ALLIANCE FINANCIAL GROUP BERHAD (6627-X)

Banking Made Personal

ANALYST BRIEFING

FY2015

27 May 2015

THE ASIAN BANKER®

EXCELLENCE IN RETAIL FINANCIAL SERVICES

INTERNATIONAL AWARDS 2015

BEST SME BANK

in Asia Pacific, Gulf Region & Africa

Contents

Strong SME Franchise, Deposit Base and Healthy Balance Sheet

International Recognition as "Best SME Bank in Asia Pacific, Gulf & Africa (Asian Banker)

Strengths

- Strong Deposit growth - 13.7% in FY2015 (Industry 9.0%), and good, stable CASA ratio at 33.6%
- Excellent asset quality - Gross Impaired Loans ratio at 1.0% vs. industry of 1.6%
- Strong franchise in SME segment with loan growth of 26.8%

Key Challenges

- Margin pressures – 8 bps y-o-y FY2015 vs. FY2014
- Under-leveraged Wealth Management business

Key Opportunities

- Build on SME and Deposit strength
- Develop Wealth Management

Pre-Provision Operating Profit Up 2.1% Y-o-Y Despite Challenging Market Environment

Income Statement	FY2015 RM mil	FY2014 RM mil	%	
			RM mil	%
Net Interest Income	820.6	778.6	42.0	5.4%
Islamic Banking Income	225.1	210.9	14.2	6.7%
Non-Interest Income	337.3	359.4	-22.1	-6.1%
Net Income	1,383.0	1,349.0	34.0	2.5%
Operating Expenses	646.9	628.2	18.7	3.0%
Pre-Provision Operating Profit	**736.1**	**720.8**	**15.3**	**2.1%**
(Allowance)/ Write back for losses on loans & financing and other losses	(32.9)	28.5	-61.4	>-100%
Pre-tax profit	703.2	749.4	-46.2	-6.2%
Net Profit After Taxation	530.8	563.5	-32.7	-5.8%

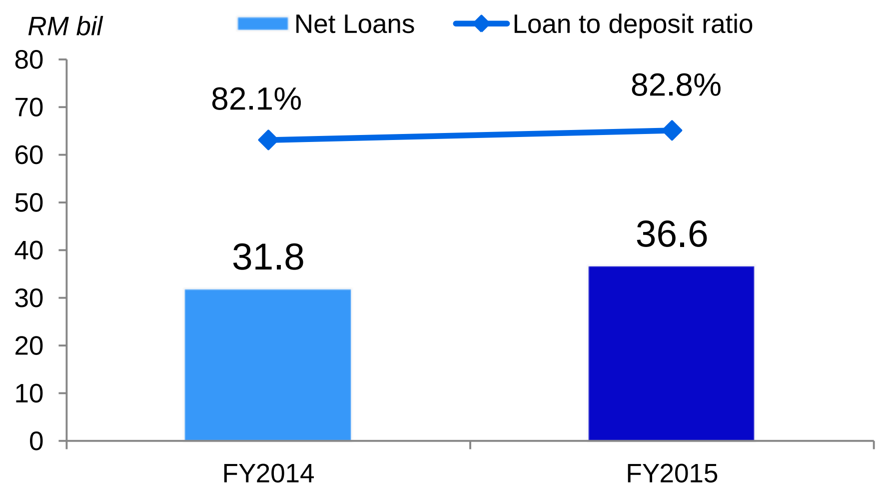
- Pre-provision operating profits up 2.1%
- Net Interest Income growth of 5.4% and Client-based Non-Interest Income growth of 12.4%* more than compensate for:
  - Decline of RM56.8m in trading and financial asset revaluations and
  - Expense growth of 3.0%
- Normalising credit costs at 11.5 bps vs. -4.5 bps in FY2014. (Industry average 24 bps)

Credit Cost	FY2015	FY2014
Including recoveries	11.5 bps	-4.5 bps
Excluding recoveries	29.4 bps	15.1 bps

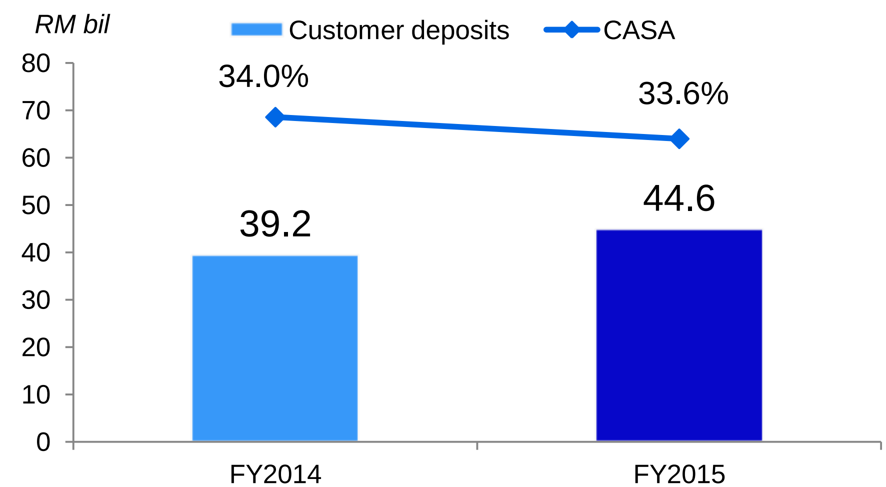
**Excluding RM10.0 million of Bancassurance fee*

Margin Pressure Tempers Effect of Strong Loan Growth

Net Loans, Advances and Financing Trend



Customer Deposits Trend



- +14.9% net loan growth (Industry 9.2%) led to 5.4% net interest income growth, due to margin compression of 8 bps (in line with Industry)
- **Going Forward:**

  i. Focus on Risk Adjusted Returns for loans:

  [Net Margin - Direct Cost - Credit Cost]

  a) Expand on SME strength

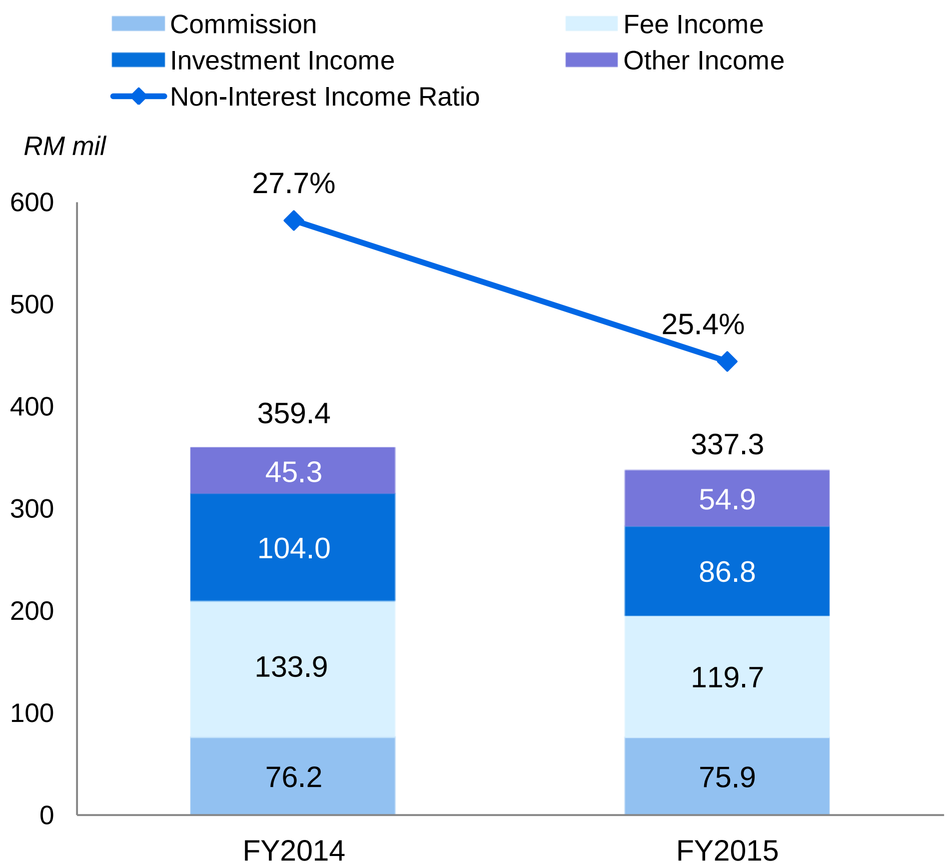
  b) Price for risk

  Expected outcome is improvement in Asset Risk Adjusted Returns

  ii. Ensure faster growth of deposits than assets

Good Progress on Client-Based Business Offset by Lower Treasury Income

Non-Interest Income Trend



Non-Interest Income	FY2015	FY2014	Y-o-Y Growth	
			RM mil	%
Trade & FX	151.2	121.8	29.4	+ 24.1%
Transaction Services	*106.4*	*100.6*	*5.8*	*+5.8%*
Wealth Management	*59.7*	*59.8*	*(0.1)*	*0.0%*
Total Client-Based	**317.3**	**282.2**	***35.1***	***+12.4%***
Non Client-Based : Treasury	***4.0***	***60.8***	***(56.8)***	***(93.4%)***

- Growth in SME and Business Banking drove Trade & FX, and Transaction Services revenues up 15.8%
- Wealth Management flat
- Trading and financial assets revaluation drag of RM56.8 million

Going Forward

- Build client-based non-interest income, particularly wealth management
- Reduce volatility in trading and revaluation
- Continue to build on business clients flow business, i.e trade and FX

Note: Wealth Management refers to banc assurance; share trading, unit trust and brokerage. Transactional fees refers to commitment fees; processing fee; corporate advisory, service charges and others.

Leverage on franchise strengths, improve efficiency

Franchise Growth Focus

- Continue to build on SME
- Focus Consumer Banking and Wealth Management business on fulfilling the financial needs of the owners, employees and clients of our SME and Business Banking partners

Improve Financial Efficiency

- Focus on asset efficiency, i.e Risk Adjusted Returns, to protect margins
- Grow deposits faster than loans
- Improve share of customer non-interest income revenues
- Continue to streamline to contain costs

Focus on Client Excellence

- Enhance customer value proposition and customer service standards
- Build differentiated and relevant brand positioning in target segments

Contents

Net Loan Growth at 14.9% Y-o-Y, Driven by Consumer and SME Segments

Balance Sheet	FY2015 RM bil	FY2014 RM bil	Change	
			RM bil	%
Total Assets	53.1	48.1	5.0	10.6%
Treasury Assets(1)	11.5	11.9	-0.4	-3.0%
Net Loans	36.6	31.8	4.8	14.9%
Customer Deposits	44.6	39.2	5.4	13.7%
CASA Deposits	15.0	13.3	1.7	12.5%
Shareholders' Funds	4.5	4.2	0.3	7.9%
Net Loan Growth (y-o-y)	14.9%	14.6%	-	0.3%
Customer Deposit Growth (y-o-y)	13.7%	9.0%	-	4.7%

- +14.9% y-o-y ***Net Loan*** *growth* – driven by strong loan growth in Consumer and Business segments by:
  - Group Consumer Banking (+13.2% y-o-y)
  - Group Business Banking (+16.6% y-o-y)
- +13.7% y-o-y ***Customer Deposit*** growth, is above industry growth rate of 9.0%*.
- Growth in Customer Deposits keeping pace with loan expansion, to maintain healthy Loan to Deposit ratio at 82.8%.
- +12.5% y-o-y growth in ***CASA deposits*** despite intensified competition in industry for CASA deposits.

*Note: * Industry data sourced from BNM Monthly Statistical Bulletin as of March 2015*
(1) Treasury assets comprise financial assets (HFT, AFS & HTM), derivative financial assets & placements with Financial Institutions

Key Financial Ratios

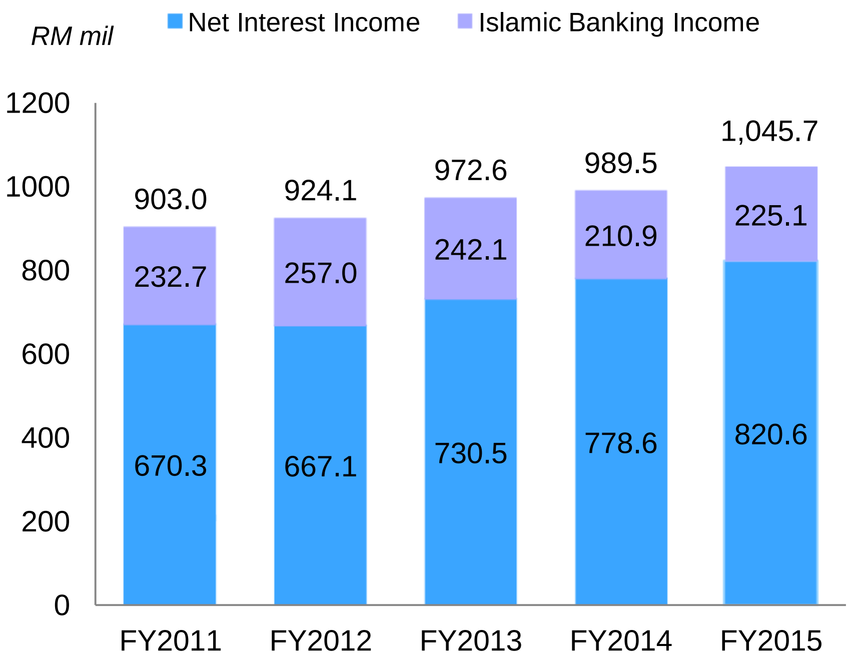
	Financial Ratios	FY2015	FY2014	Change
Shareholder Value	Return on Equity	12.3%	13.8%	-1.5%
	Return on Assets	1.0%	1.2%	-0.2%
	Earnings per Share	34.8 sen	37.2 sen	-6.5%
	Dividends per Share	15.4 sen	19.0 sen[1]	-3.6 sen
	Net Assets per Share	RM2.90	RM2.69	7.8%
Efficiency	Net Interest Margin	2.12%	2.20%	-0.08%
	Non-Interest Income Ratio	25.4%	27.7%	-2.3%
	Cost to Income Ratio	46.8%	46.6%	0.2%
Asset Quality	Gross Impaired Loans Ratio	1.0%	1.4%	-0.4%
	Net Impaired Loans Ratio	0.6%	0.7%	-0.1%
	Loan Loss Coverage Ratio	102.7%	92.7%	10.0%
Liquidity	Loan to Deposit Ratio	82.8%	82.1%	0.7%
	CASA Ratio	33.6%	34.0%	-0.4%
Capital	Common Equity Tier 1 Capital Ratio	11.1%	10.4%	0.7%
	Tier 1 Capital Ratio	11.1%	11.4%	-0.3%
	Total Capital Ratio	13.0%	13.7%	-0.7%

- ***Return on Equity:*** 12.3% arising from lower NPAT
- ***Dividends per Share:*** 45% Payout Ratio, with total dividends of 15.4 sen. Dividends:
  - 9.0 sen paid in 30 Dec 2014
  - 6.4 sen to be paid in 30 Jun 2015
- ***Non-Interest Income ratio:*** Impacted by lower income from treasury and wealth management due to market volatility.
- ***Net Impaired Loans ratio:*** Improved further to 0.6% with absolute reduction in impaired loans.
- ***Loan Loss Coverage*** raised to 102.7%
- ***Strong liquidity, with Loan to Deposit ratio at 82.8%***
- ***CASA ratio:*** Sustained at 33.6%
- ***Capital Adequacy ratios:*** Strong Core Equity Tier 1 Capital ratio at 11.1%

(1) Excludes special dividend of 10.5 sen paid in respect of FY2014.

5.7% Y-o-Y Net Interest Income Growth Due To Margin Compression

Net Interest Income & Islamic Banking Income



FY2015 vs FY2014
+ RM56.2 mil
+ 5.7%

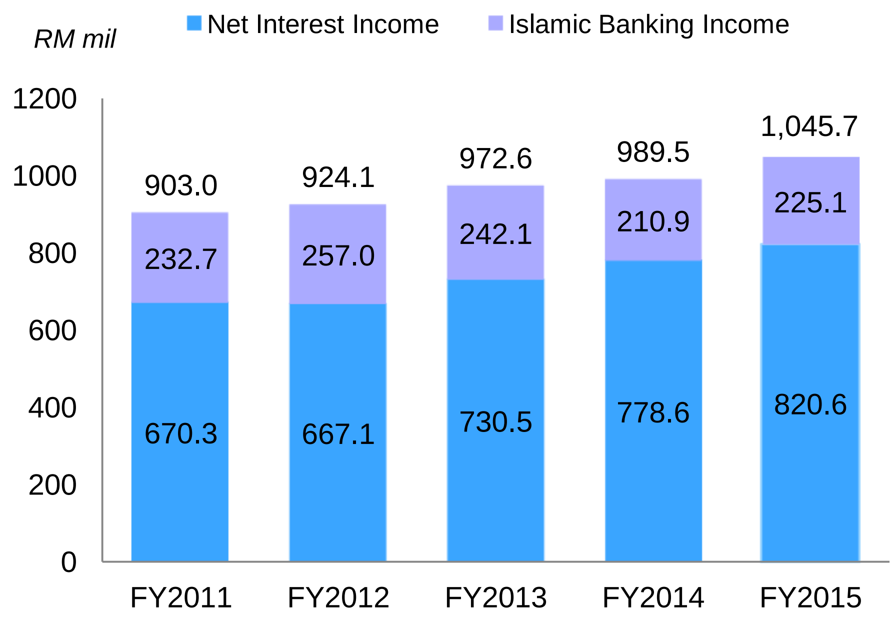
- **Net Interest Income** growth of RM56.2 million or 5.7% y-o-y:
  - ✓ +RM171.1 million increase in interest income primarily from loan growth;

  Offset by:

  - ✓ +RM129.1 million rise in interest expense from 13.7% y-o-y expansion in Total Deposits
  - ✓ Deposit rates on the rise:
    - Competition for retail deposits ahead of implementation of Basel III Liquidity Coverage Ratio, effective June 2015
    - Rates re-priced ahead of the increase in the Overnight Policy Rate (OPR) in July 2014
- **Net income from Islamic banking**:
  - ✓ On the uptrend in FY2015, with the growth in hire purchase lending offsetting the run-off of the high-yielding co-op personal financing.

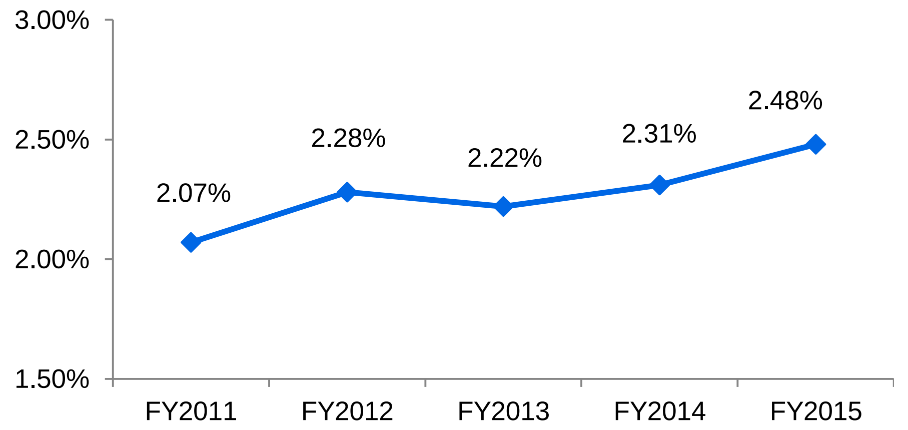
5.7% Y-o-Y Net Interest Income Growth Due To Margin Compression

Net Interest Income & Islamic Banking Income

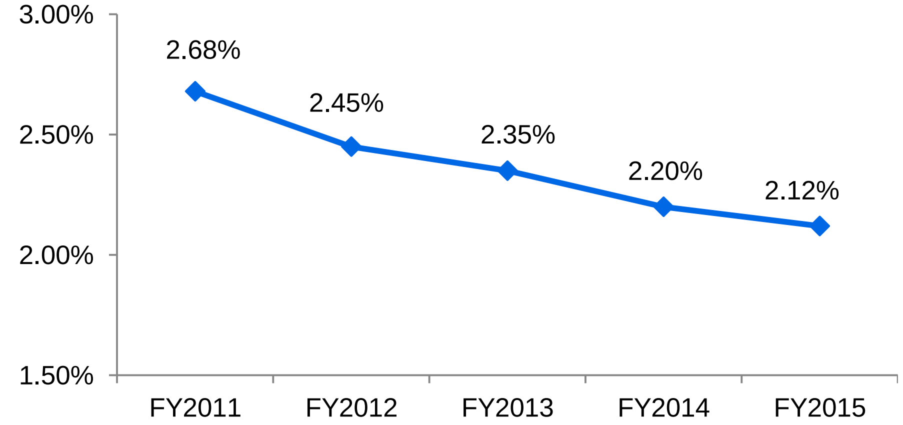


- Rising Cost of Funds due to: 25 bps increase in OPR to 3.25% in July 2014; rising industry loan to deposit ratio and implementation of Basel III Liquidity Coverage Ratios.
- Net Interest Margin: compression due to rising cost of funds, and concentration of loan portfolio in residential and non-residential properties ~ 58.5% of loan portfolio.

Cost of Funds Trend

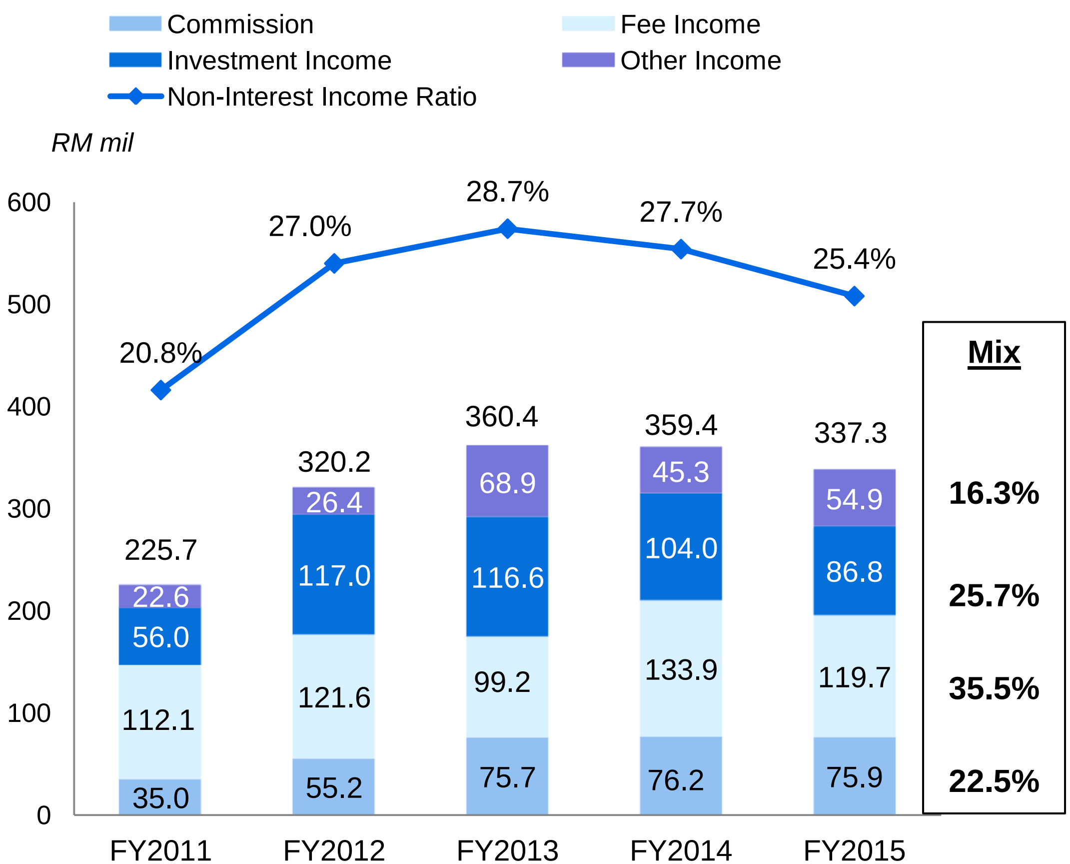


Net Interest Margin Trend



Non-Interest Income Impacted by Lower Treasury Contribution

Non-Interest Income Trend



- Growth in customer flow Non-Interest Income led by Trade and FX Sales offset by weaker Treasury Trading and Mark-to-Market Revaluation of Investment Securities (i.e. Interest rate swaps).
  - Trade Finance and FX Sales income grew by RM29.4 million or 24.1% due to expansion of Business Banking loans and currency volatility
  - Wealth management fee income was flat, excluding the one-off upfront banca fees of RM30 million in FY2014, and RM10 million in FY2015
  - Treasury Income – Gain on sales of securities were RM26.8 million lower; while mark-to-market of derivatives registered a loss of RM18.1 million (FY2014 : RM3.1 million gain)

Non-Interest Income	FY2015	FY2014	Y-o-Y Growth	
			RM mil	%
Trade & FX	151.2	121.8	29.4	+ 24.1%
Transaction Services	*106.4*	*100.6*	*5.8*	*+5.8%*
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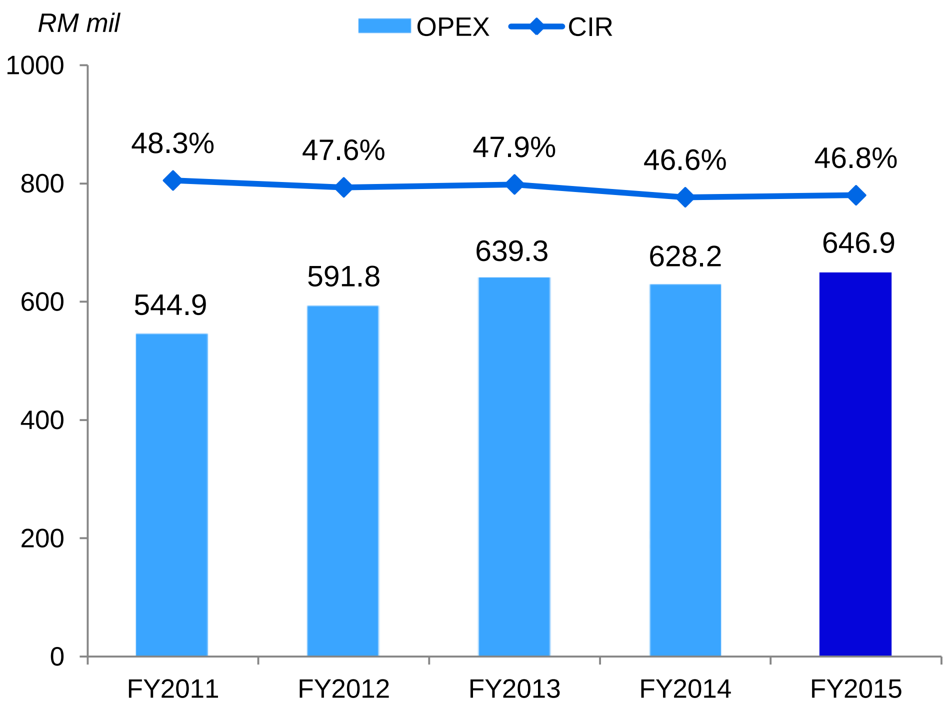
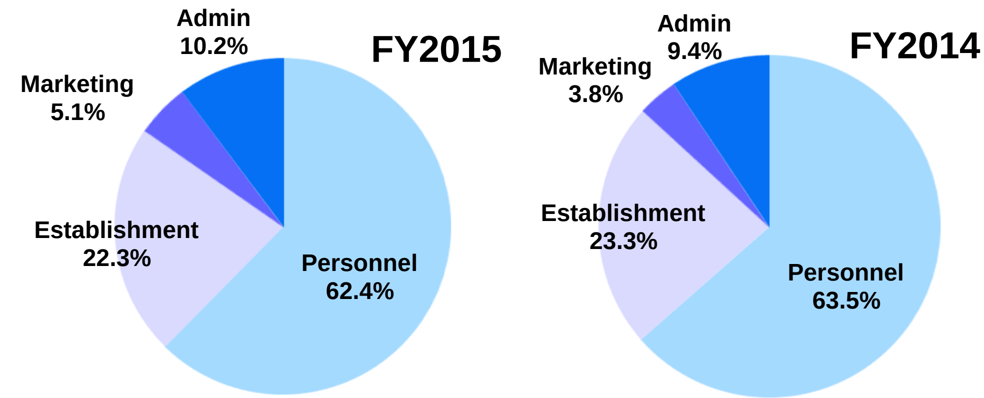
Cost to Income Ratio at 46.8% due to Effective Cost Management

Operating Expenses Trend



Composition of Operating Expenses

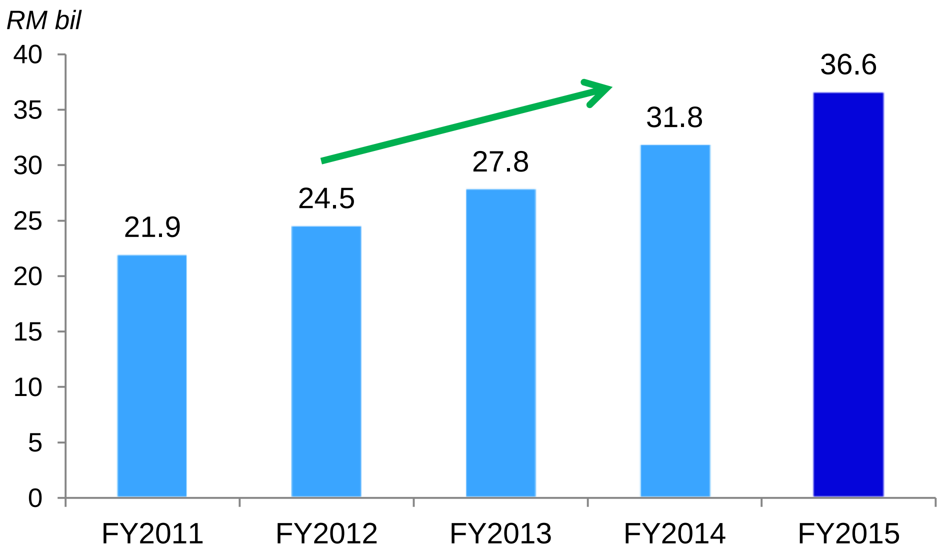


OPEX Contribution	FY2015 RM mil	FY2014 RM mil	Change	
			RM	%
Personnel	403.3	399.1	4.2	1.0%
Establishment	144.2	146.3	-2.1	-1.4%
Marketing	33.2	23.9	9.3	39.0%
Administration	66.2	58.9	7.3	12.4%
Total OPEX	646.9	628.2	18.7	3.0%

- Marketing Cost up by RM9.3 million in line with business expansion and brand-building initiatives.
- Administration Expenses up by RM7.3 million, mainly due to higher communication expenses.
- The Group continues to enhance productivity and efficiency through effective cost management and also investment in branch channels, IT infrastructure and marketing.

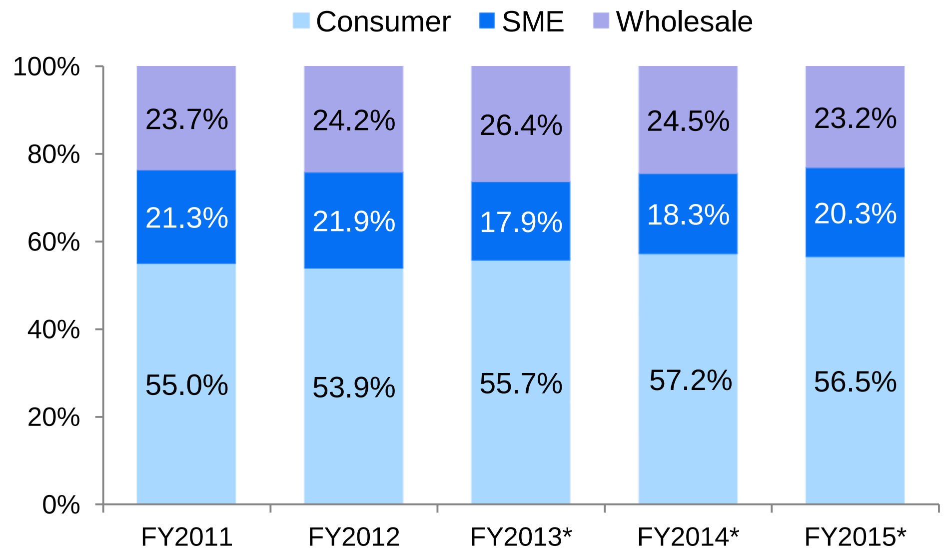
Strong Growth Momentum at 14.9% y-o-y, with 20.3% of Portfolio for SME Lending

Net Loans, Advances and Financing Trend



FY2015 vs FY2014
+ RM4.8 bil
+ 14.9%

Loan Composition by Business Segments

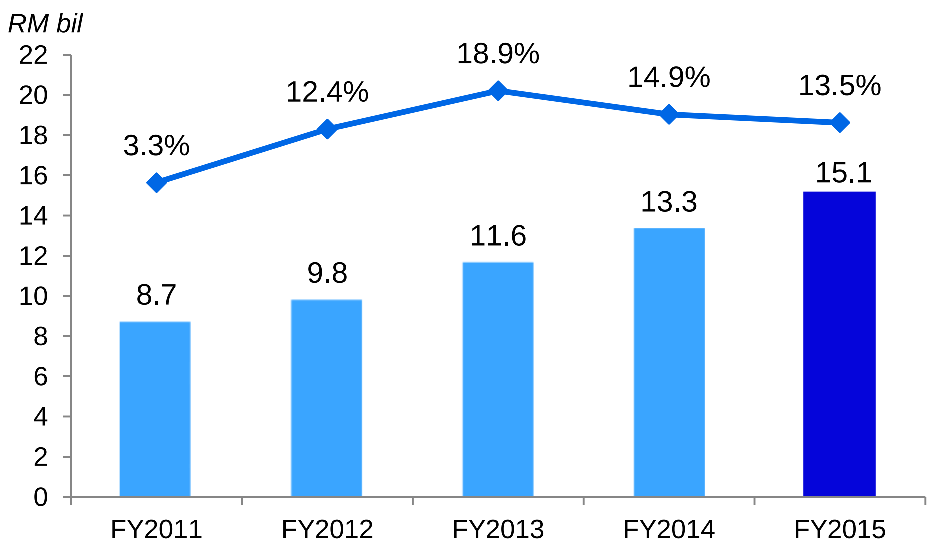


- ***Net Loan Growth*** of 14.9%, higher than industry loan growth of 9.2%[(1)]
- Balanced loan composition with 56.5% Consumer, 20.3% SME and 23.2% for Wholesale Lending
- Effective management of interest rate risk: 89.7% of loan book is floating rate (FY2014: 89.7%)

*Note: *BNM's revised SME definition effective from 1 January 2014. FY2013 SME loans have been restated based on BNM's revised SME definition.*
(1) Industry data sourced from BNM Monthly Statistical Bulletin as of March 2015

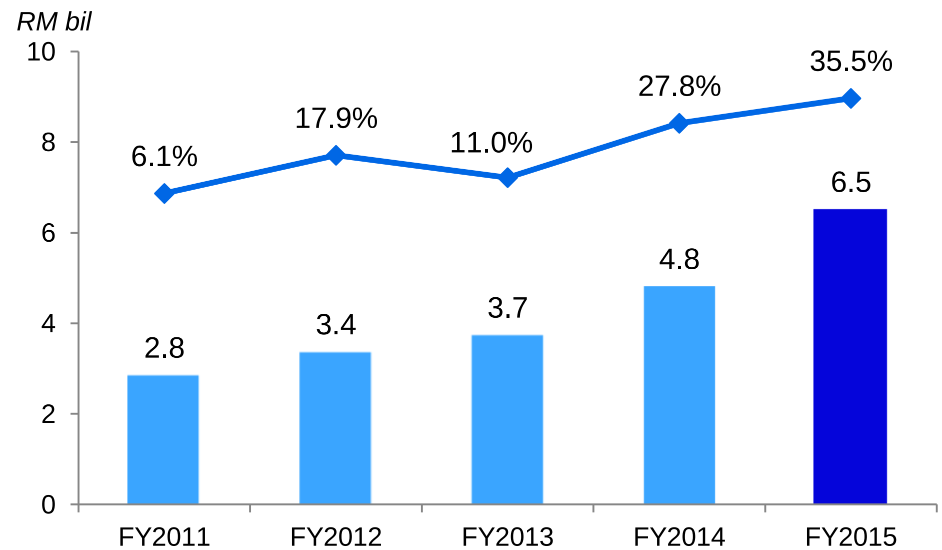
Double-digit Loan Growth for Residential & Commercial Properties

Loan Growth for Residential Property



FY2015 vs FY2014
+ RM1.8 bil
+ 13.5%

Loan Growth for Commercial Property

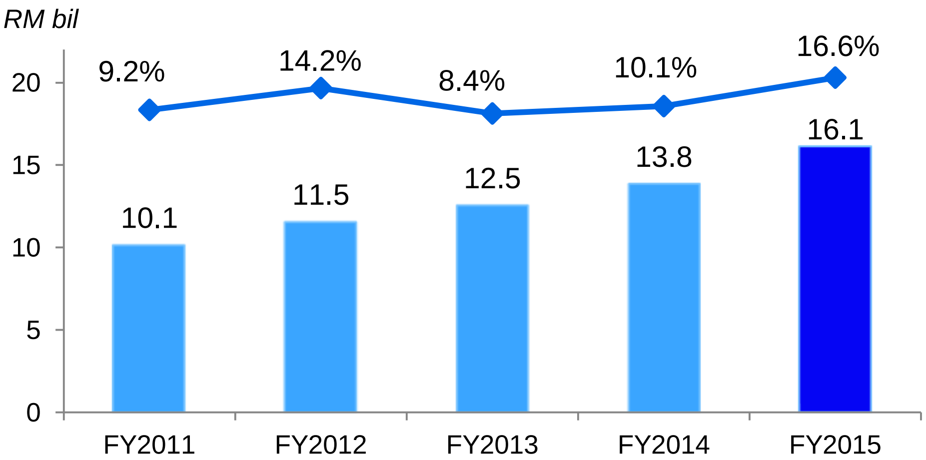


FY2015 vs FY2014
+ RM1.7 bil
+ 35.5%

- Residential properties: +RM1.8 billion or 13.5% y-o-y growth
- Commercial properties: +RM1.7 billion or 35.5% y-o-y growth
- Going forward, for loans for residential and non-residential properties to grow in tandem with industry due to:
  - Strategic priority to grow deposits faster than loans
  - Overall slow down in transactions in property markets

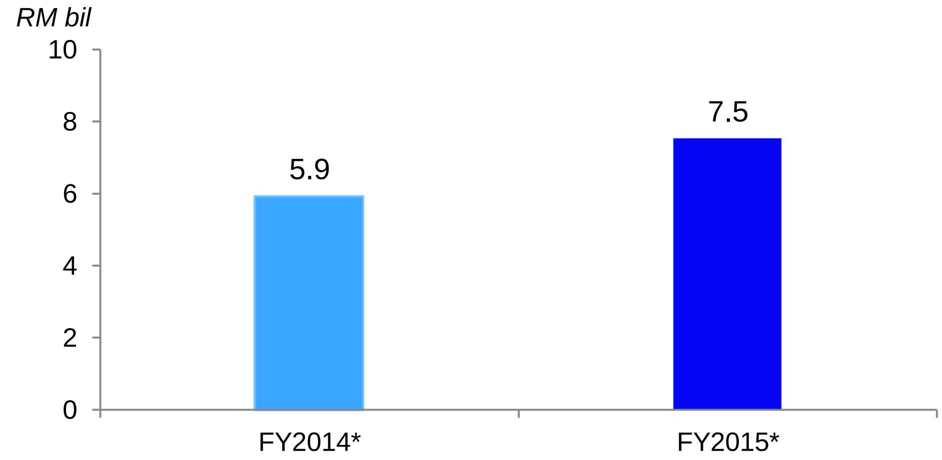
Business Banking Loan Growth Accelerated to 16.6% Driven by SME Lending

Loan Growth for Business Banking



FY2015 vs FY2014
+ RM2.3 bil
+ 16.6%

Loan Growth for SME



FY2015 vs FY2014
+ RM1.6 bil
+ 26.8%

RM mil	FY2015	FY2014	Y-o-Y Growth
SME	7,481	5,900	26.8%
Corporate & Commercial	8,575	7,874	8.9%

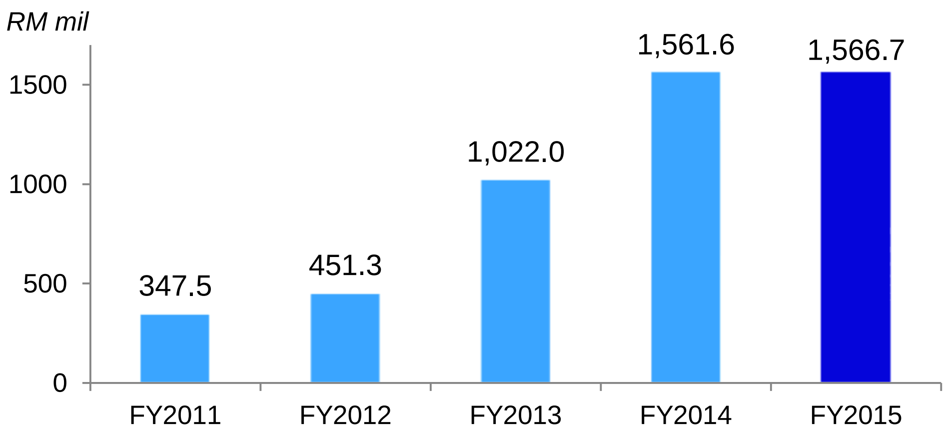
- Overall business loans: +RM2.3 billion or 16.6% y-o-y
- Corporate & commercial loans: +RM0.7 billion or 8.9% y-o-y

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 RM1.6 billion or 26.8% y-o-y driven by significant improvements in turnaround time from streamlining of processes.

Share Margin Financing and Hire Purchase Portfolio

Share Margin Financing Growth

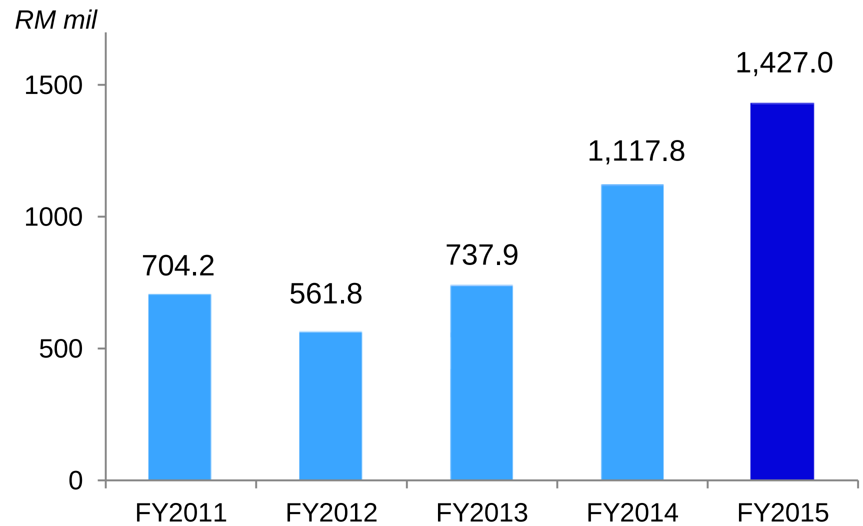


KLCI	1,545.13	1,596.33	1,671.63	1,849.21	1,830.78

FY2015 vs FY2014
+ RM5.1 mil
+ 0.3%

- ❑ Share Margin Financing growth affected by the recent lacklustre performance of the Malaysian equity market, particularly since the last quarter of 2014(1)

Loan Growth for Transport Vehicles

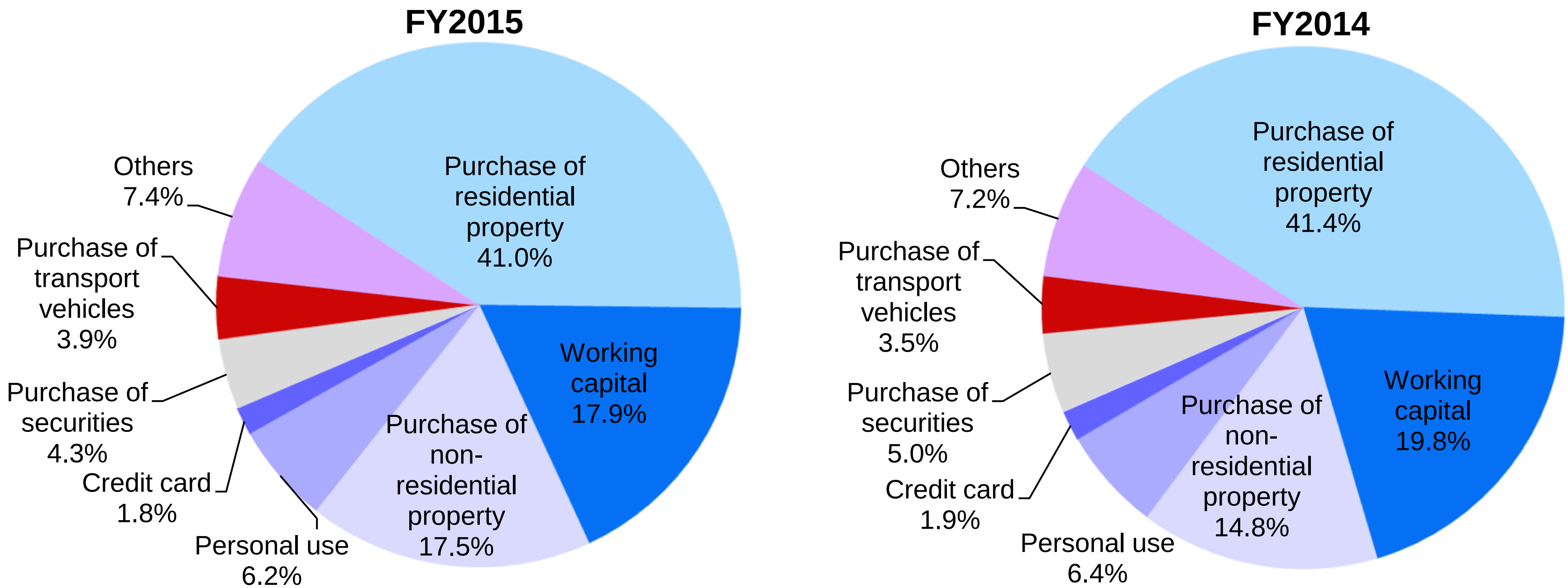


FY2015 vs FY2014
+ RM0.3 bil
+ 27.7%

- ❑ +RM309.2 million y-o-y growth with continued expansion of panel of car dealers and distributors

(1) KLCI Index has fluctuated -1.0% on YoY basis (since March 2014)

Well Collateralised Loan Portfolio

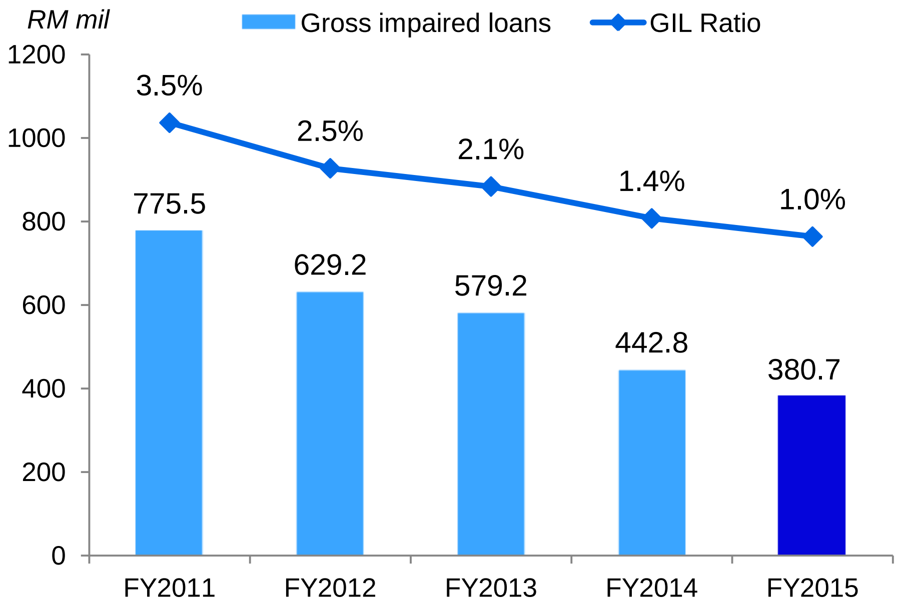


Loan Composition by Economic Purposes

- Risk management - Well diversified and collateralised loan book to enhance asset efficiency
- Robust credit scoring and credit underwriting standards
- Residential and non-residential properties accounted for 58.5% of gross loan portfolio:
  - ✓ 41.0% of loan portfolio is for residential properties, reduced from 41.4% as at FY14
  - ✓ 17.5% for non-residential properties, increased from 14.8% as at FY14
- 17.9% of gross loans are for working capital

Continued Improvement In Asset Quality – Gross Impaired Loans Ratio Reduced to 1.0%

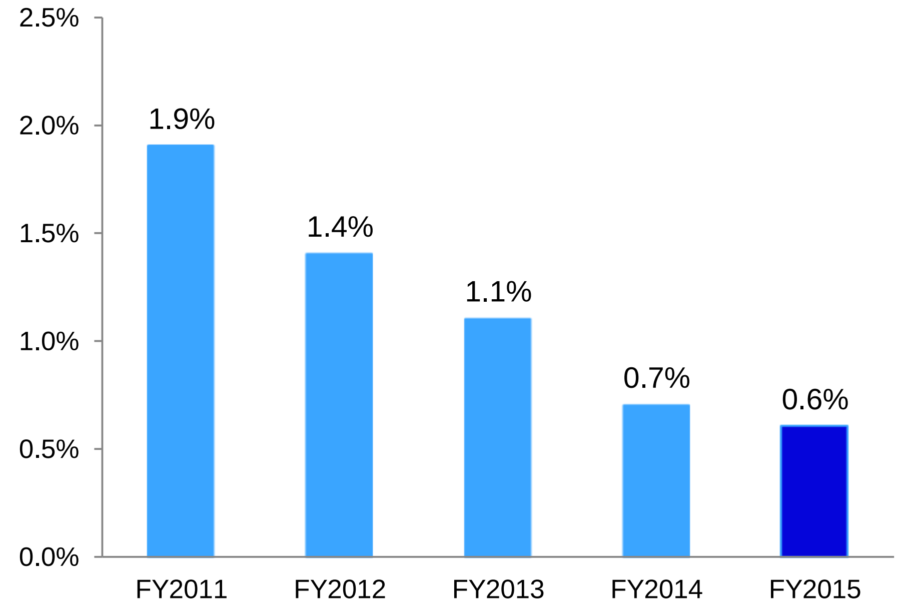
Gross Impaired Loans



FY2015 vs FY2014
GIL: - RM62.1 mil
- 14.0%

FY2015 vs FY2014
GIL Ratio: - 0.4%
(from 1.4% Mar 2014)

Net Impaired Loans Ratio

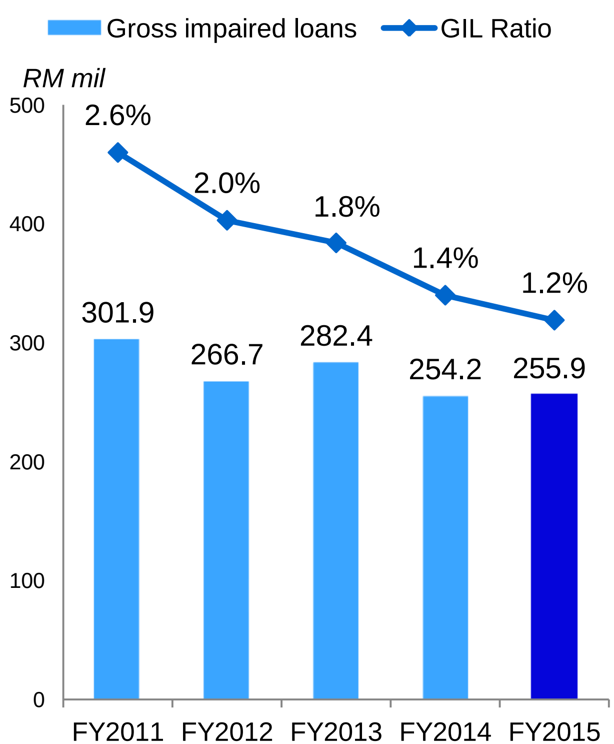


- ❑ Gross Impaired Loans ratio improved to 1.0%
- ❑ Net reduction in gross impaired loans of RM62.1 million y-o-y, despite a 14.7% y-o-y Gross Loan Growth.
- ❑ Continuing efforts to refine credit origination processes, credit scoring models, and intensify collection.

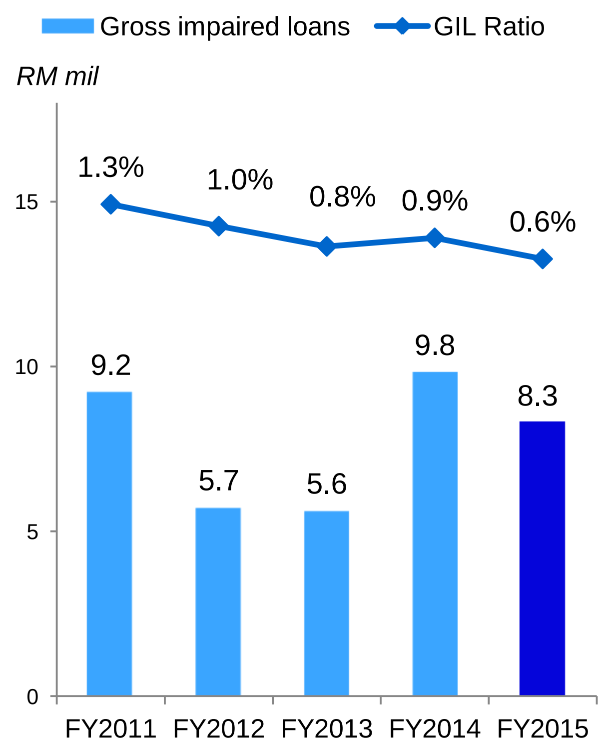
Asset Quality: Mortgages, Hire Purchase, SME

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

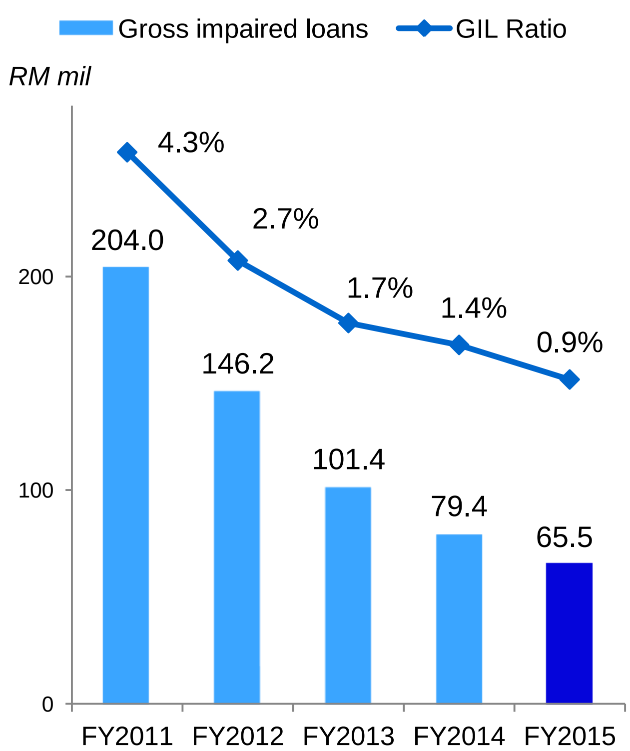
Purchase of Residential and Non-Residential Properties



Purchase of Transport Vehicles



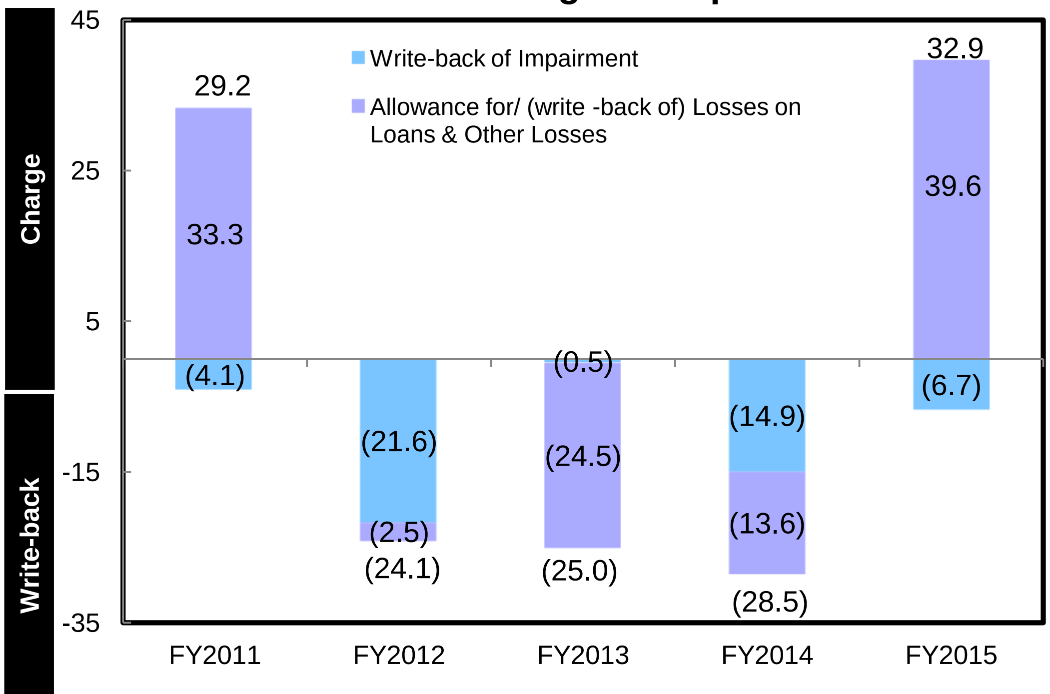
SME



- Consumer Lending: Gross Impaired Loans ratio for the purchase of residential & non-residential property improved to 1.2%, and to 0.6% for transport vehicles
- Gross impaired loans ratio for SME segment further improved to 0.9%.

Normalisation of Credit Costs After 3 Years of Recoveries from Legacy Loans

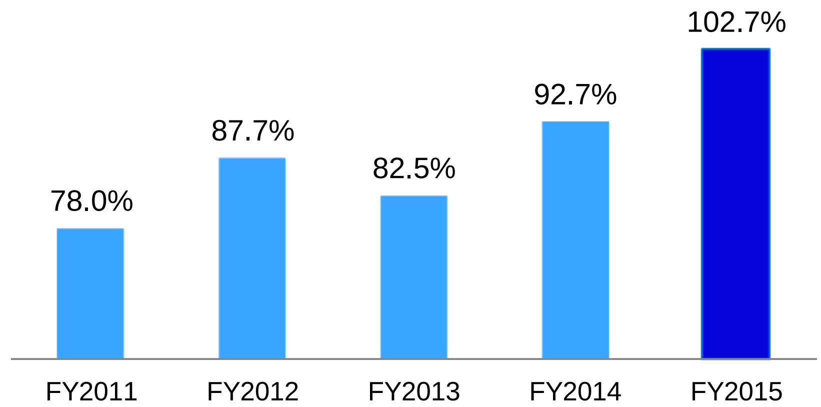
Net (Write-back) / Allowance of losses on Loans/ Financing and Impairment



- ❑ Allowance in FY2015 is mainly due to higher Collective Provisions for loan growth and ratings migration.
- ❑ Better than industry credit costs

Credit cost (bps)	FY2015	FY2014
Including recoveries	11.5 bps	-4.5 bps
Excluding recoveries	29.4 bps	15.1 bps

Loan Loss Coverage



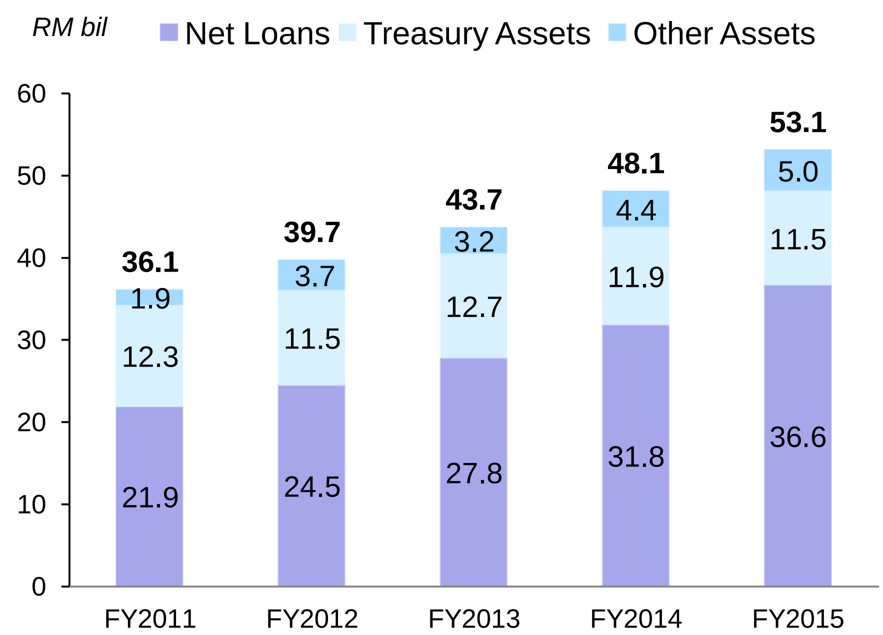
RM'000	FY2015	FY2014
Individual assessment	3,475	5,613
Collective assessment	78,193	11,746
Bad debts recovered	(61,849)	(59,113)
Bad debts written off	17,744	24,511
Allowance for other assets	2,041	3,622
Allowance/ (write-back) for losses on loans, financing and other losses	39,604	(13,621)
Write-back of impairment (CLO)	(6,728)	(14,927)
Total allowance	**32,876**	**(28,548)**

Note: As at December 2014 industry credit cost including recoveries at 16.9 bps

ALLIANCE FINANCIAL GROUP

Effective Utilisation of Balance Sheet: Net Loans Constitute 68.8% of Total Assets

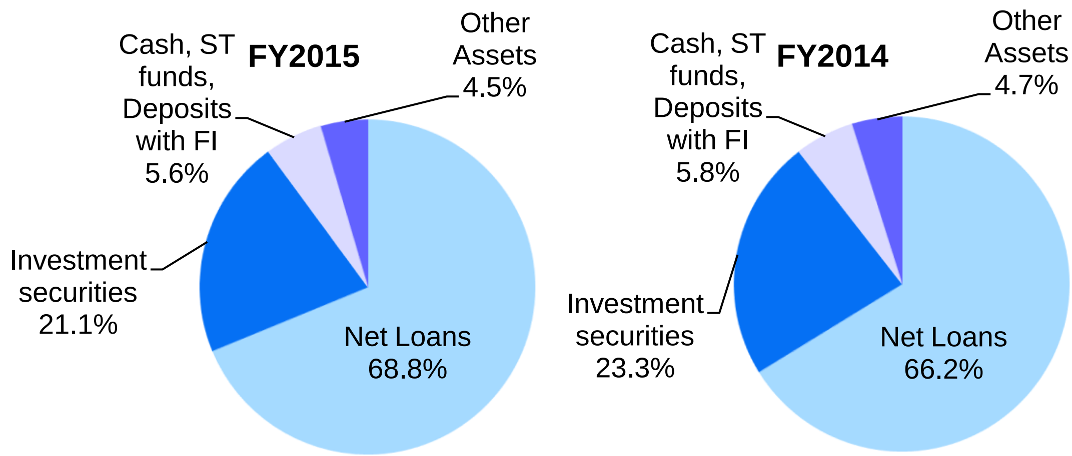
Total Assets Trend



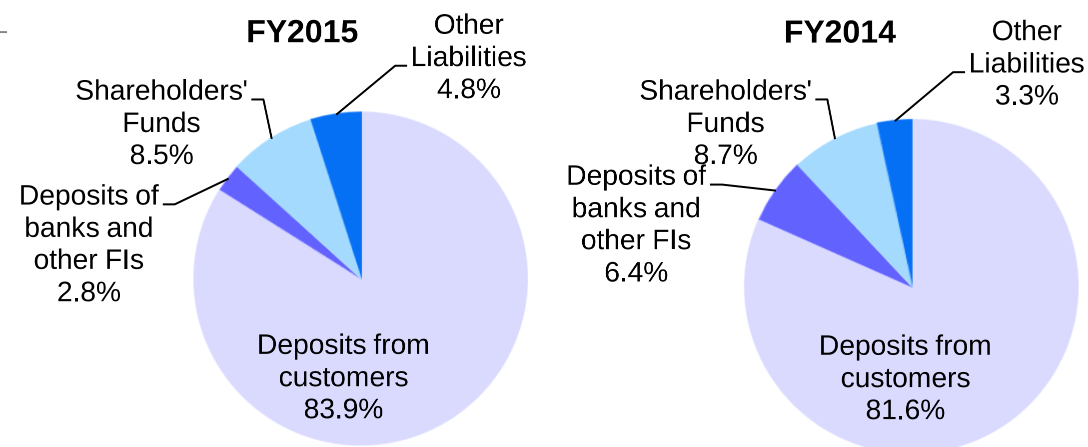
FY2015 vs FY2014
+ RM5.0 bil
+ 10.6%

- Total Assets expanded by RM5.0 billion or 10.6% y-o-y to RM53.1 billion.

Composition of Total Assets



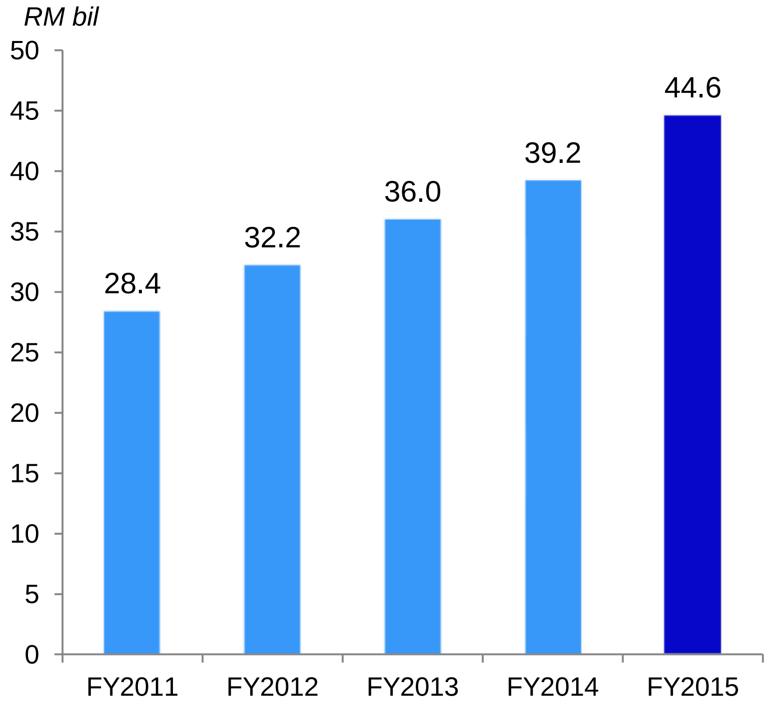
Composition of Total Liabilities/ Equity



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

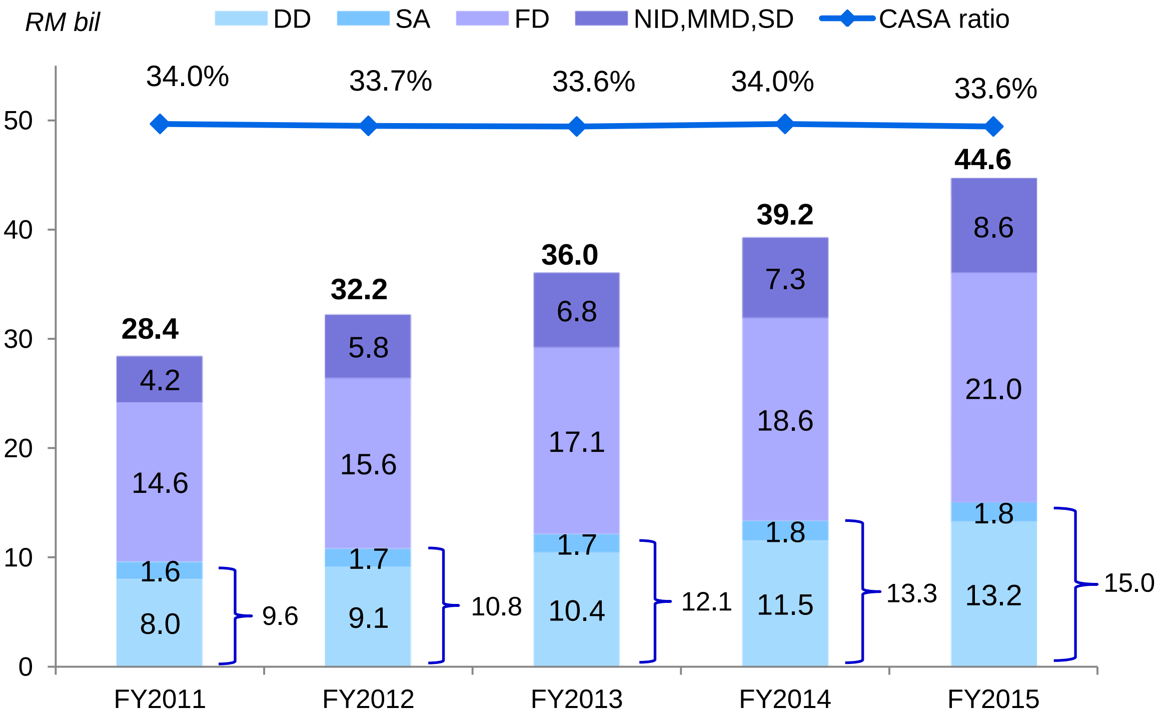
Robust y-o-y Deposit Growth of 13.7%, with CASA Deposits Up 12.5% to RM15.0 billion

Customer Deposits Trend



FY2015 vs FY2014
+ RM5.4 bil
+ 13.7%

CASA Trend

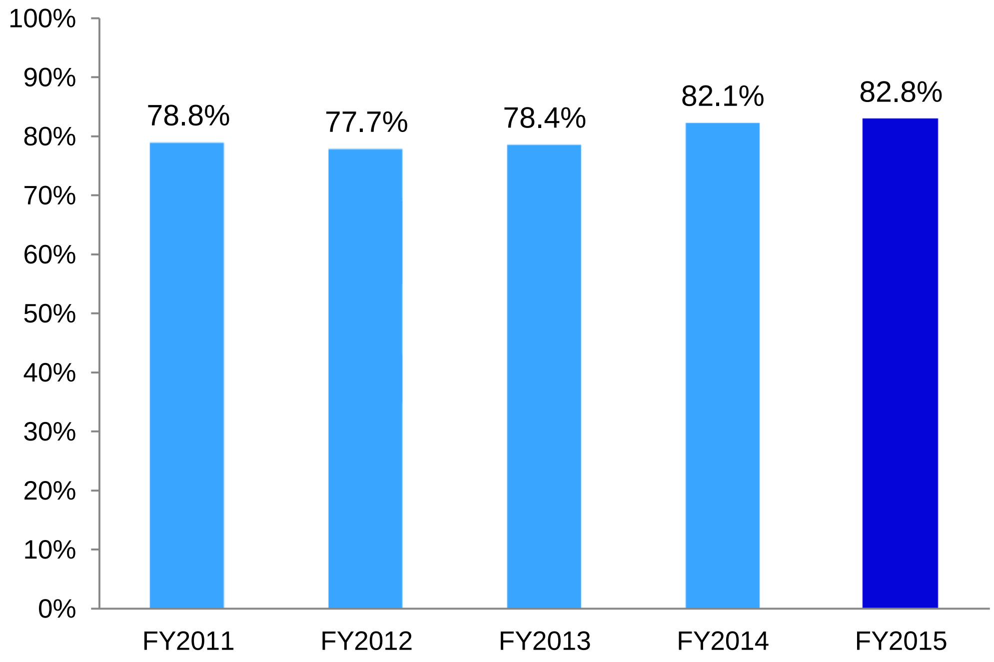


- Total Customer Deposits of RM44.6 billion as at FY2015, up 13.7% from the same period last year, higher than industry growth rate of +9.0%[1] y-o-y.
- CASA deposits expanded by RM1.7 billion or 12.5% y-o-y to RM15.0 billion in FY2015.

(1) Industry data sourced from BNM Monthly Statistical Bulletin as of March 2015.

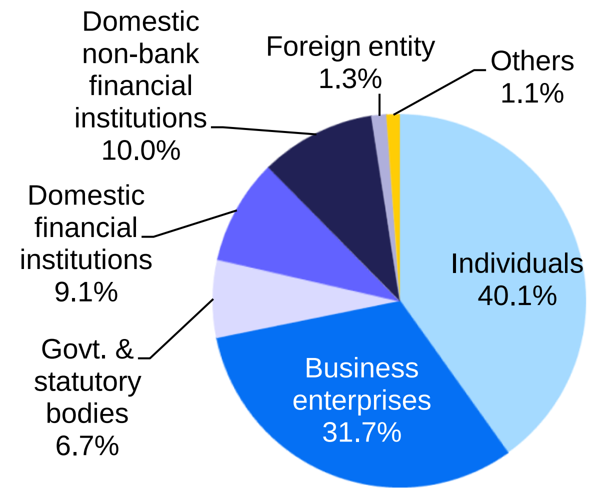
Healthy Loan to Deposit Ratio Below Industry Average

Loan to Deposit Ratio Trend

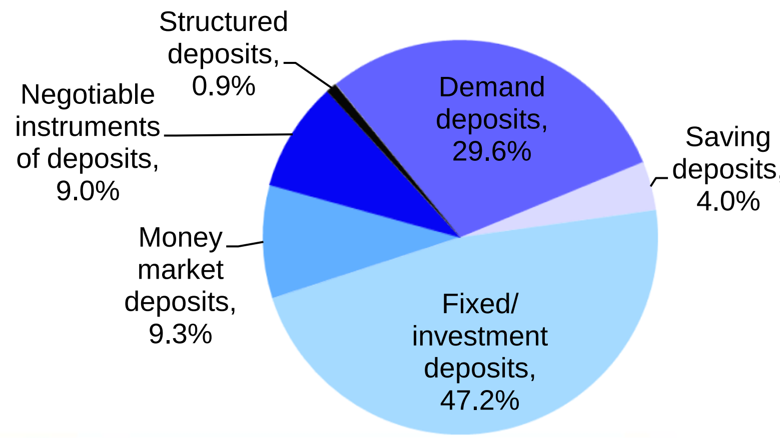


- Healthy Loan to Deposit Ratio, below industry average of 87%
- Composition of Deposits - 40.1% of deposits from Individuals; and 31.7% of deposits from Business Enterprises.
- 33.6% CASA ratio, driven mainly by deposits from Business Enterprises.

Deposit Composition by Customer Types



Deposit Composition by Product Types



Basel III: Capital Adequacy Ratios by Legal Entities

Legal Entity	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Alliance Financial Group	11.1%	11.1%	13.0%
Alliance Bank	11.1%	11.1%	11.5%
Alliance Islamic Bank	10.9%	10.9%	11.6%
Alliance Investment Bank	93.5%	93.5%	93.5%
Basel III Minimum regulatory capital adequacy ratio (1)	**4.5%**	**6.0%**	**8.0%**

AFG: Double Leverage Ratio

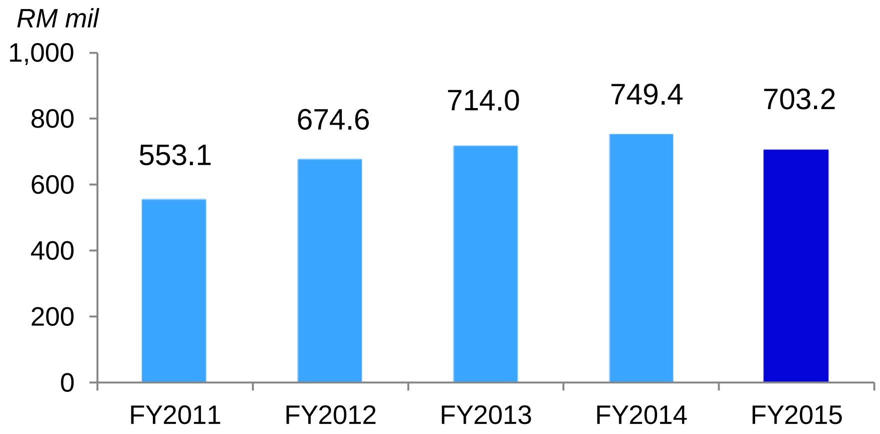
RM Mil	FY11	FY12	FY13	FY14	FY15
Double Leverage Ratio	97.2%	98.7%	98.5%	99.0%	96.0%

- Strong profit generation capacity to enable balance sheet expansion.
- 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.

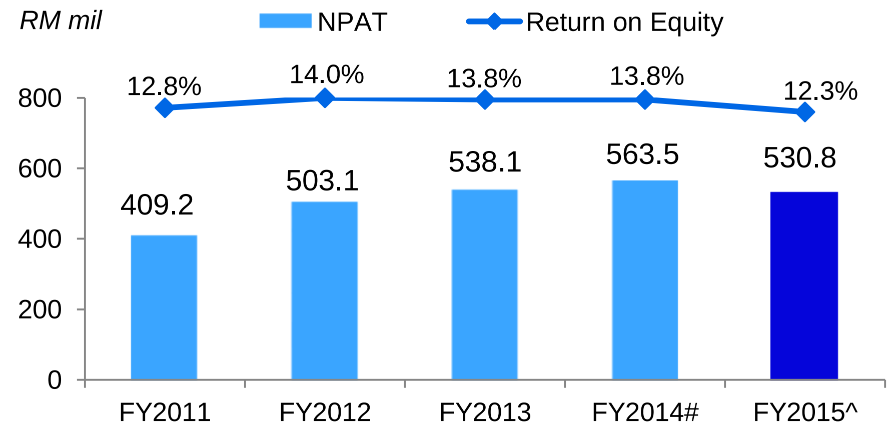
(1) Based on the Basel III minimum capital ratios for calendar year 2015

FY2015: Paid 45% of NPAT as Dividends

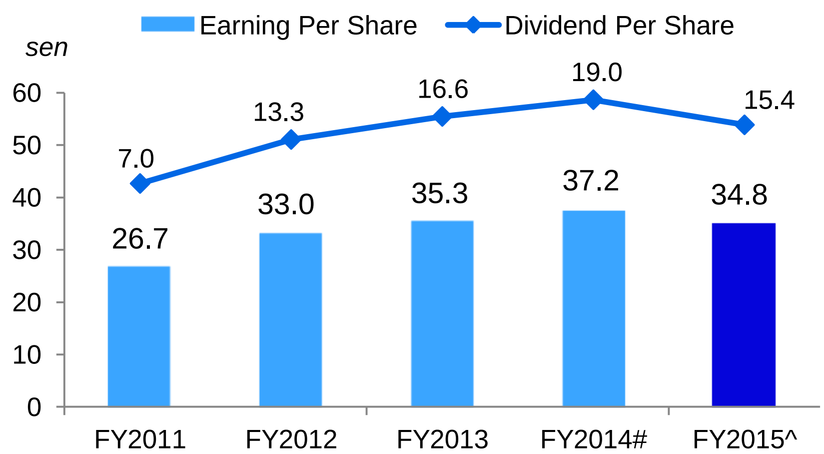
Profit Before Tax



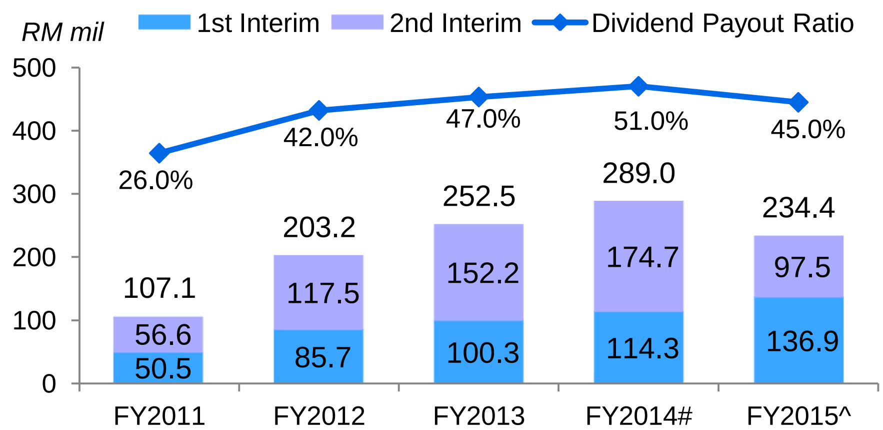
Net Profit After Tax and Return on Equity



Earnings Per Share and Dividend Per Share



Dividends Paid (Amount) and Payout Ratios



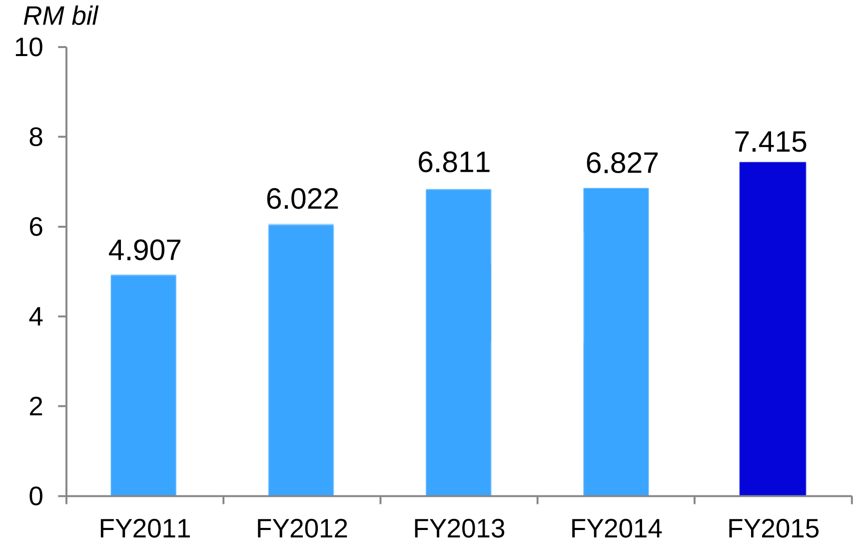
Note: ^ Includes proposed second interim dividend

 # Excluding special dividend of 10.5 sen or RM159.2 mil paid on 26 June 2014

** Computation based on share price of RM4.79 as at 31 March 2015*

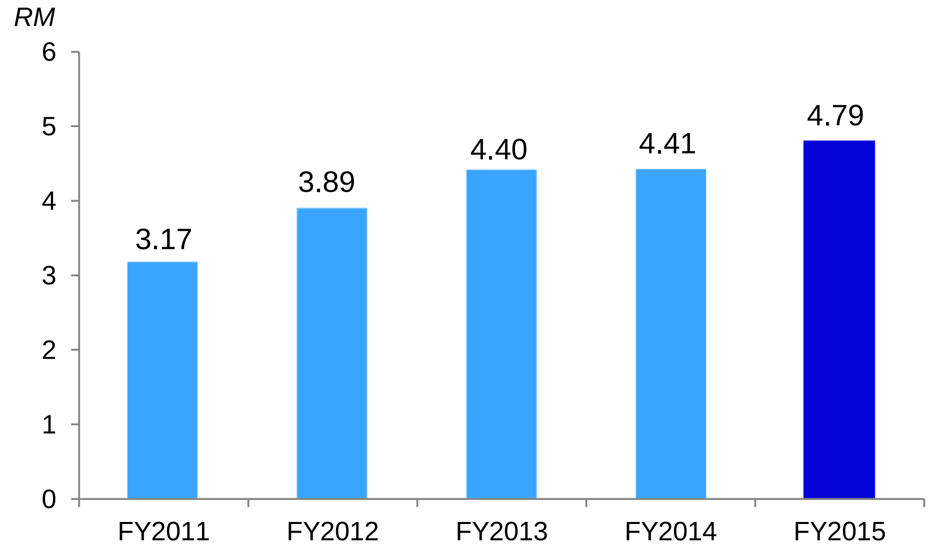
Steady Rise in Market Capitalisation

Market Capitalisation



- Market capitalisation and share price performance holding well with CAGR at 10.9% since FY2011.
- Foreign shareholding of 31% at end-March 2015

Share Price Performance



Price-to-Book Multiple (times)

FY11	FY12	FY13	FY14	FY15
1.5	1.6	1.7	1.6	1.6

Foreign Shareholding

Jun'14	Sep'14	Dec'14	Mar'15
32.5%	32.7%	32.0%	31.0%

2014-2015: We've won 17 Awards, gaining international recognition for our SME Banking Business and BizSmart initiatives

2015

THE ASIAN BANKER EXCELLENCE IN RETAIL FINANCIAL SERVICES INTERNATIONAL AWARDS 2015
BEST SME BANK
in Asia Pacific, Gulf region & Africa

THE ASIAN BANKER EXCELLENCE IN RETAIL FINANCIAL SERVICES INTERNATIONAL AWARDS 2015
BEST RETAIL BANKING BRAND INITIATIVE
in Asia Pacific, Gulf region & Africa

RETAIL BANKER INTERNATIONAL
Asia Trailblazer Awards 2015
Excellence in SME Banking

RETAIL BANKER INTERNATIONAL
Asia Trailblazer Awards 2015
Best Graduate Programme

RETAIL BANKER INTERNATIONAL
Asia Trailblazer Awards 2015
Best Community Outreach Programme

2014

FINANCIAL INSIGHTS INNOVATION AWARDS 2014
Asia's Most Customer Friendly Bank

FINANCIAL INSIGHTS INNOVATION AWARDS 2014
Asia's Best Online Banking

advertising+marketing MAGAZINE'S MARKETING EXCELLENCE AWARDS 2014
THE WESTIN KUALA LUMPUR | 17 OCTOBER 2014
GOLD WINNER
Excellence in Brand Strategy
Alliance BizSmart Academy

ASIAN BANKING & FINANCE RETAIL BANKING AWARDS 2014
Online Banking Initiative Of The Year – Malaysia

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

CARDS & ELECTRONIC PAYMENTS INTERNATIONAL
Asia Trailblazer Awards 2014
Best Business Card Programme

CARDS & ELECTRONIC PAYMENTS INTERNATIONAL
Asia Trailblazer Awards 2014
Credit Card Product of the Year - Malaysia

THE ASIAN BANKER TECHNOLOGY IMPLEMENTATION AWARDS 2014
SELF SERVICE BANKING PROJECT

GROWING BUSINESS IN NEW TERRITORY OR NEW SERVICE OFFERING
Architecture Excellence Award 2014
Architecture Excellence Awards 2014
Growing Business in New Territory or New Service Offering

THE LOYALTY & ENGAGEMENT AWARDS 2014
Best Use of Integrated Marketing Campaign (Bronze)
Alliance BizSmart Academy

GLOBAL FINANCIAL MARKET REVIEW AUTHENTIC AWARD
Global Financial Market Review
Best SME Bank Malaysia 2014

ASIAMONEY POLLS 2014
Malaysia's Most Improved Brokerage Over The Last 12 Month (3rd Rank)
Alliance Investment Bank Berhad

SME RECOGNITION AWARD 2014
2014 年中小型企業卓越成就獎
"Sahabat Negara SME Award"
2010, 2011, 2012, 2013 & 2014

2014 MALAYSIA'S 100 leading graduate EMPLOYERS
gti media
Malaysia's 100 Leading Graduate Employers
2012, 2013 & 2014

2013

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

Banking & Payments ASIA TRAILBLAZER AWARDS
Service Excellence in SME Banking

Contents

Economic Environment Has Become More Challenging

Slower GDP Growth

- GDP expected to moderate this year to 5.0%, from 6.0% in 2014 due to:
  - ✓ Decline in commodity prices; lower exports and government spending
  - ✓ Slowdown in consumption spending due to high household debt-to-GDP ratio of 87.9% and rising cost of living post GST implementation.

Intensifying Competition

- Continued compression of industry's interest margin with intense price competition for both loans and deposits
- OPR to remain steady at 3.25%, but pressure on deposit rates with implementation of Liquidity Coverage Ratios[(1)]:
  - ✓ 60% effective 1 June 2015 and to increase to 70% in January 2016
- More banks targeting SME banking

Asset Quality

- Asset quality under pressure from:
  - ✓ Challenging external environment – volatility in exchange rate and commodity prices
  - ✓ Tighter cash flow from rising inflation

(1) Liquidity Coverage Ratio (%) is based on Basel III rules which seeks to ensure banks hold sufficient high quality liquid asset (HQLA) to withstand an acute liquidity stress scenario for 30-days at both entity and consolidated level

FY2015 Net Profit After Tax 5.2% Lower Y-o-Y Excluding Exceptional Items

Income Statement	FY2015 RM mil	FY2014 RM mil	%	
			RM mil	%
Net Interest Income	820.6	778.6	42.0	5.4%
Islamic Banking Income	225.1	210.9	14.2	6.7%
Non-Interest Income	337.3	359.4	-22.1	-6.1%
Net Income	1,383.0	1,349.0	34.0	2.5%
Operating Expenses	646.9	628.2	18.7	3.0%
Pre-Provision Operating Profit	736.1	720.8	15.3	2.1%
(Allowance)/ Write back for losses on loans & financing and other losses[1]	(32.9)	28.5	-61.4	>-100%
Pre-tax profit	703.2	749.4	-46.2	-6.2%
Net Profit After Taxation	530.8	563.5	-32.7	-5.8%

Ratios Excluding Exceptional Items:

RM mil	FY2015	FY2014
Non-Interest Income Ratio	22.3%	25.0%
Cost-to- Income Ratio	46.5%	45.9%

Exceptional Items:

RM mil	FY2015	FY2014
Net Interest Income	-18.4 mil[1]	-
Non-Interest Income	+31.6 mil [2]	+30.0 mil [4]
Operating Expenses	-10.6 mil [3]	-22.3 mil [5]
NPAT Impact	+1.9 mil	+ 5.7 mil
Underlying NPAT	**528.9 mil**	**557.8 mil**

Notes:

1. *Accounting adjustment on income recognition for balance transfer for credit cards from upfront to amortisation*
2. *Gain on disposal of land of RM21.6 million and RM10.0 million of Bancassurance Fee*
3. *Implementation of Mutual Separation Scheme (MSS) to right-size the Group*
4. *Sign on fee for Bancassurance Agreement with Manulife Insurance Berhad*
5. *Implementation of Voluntary Separation Scheme (VSS) to right-size the Group*

4th Quarter FY2015 vs 4th Quarter FY2014

Income Statement	4QFY15 RM mil	4QFY14 RM mil	%	
			RM mil	%
Net Interest Income	186.1	201.0	-14.9	-7.4%
Islamic Banking Income	58.2	52.6	5.6	10.7%
Non-Interest Income	61.7	87.8	-26.1	-29.7%
Net Income	306.0	341.4	-35.4	-10.4%
Operating Expenses	165.5	165.3	0.2	0.1%
Pre-Provision Operating Profit	140.6	176.1	-35.5	-20.2%
Allowance for losses on loans & financing and other losses[(1)]	(16.0)	31.6	-47.6	->100.0%
Pre-tax profit	124.6	207.7	-83.1	-40.0%
Net Profit After Taxation	93.3	158.0	-64.7	-41.0%

- Net Interest Income was RM14.9 million lower: 4th Quarter FY2015 included a one-off accounting adjustment of RM18.4 million for recognition of income on balance transfer for credit cards. Income amortised, instead of up-front recognition.
- Non-Interest Income: Treasury Investment Income was RM27.5 million lower in 4th Quarter FY2015.
- Allowances for Loan Losses: Normalised credit cost in 4th Quarter FY2015, while 4th Quarter FY2014 had net write back of RM31.6 million due to recoveries from CLO (RM14.0 million) and other legacy loans.

(1) No write-back of impairment for investment securities and CLO recoveries (4QFY14: RM14.0 million)

4th Quarter FY2015 vs 3rd Quarter FY2015

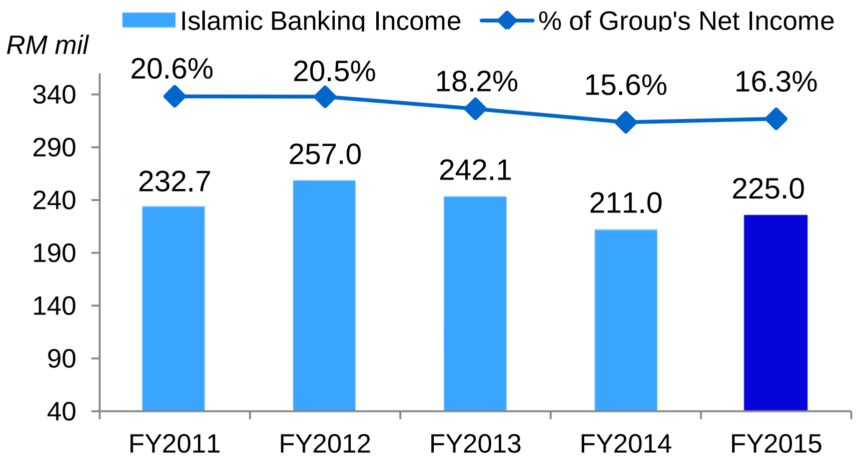
Income Statement	4QFY15 RM mil	3QFY15 RM mil	%	
			RM mil	%
Net Interest Income	186.1	213.5	-27.4	-12.8%
Islamic Banking Income	58.2	58.3	-0.1	-0.2%
Non-Interest Income	61.7	78.0	-16.3	-20.9%
Net Income	306.0	349.8	-43.8	-12.5%
Operating Expenses	165.5	156.4	9.1	5.8%
Pre-Provision Operating Profit	140.6	193.4	-52.8	-27.3%
(Allowance)/ Write back for losses on loans & financing and other losses	(16.0)	(25.2)	9.2	36.5%
Pre-tax profit	124.6	168.2	-43.6	-25.9%
Net Profit After Taxation	93.3	126.4	-33.1	-26.2%

- The drop in Net Interest Income mainly due to:
  - RM18.4 million adjustment for income recognition on balance transfer for credit cards, from upfront to amortisation.
  - NIM compression due to higher cost of funds and growth in deposits. LDR reduced from 86.0% to 82.8%
- Decline of RM16.3 million in ***Non-Interest Income*** mainly due to:
  - Lower client-based fees and commissions (brokerage, guarantee) of RM3.5 million
  - Lower FX gain of RM9.9 million
- 5.8% increase in Operating Expenses mainly due to:
  - Marketing Cost up by RM3.0 million in line with business expansion and brand-building initiatives.
  - Personnel Expenses up by RM6.5 million, mainly due to salaries, allowances and bonuses
- Normalisation of credit costs, with lower recoveries in 4th quarter

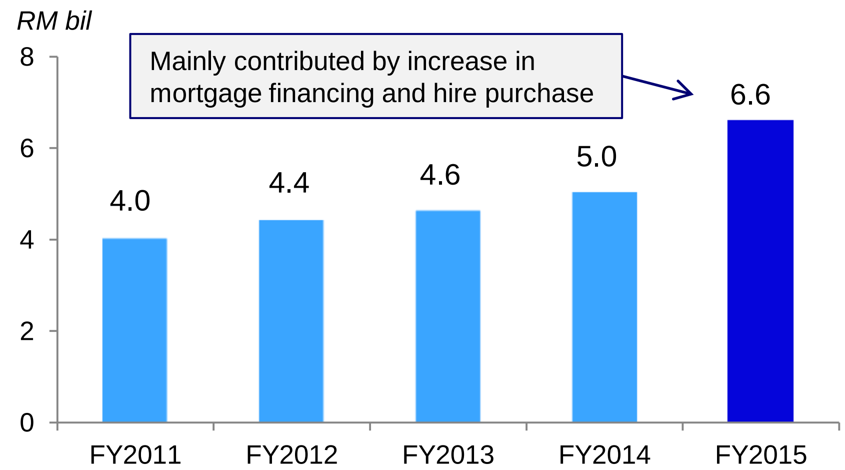
Credit Cost	4QFY15	3QFY15
Including recoveries	8.0 bps	5.1 bps
Excluding recoveries	10.7 bps	8.9 bps

Islamic Banking: Y-o-Y Net Financing Growth of 30.8% and Deposit Growth of 27.4%

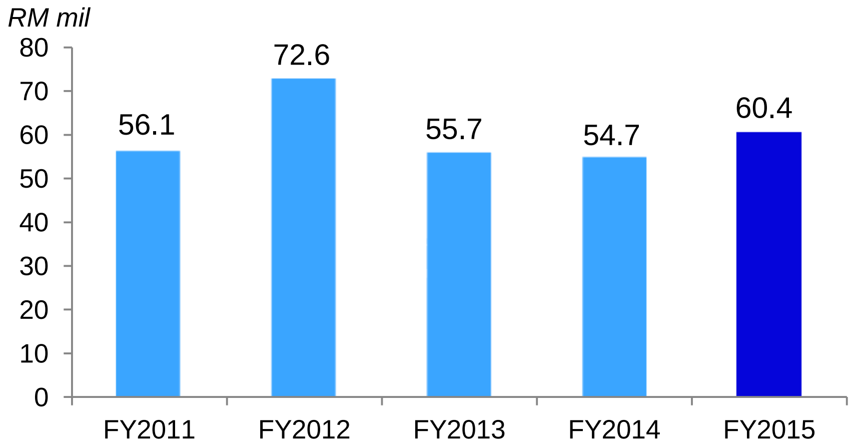
Islamic Banking Income



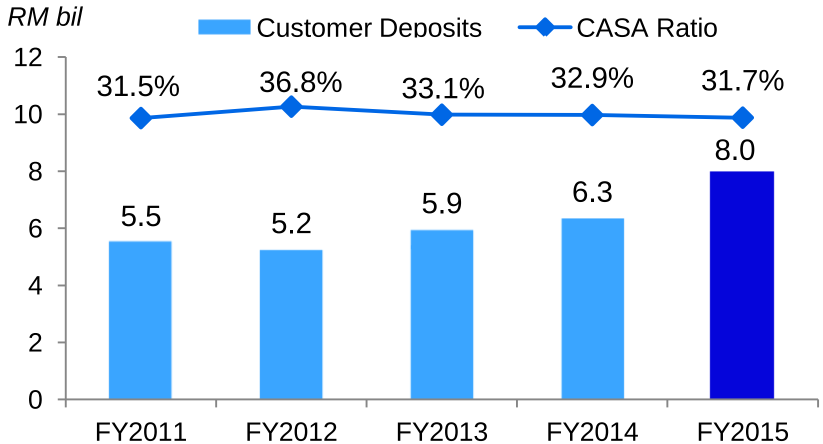
Net Financing & Advances (AIS)



Net Profit After Tax & Zakat (AIS)



Customer Deposits (AIS)



Growth in Recurring Client-Based and Transactional Fee Income Offset by Weakness in Treasury Activities

Non-Interest Income (NII)	FY15 (RM mil)	FY14 (RM mil)	Variance (RM mil)	%
Gain from sale/redemption of FI	17.6	44.4	-26.8	-60.4%
MTM revaluation of FI / derivatives	-18.1	3.1	-21.2	-683.9%
Realised gain/loss from derivatives	2.3	7.9	-5.6	-70.9%
Dividend Income	2.2	5.4	-3.2	-59.3%
Total Treasury Investment & Trading	*4.0*	*60.8*	-56.8	-93.4%
Trade Finance	48.2	44.5	3.7	8.3%
Guarantees	13.7	12.1	1.6	13.2%
FX (Sales and Trading)	**89.3**	**65.2**	24.1	37.0%
Client-Based: Trade & FX	*151.2*	*121.8*	+29.4	+24.1%
Insurance / Banca	24.8	23.0	1.8	7.8%
Share Trading Fee	4.3	5.3	-1.0	-18.9%
Unit Trust	10.5	15.3	-4.8	-31.4%
Brokerage	20.1	16.2	3.9	24.1%
Client-Based: Wealth	*59.7*	*59.8*	-0.1	0.0%
Commitment Fees	15.2	15.4	-0.2	-1.3%
Processing Fees	17.0	14.3	2.7	18.9%
Corporate Advisory	0.8	1.3	-0.5	-38.5%
Service Charges & Fees	33.7	31.9	1.8	5.6%
Recurring Transactional Banking	10.8	12.0	-1.2	-10.0%
Other Income	28.9	25.7	3.2	12.5%
Client-Based: Fee & Commission	*106.4*	*100.6*	+5.8	+5.8%
Total Client-Based Non-Interest Income	*317.3*	*282.2*	+35.1	+12.4%
Total Non-interest income (excluding Islamic Banking Income)	*321.3*	*343.0*	-21.7	-6.3%
Reclassification into Islamic Banking Income	*15.6*	*13.6*	+2.0	+14.7%
Total Non-interest income (including Islamic Banking Income)	*305.7*	329.4	-23.7	-7.2%
One off items – Bancassurance fees / Gain on sale of land	*31.6*	*30.0*	+1.6	+5.3%
AFG TOTAL	337.3	359.4	-22.1	-6.1%

Guideline on Classification and Impairment Provision for Loans/Financing

Requirements

- 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 guaranteed loans from the Government of Malaysia), 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 December 2015.

AFG	Mar 2015	Dec 2014
CA %	1.0%	0.92%

Treatments

- 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 Net Tangible Assets ("NTA").
- As per Para 16.1, ***CA and Regulatory Reserve***, attributable to impaired loans shall be excluded from ***Tier-2 Capital's computation***.

Impacts

- As at end-March 2015, AFG's CA ratio was at 1.0%. To top up to 1.2%, this translates to transfer of RM107.7 million from retained earnings to Regulatory Reserve.
- Estimated impact to CET1 ratio is a ***drop of 0.31%*** to 10.8%. Total Capital Ratio maintained at 13.0%.

THANK YOU

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