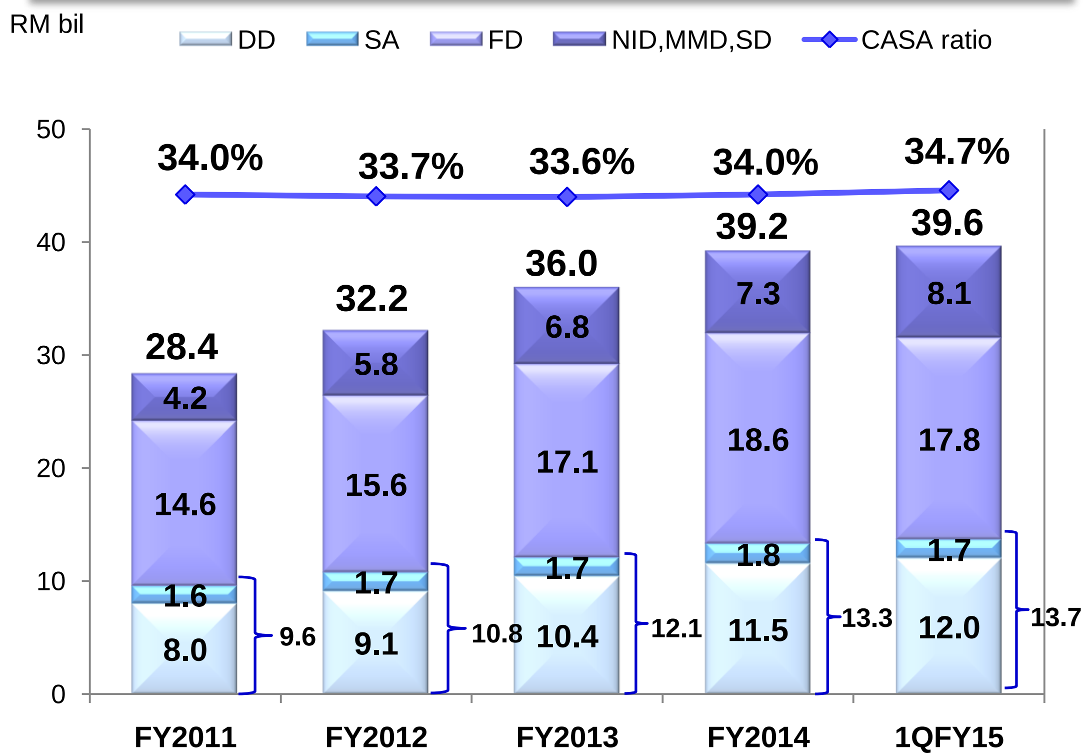
Robust Deposit Growth of 10.9% Y-o-Y, With CASA Deposits Up 7.6% to RM13.7 billion

Customer Deposits Trend



1QFY15 vs 1QFY14
+ RM3.9 bil
+ 10.9%

CASA Trend

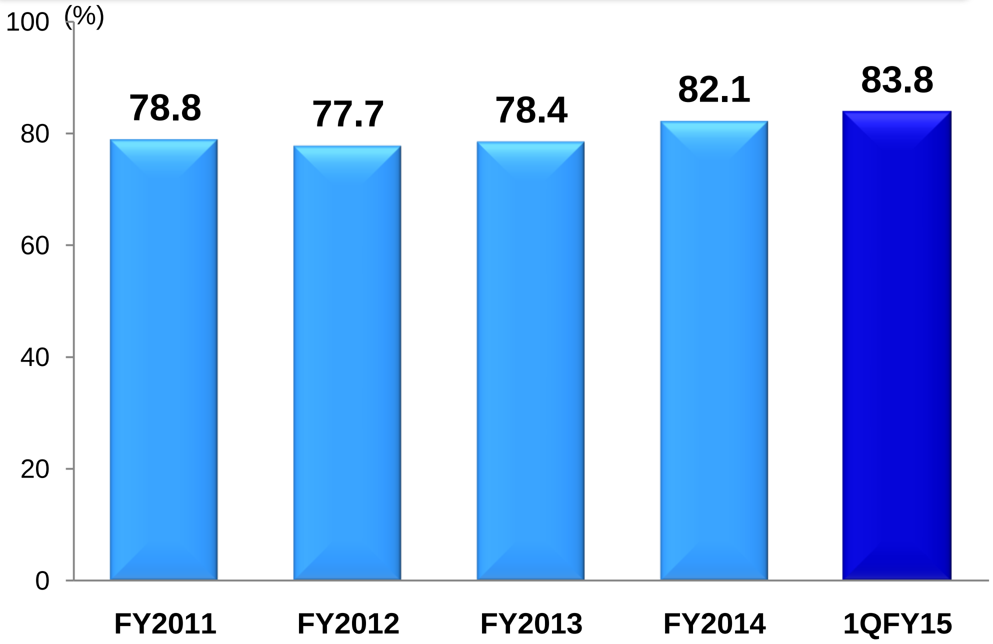


- Total customer deposits of RM39.6 billion as at 1QFY2015, up 10.9% from the same period last year.
- CASA deposits expanded by RM0.9 billion or 7.6% y-o-y to RM13.7 billion in 1QFY2015.

Customer Deposits

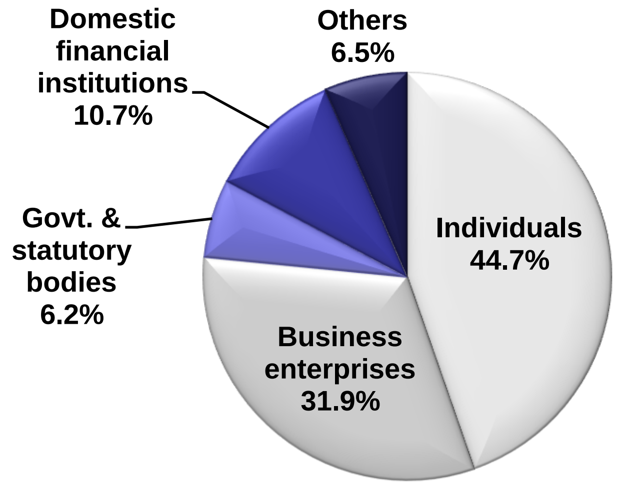
Strong Liquidity Position with Loans to Deposits Ratio at 83.8%

Loans to Deposit Ratio Trend

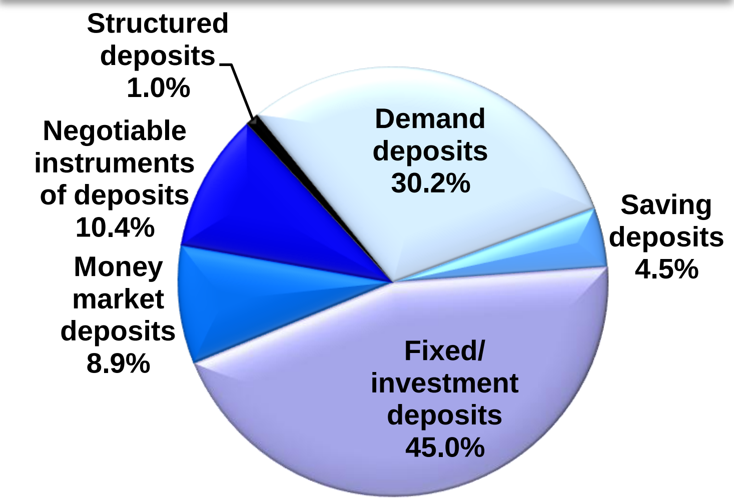


- Loans to Deposit Ratio of 83.8% in 1QFY2015.
- Our overall strategy is to eventually raise Loans to Deposit ratio closer to 85.0%:
  - for more efficient balance sheet management
  - to be in line with industry

Deposits Composition by Customer Type



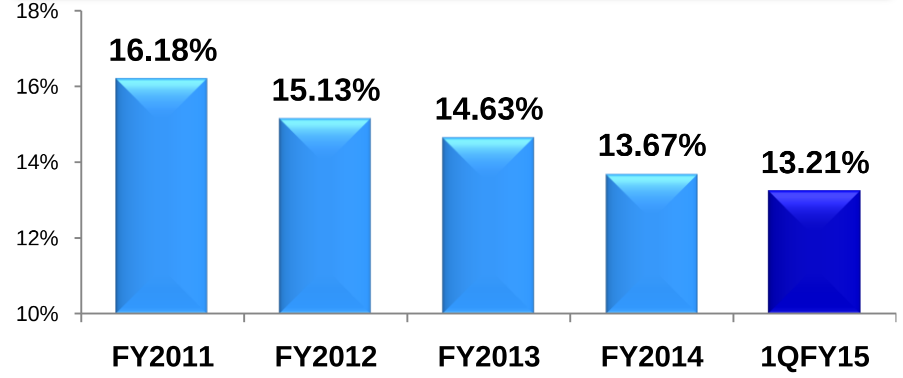
Deposits Composition by Product Type



Basel III: Capital Adequacy Ratios Well Above Regulatory Requirements

Legal Entities	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
AFG	**10.04%**	**11.06%**	**13.21%**
ABMB	10.05%	11.25%	11.30%
AIS	12.57%	12.57%	13.32%
AIBB	80.63%	80.63%	80.63%
Basel III Minimum regulatory capital adequacy ratio ^	**4.5%**	**6.0%**	**8.0%**

Total Capital Ratio



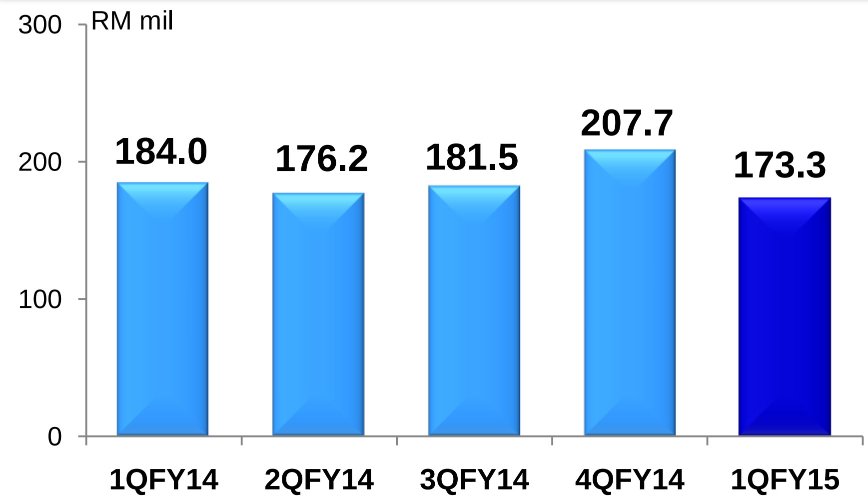
RM Mil	FY11	FY12	FY13	FY14	1QFY 15
Double Leverage Ratio	**97.2%**	**98.7%**	**98.5%**	**99.0%**	**98.8%**

- ❑ 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***.

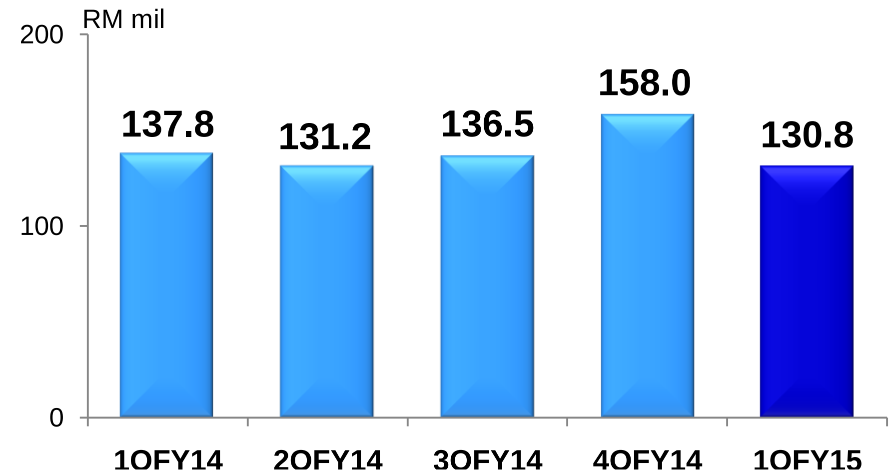
^ Based on the Basel III minimum capital ratios for calendar year 2015

Return on Equity at 12.8%, with Consistent Growth in Earnings Per Share

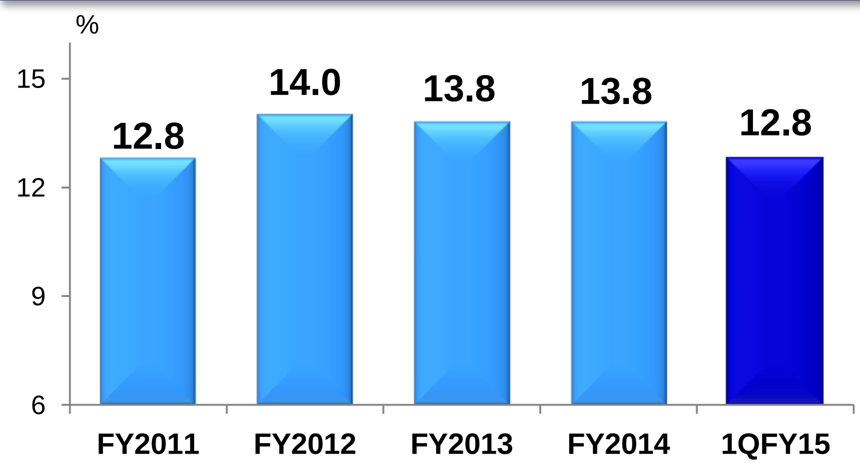
Profit Before Tax



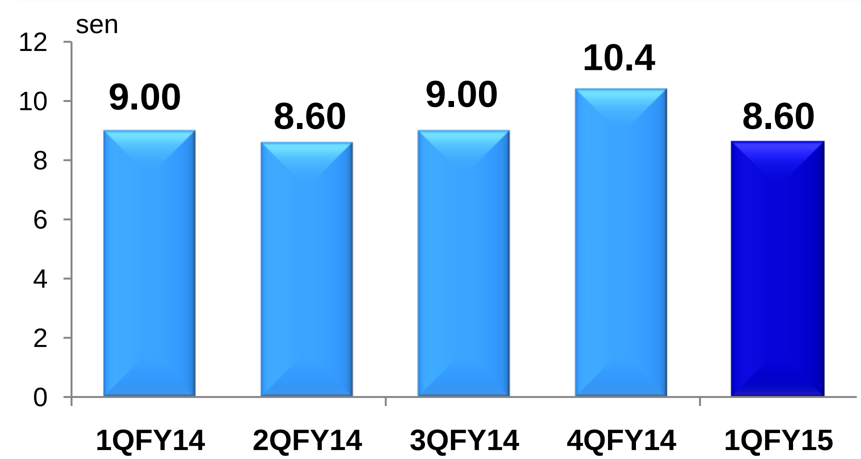
Net Profit After Tax



Return on Equity (After Tax)



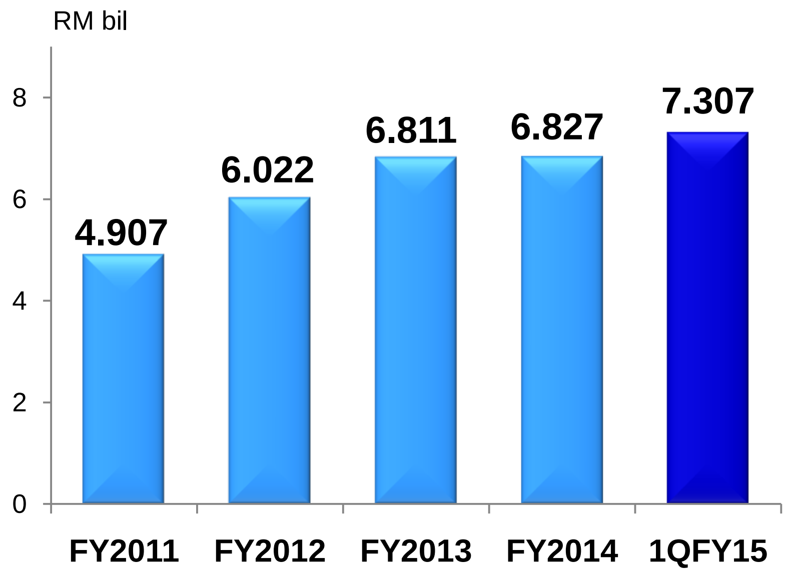
Earnings Per Share



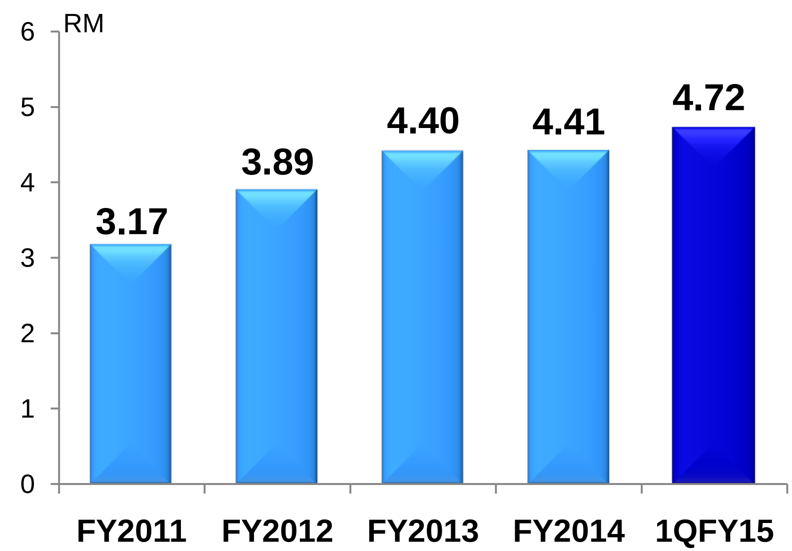
Enhanced Shareholder Value

1QFY2015: Steady improvement in Market Capitalisation and Share Price performance

Market Capitalisation



Share Price Performance



- Market capitalisation and share price performance is improving steadily, with CAGR at 10.4% since FY2010.

THANK YOU

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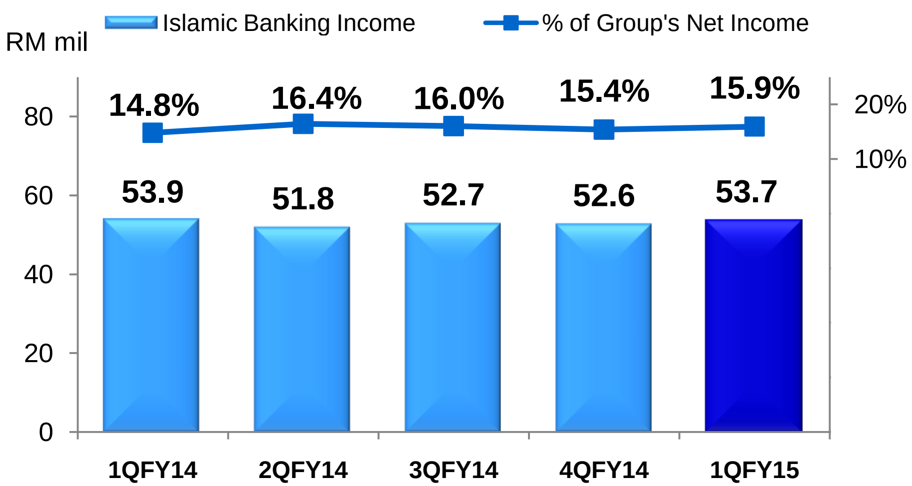
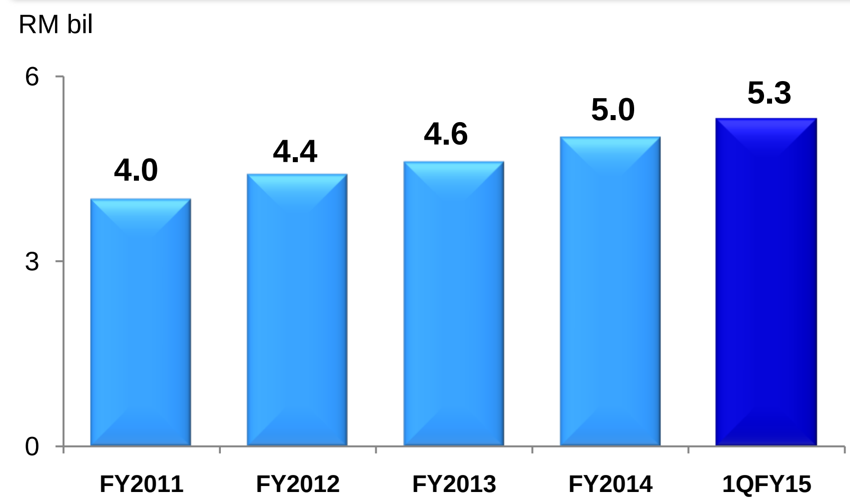
Islamic Banking: Y-o-Y Net Financing Growth of 14.7% and Deposit Growth of 17.2%

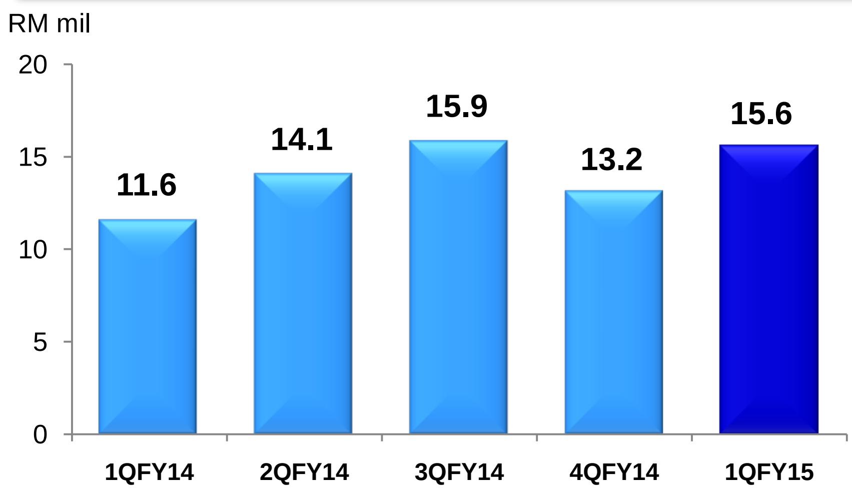
Islamic Banking Income



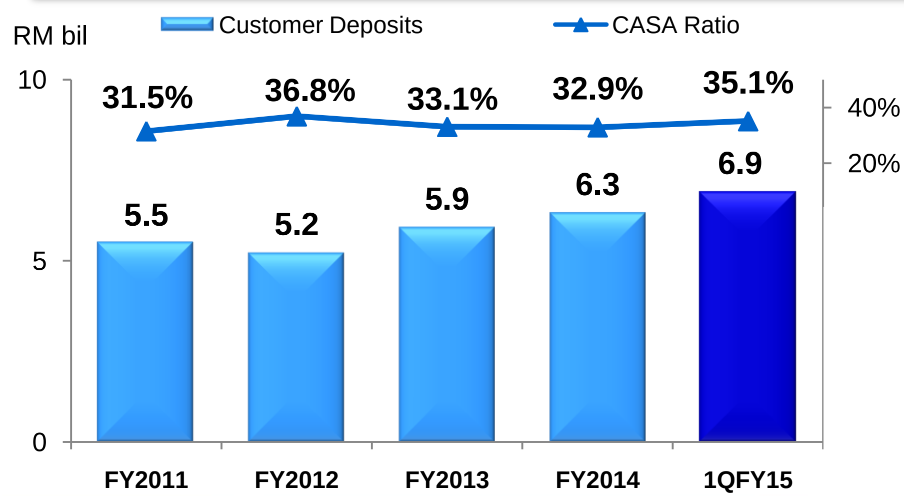
Net Financing & Advances (AIS)



Net Profit After Tax & Zakat (AIS)



Customer Deposits (AIS)



Guideline on Classification and Impairment Provision for Loans/Financing

Requirement

- Banks to ***maintain, in aggregate, collective assessment allowance ("CA") and Regulatory Reserve ratio of 1.2%.***
- The ***CA + Regulatory Reserve*** is stated as a percentage of gross loans (excluding government loans), net of individual allowance ("IA").
- ***CA*** includes both provision for impaired and non-impaired loans, amount as per disclosed in our financial statements.
- The Bank shall comply with this requirement by 31 Dec 2015.

AFG	Jun 2014	Mar 2014
CA %	0.95%	0.98%

Treatment

- In the event the Bank is required to top up the provision to 1.2% (via the ***creation of Regulatory Reserve***), the ***top up portion*** is created by way of transferring the provision from retained profits i.e. merely ***movement within the statement of equity*** without additional charge to profit & loss accounts.
  - It would be a transfer from Retained Earnings to Regulatory Reserve (within Shareholders Funds).
  - Effectively the Regulatory Reserve will be similar to the Statutory Reserve – cannot be used to declare dividends. But no impact on the NTA.
- As per Para 14.1, ***Regulatory Reserve***, attributable to non-impaired loan is eligible for inclusion into ***Tier-2 capital computation***.

Impact

- As at end-Jun 2014, AFG's CA ratio was at 0.95*%*. To top up to 1.2%, this translates to addition ***RM82.0 million***.
- Estimated impact to CET1 ratio is a ***drop of ~0.26%*** to 9.76%. Total Capital Ratio maintained at 13.21%.