



ALLIANCE FINANCIAL  
GROUP BERHAD (6627-X)

*Banking Made Personal*

**ANALYST BRIEFING**  
**9M FY2016**  
**22 February 2016**



THE ~~ASIAN~~ BANKER®  
**EXCELLENCE IN  
RETAIL FINANCIAL SERVICES**  
**INTERNATIONAL AWARDS 2015**

**B E S T   S M E   B A N K**

**in Asia Pacific, Gulf Region & Africa**

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### **Executive Summary**

- Revenue and Profitability
- Effective Risk Management
- Key Results

2

### **Appendix - Financial Results:**

- 3Q FY2016
- 9M FY2016

**Continued progress despite challenging economy****1****Revenue and  
Profitability**

- Efficient loans growth with improved Risk Adjusted Return (“RAR”)
- Optimization of funding cost
- Better client based fee income
- Continued cost discipline

**2****Effective Risk  
Management**

- Stable asset quality
- Proactive portfolio management
- Improved and sustainable capital ratios

**3****Key Results**

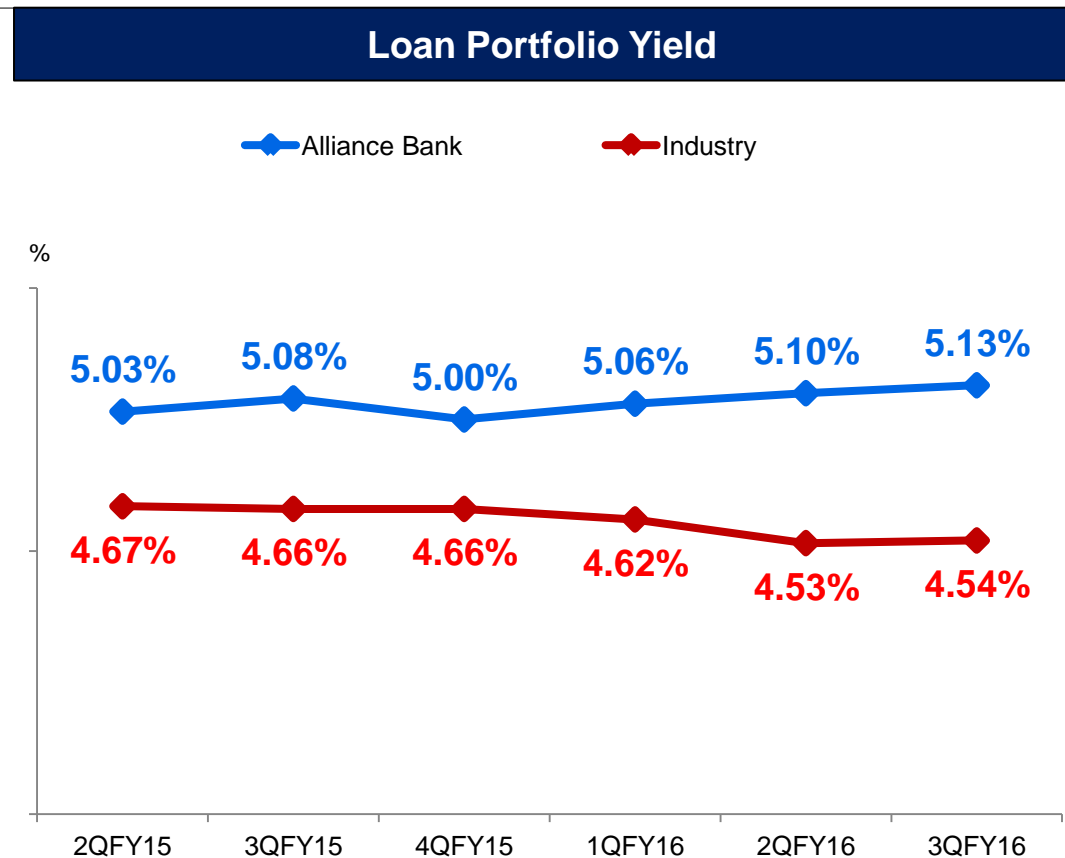
- Q-o-Q profit growth for a third consecutive quarter
- 11.6% return on equity in 3Q FY2016
- Net assets per share: +4 sen in 3Q FY2016

### Efficient loans growth with improved risk adjusted returns

a) Q-o-Q loan portfolio yields expanded 3 bps to 5.13%

- Improving loan mix
- Pricing for risk

b) Industry yield\* up slightly by 1 bp to 4.54%



Note:  
\* based on the Average Lending Rates for Commercial Banks as per BNM Monthly Statistical Bulletin Dec 2015

## Efficient growth in better risk adjusted return loans

a) Improved loan origination mix: FY2016 annualized loans growth:

- Better risk adjusted return (“RAR”) loans: 11.5%
- Lower RAR loans: 5.5%

b) Reversed 9MFY2015 trend, where lower RAR loans were growing faster

Loans Growth YTD (April – December)			
	9M FY2015 Loans Growth RM (mil)	9M FY2016 Loans Growth RM (mil)	9M FY2016 Annualized Loans Growth %
<b>Better RAR loans</b>			
<b>SME &amp; Commercial</b>	724	547	
<b>Consumer Unsecured</b>	124	191	
<b>Total</b>	848	738	<b>11.5%</b>
			RAR = 1.88%
<b>Lower RAR loans</b>			
<b>Mortgage &amp; Biz. Premises</b>	2,179	1,033	
<b>Hire Purchase</b>	225	(204)	
<b>Corporate</b>	247	276	
<b>Total</b>	2,652	1,105	<b>5.5%</b>
			RAR = 0.57%

**Q-o-Q improvement in portfolio RAR from 0.84% to 0.96%**

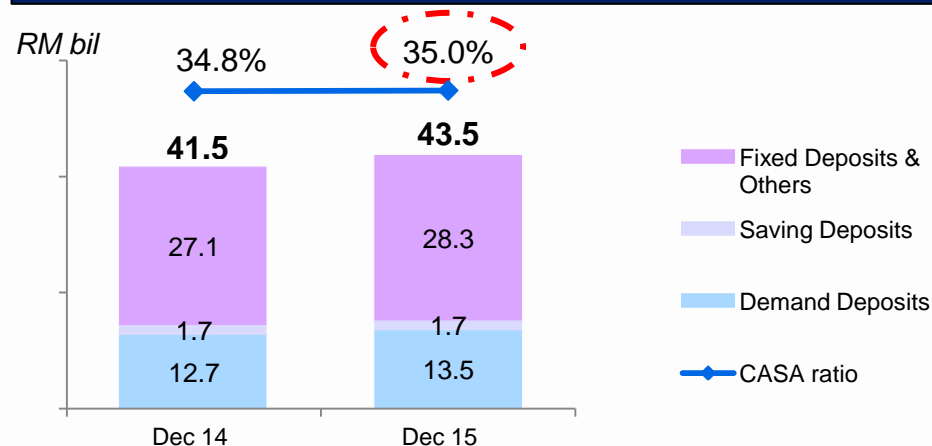
Note:

Risk Adjusted Return: Net Interest Margin less (Direct Variable Cost + Business as Usual Credit Cost) ÷ Average Loan Balance

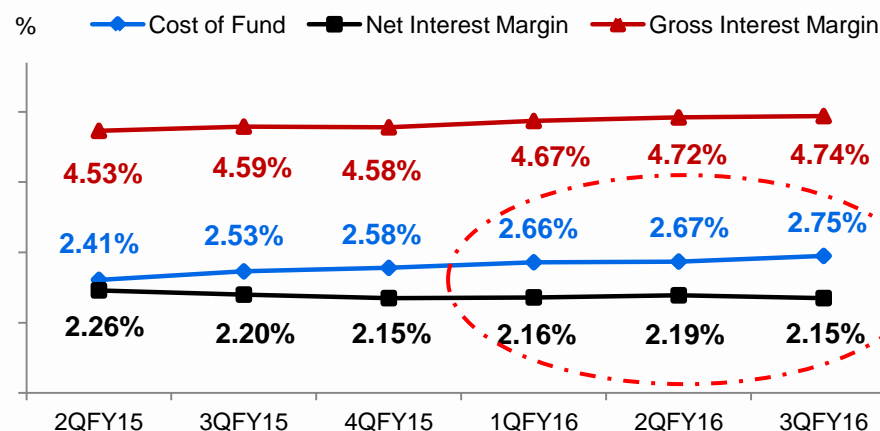
### Optimizing funding cost

- Funding mix optimization:
  - Growing customer deposits and CASA balances
  - CASA ratio at 35.0%
- Q-o-Q rise in cost of funds (+8 bps) mainly due to impact of new Tier-2 Subordinated Medium Term Notes ("Sub-MTNs") issuance
- NIM: -4 bps q-o-q
  - GIM: +2 bps q-o-q, driven by higher RAR loans and better pricing discipline
  - Excluding impact of new Sub-MTNs issuance, NIM: -1 bp q-o-q to 2.18%

#### Deposits and CASA Growth



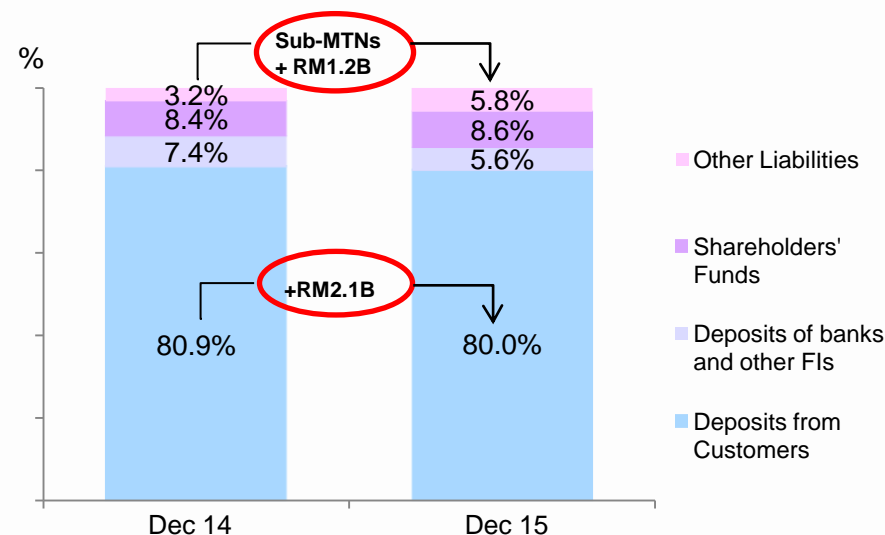
#### Cost of Funds & Net Interest Margin Trend



### Focus on customer based funding

- a) Proportion of funding from customer deposits remained high (>80%), after new Sub-MTNs issuance
- b) +5.0% y-o-y customer deposits growth, faster than industry^ (+1.8%)
- c) Loans to deposits ratio at 88.8%, in line with industry\*
- d) YTD smaller funding gap at 3.42% between deposits and loans growth (Industry: 6.79%)
- e) With Sub-MTNs, funding profile is further optimised with longer term maturities which also partially neutralise the repricing cost of Fixed Deposits

### Funding of Balance Sheet



Jan - Dec 2015	AFG Group	Banking System
Deposits Growth	5.03%	1.08%^
Loans Growth	8.45%	7.87%
<b>Difference (Funding Gap)</b>	<b>(3.42%)</b>	<b>(6.79%)</b>

#### Notes:

\* Industry: 88.7% per BNM Monthly Statistical Bulletin Dec 2015: Liquidity in the Banking System

^ based on Total Deposits in the Banking System

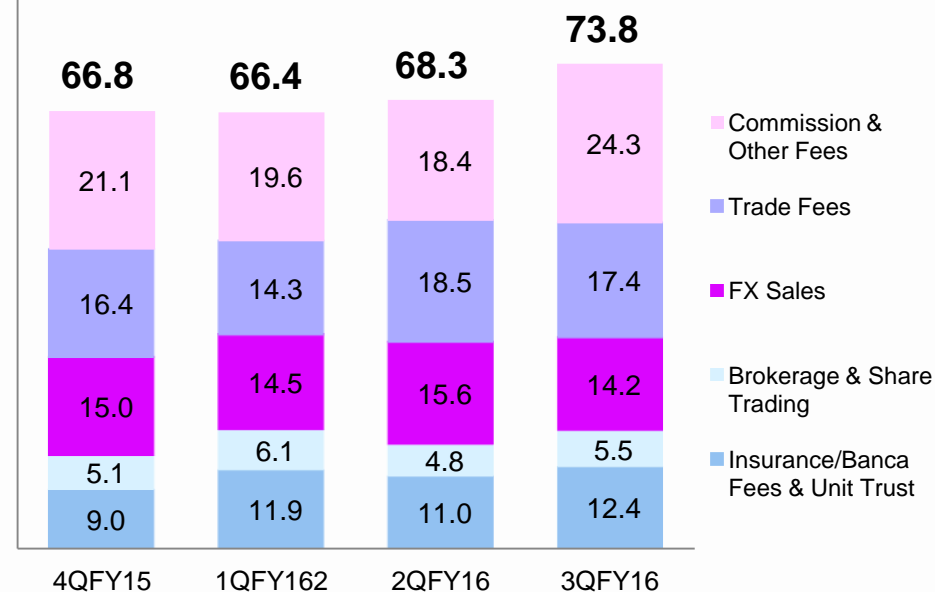
## Growing recurring client based fee income

**Q-o-Q Performance:** Client based fee income up 8.0%, with growth in:

- a) Wealth Management fee: +13.3%, contributed by Banca and share trading fees
- b) Commission and other fee income: +32.2%, mainly from card services, service charge fees, processing fees and corporate advisory

### Client Based Fee Income: Q-o-Q

RM mil



Note:

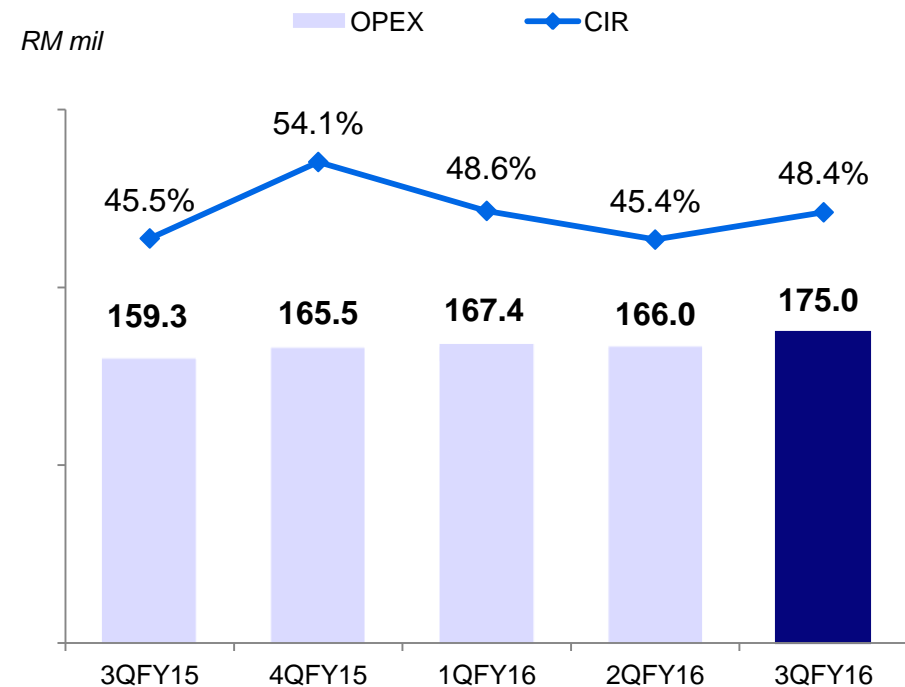
Non-Interest Income in this Chart is inclusive of Islamic Banking client-based fee income



### Continued cost discipline with investment to enhance customer experience

- a) Investment in brand building, human capital and infrastructure and re-engineering of processes to continue providing a great customer experience
- b) Operating expenses up 5.4% q-o-q, with targeted spend in franchise research
- c) 9MFY16 cost to income ratio at 47.4% maintained below industry average (51.9%\*)

#### Operating Expenses Trend: Q-o-Q



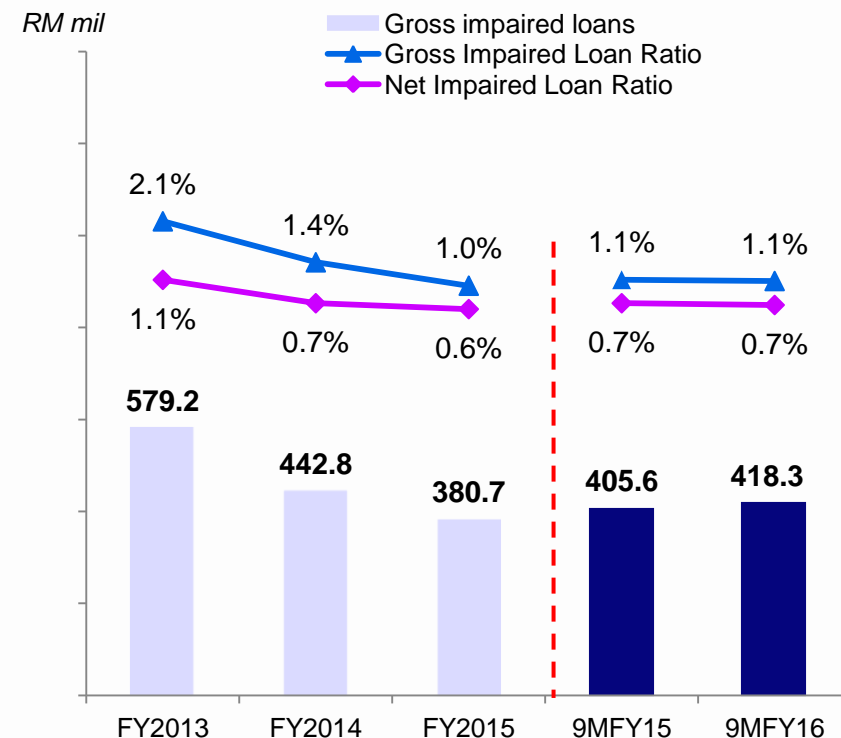
Note:

\* Average cost to income ratio of local banking groups at September 2015

## Stable asset quality

- a) Better than industry asset quality:
  - Gross impaired loans ratio at 1.1% (industry: 1.6%)
  - Net impaired loans ratio at 0.7% (industry: 1.2%)
- b) Stable gross impaired loans ratio despite slow down in mortgages and hire purchase loans
- c) Restructured & Rescheduled loans:
  - +RM2.8 million q-o-q
  - RM99.4 million (0.3% of total loans)
- d) Proactive Actions:
  - Enhanced credit underwriting policies
  - Enhanced early warning systems
  - Strengthened collections

### Gross Impaired Loans



	FY2013	FY2014	FY2015	9MFY2016
Loan Loss Coverage	82.5%	92.7%	102.7%	125.4%^

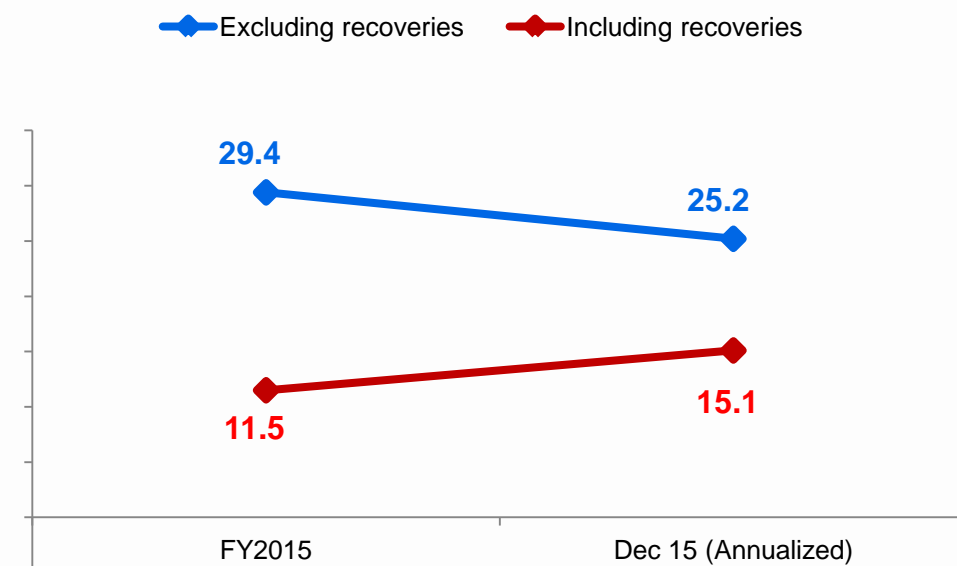
Note:

^ Loan Loss Coverage is enhanced by Regulatory Reserve provision amounting to RM135.6 million (+32.2%)

## Credit cost within guidance

- a) 9MFY2016: Annualized net credit cost moderated at 15.1 bps, with absence of major recoveries
- b) Recoveries:
  - 9MFY 2016: RM28.7 million
  - 9MFY 2015: RM48.6 million
- c) Y-o-Y credit cost (excluding recoveries) at 25.2 bps, lower than FY2015 (29.4 bps)
- d) Guidance for net credit cost for FY2016 unchanged at 20 bps ~ 25 bps

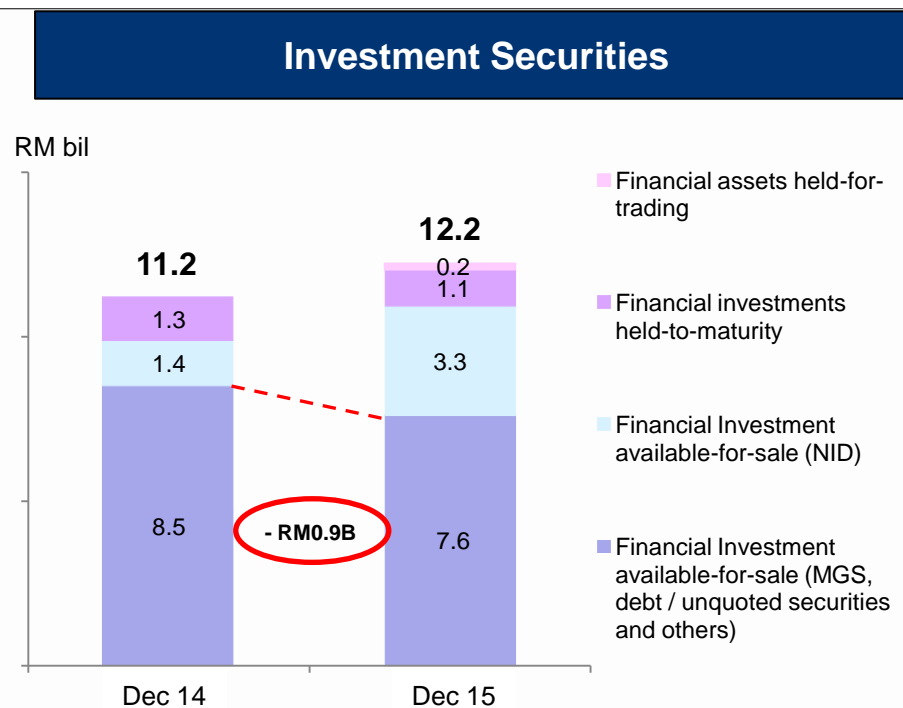
### Overall Credit Cost (bps)



Credit Cost (bps)	9MFY15 Actual	FY2015 Actual	9MFY16 Actual	FY2016 Annualized
Including recoveries	6.5 bps	11.5 bps	11.3 bps	<b>15.1 bps</b>
Excluding recoveries	20.8 bps	29.4 bps	18.9 bps	<b>25.2 bps</b>

## Effective management of interest rate risk

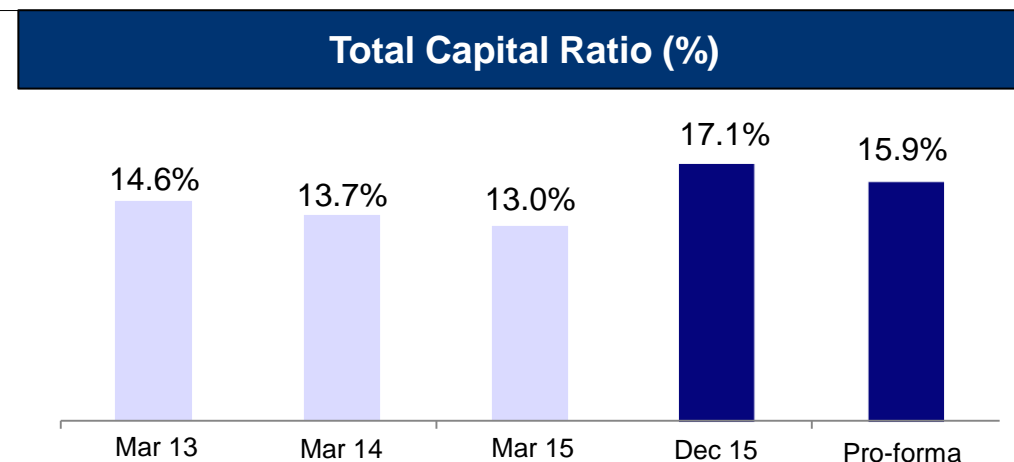
- a) Opportunistically enhanced investments in Available for Sale and Held for Trading securities
- b) Reduced sensitivity to interest rate risks
  - Shorten portfolio maturity by 30%
  - Lowered net FX open positions by 96%



Maturity Profile	Dec 14		Dec 15	
	RM'bil	Mix %	RM'bil	Mix %
≤ 3 months	1.5	13%	3.4	28%
3-12 months	0.8	7%	0.8	7%
> 1 year	8.9	80%	8.0	65%

## Strong capital ratios

- a) Strengthened total capital ratio to 17.1%, with RM1.2 billion Tier-2 Subordinated Medium Term Notes issuance, comprised of:
  - RM900 million on 27 October 2015
  - RM300 million on 18 December 2015
- b) Strong CET-1 ratio at 11.3%, even after Regulatory Reserve provision amounting to RM135.6 million (CET1 impact: -0.4%)
- c) Capital ratios to remain stable with focus on:
  - Risk adjusted returns as key driver for loans growth
  - Improving ratio of revenue to loans growth
  - Customer based fee income



Capital Ratios (after proposed dividends)	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Proforma Total Capital Ratio ^
Alliance Financial Group	11.3%	11.3%	17.1%	15.9%
Alliance Bank	11.2%	11.2%	16.1%	14.9%
<b>Minimum regulatory capital adequacy ratio*</b>	<b>5.125%</b>	<b>6.625%</b>	<b>8.625%</b>	<b>8.625%</b>

Notes:

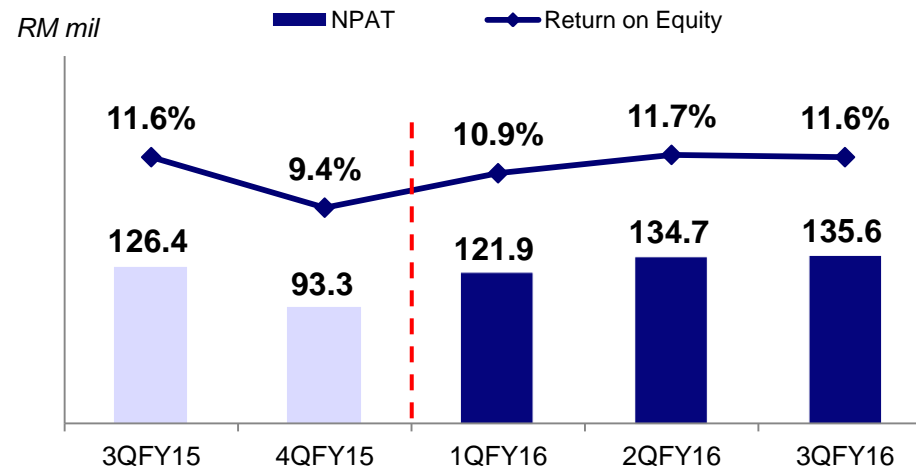
^ Proforma after full redemption of Tier-2 Subordinated Medium Term Notes of RM600 million (callable on 8 Apr 2016), impact to Total Capital Ratio: -1.23%

\* Basel III regulatory minimum in 2016 includes capital conservation buffer amounting to 0.625%

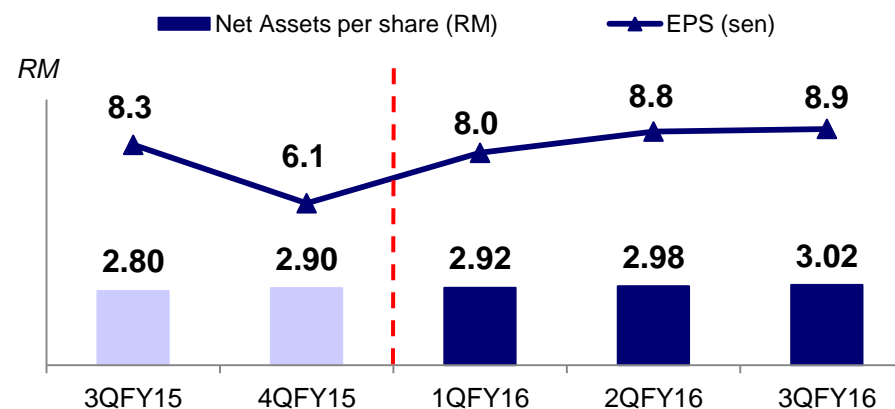
## Better Risk Adjusted Return strategy

- a) Sequential improvement Q-o-Q with Risk Adjusted Return strategy in:
  - NPAT : + 0.7%, registered three consecutive quarterly growth
  - ROE : 11.6%
  - ROA : well-maintained at 1.0%
- b) Q-o-Q enhancement to shareholder value:
  - Earnings per share (EPS) : +0.1 sen
  - Net Assets per share: +4 sen
- c) Stable capital ratios support dividend policy

### Net Profit After Tax and Return on Equity



### Net Assets and Earnings per share



**Focus on sustainable profitability****1****Revenue  
and  
Profitability**

- Efficient loans growth with focus on Risk Adjusted Returns
- Optimization of funding mix and cost of funds
- Improved client based fee income
- Continued cost discipline with investments to enhance customer experience

**2****Effective Risk  
Management**

- Effective management of asset quality and credit costs
- Proactive portfolio management to mitigate interest rate risk
- Strengthened capital position

**3****Key Results**

- Q-o-Q profit growth for a third consecutive quarter
- 11.6% return on equity in 3Q FY2016
- Net assets per share: +4 sen in 3Q FY2016

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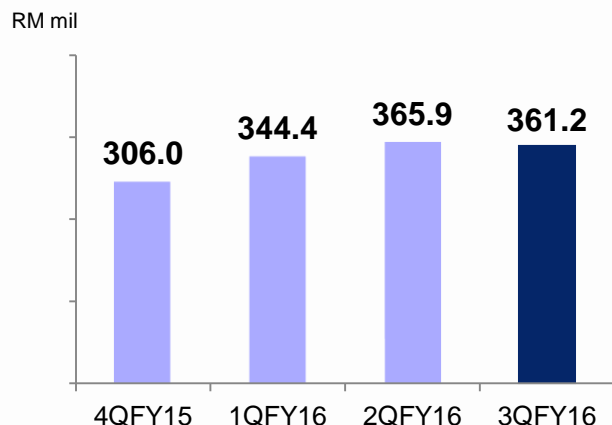
### **Appendix - Financial Results:**

- 3Q FY2016
- 9M FY2016

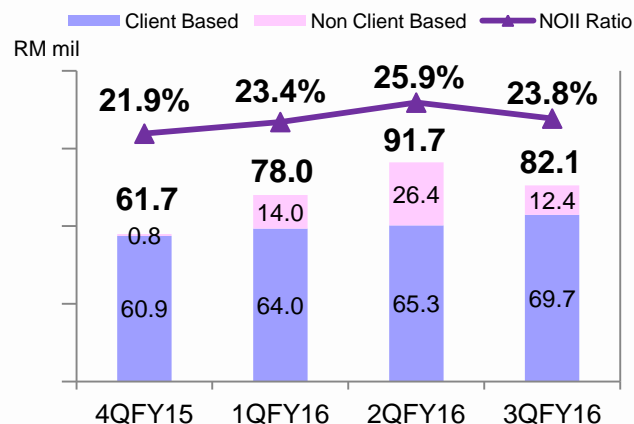


### Three consecutive net profit after tax quarterly growth

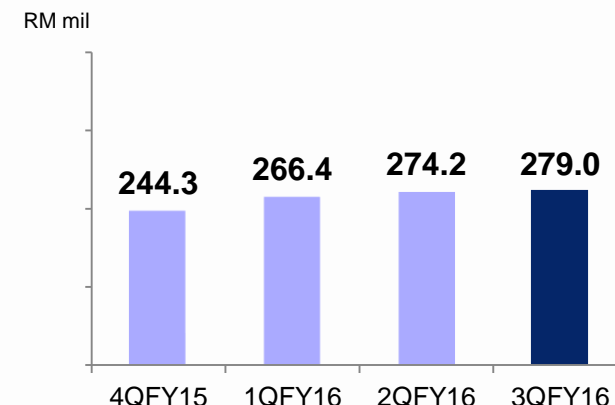
#### Revenue



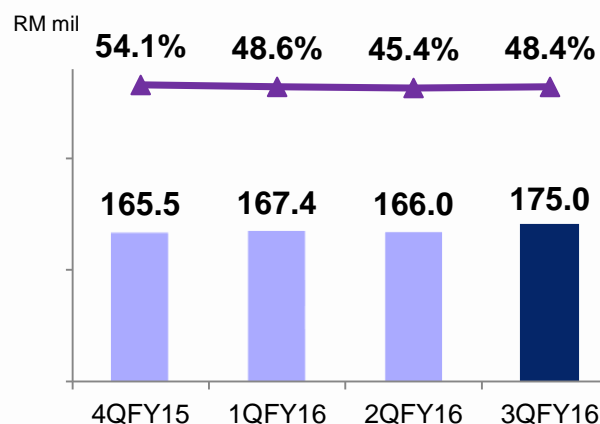
#### Non Interest Income & NII Ratio



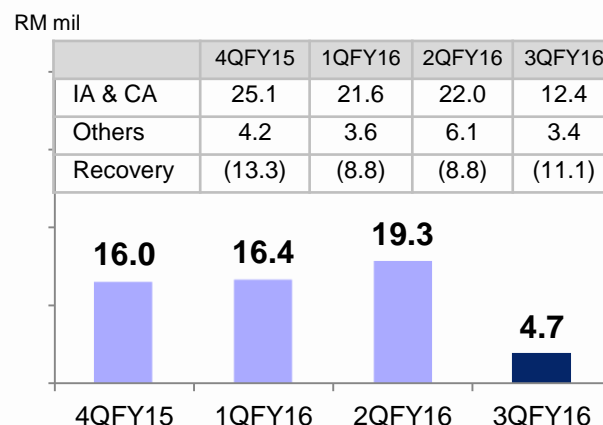
#### Net Interest Income & Islamic Banking Income



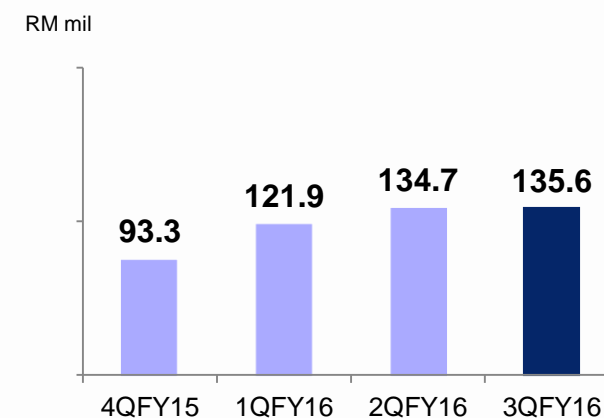
#### Operating Expenses & CIR Ratio



#### Credit Cost



#### Net Profit



**3QFY16 net profit after tax up 0.7%**

Income Statement	2QFY16 RM mil	3QFY16 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	213.1	215.8	2.7	1.3%
Islamic Banking Income	61.1	63.2	2.1	3.5%
Non-Interest Income	91.7	82.2	(9.5)	(10.5%)
Net Income *	365.9	361.2	(4.7)	(1.3%)
Operating Expenses	166.0	175.0	(9.0)	(5.4%)
Pre-Provision Operating Profit	199.9	186.2	(13.7)	(6.8%)
Credit Cost ^	19.3	4.7	14.6	75.8%
Pre-tax profit	180.6	181.5	0.9	0.5%
<b>Net Profit After Tax</b>	<b>134.7</b>	<b>135.6</b>	<b>0.9</b>	<b>0.7%</b>

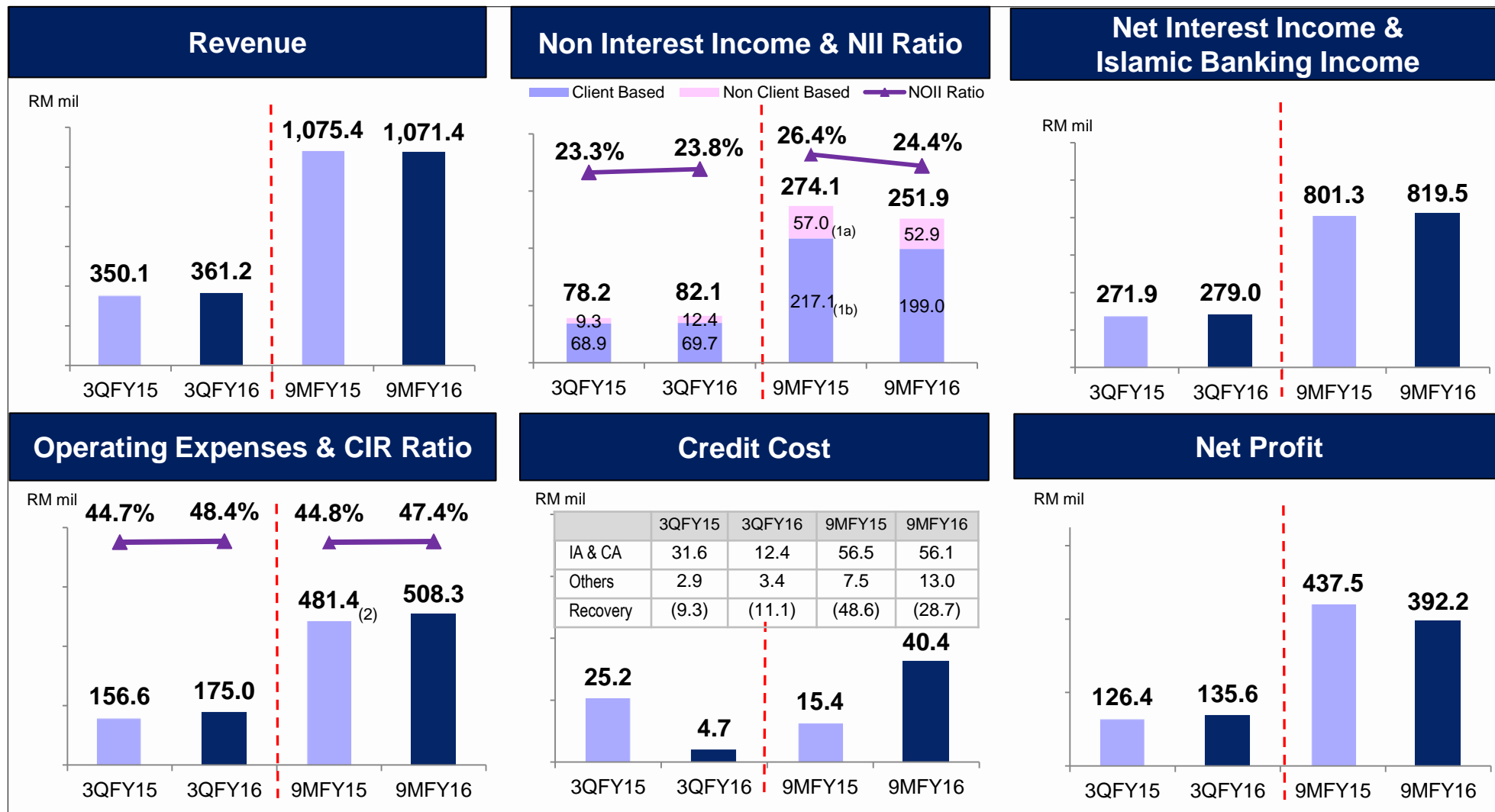
- **Net profit after tax** registered three consecutive quarterly growth since 1QFY16
- **Net interest income** grew by 1.3% q-o-q, driven by higher RAR loans and better pricing discipline
- **Client based non-interest income** improved by RM4.4 million or 6.7% q-o-q
- **Non client based income** declined by RM14.0 million arising from lower FX trading and revaluation due to market volatility
- **Operating expenses** increased by 5.4% q-o-q mainly from franchise research and personnel cost (collective agreement and sales incentive)
- Lower **credit cost** mainly due to write-back from collective assessment driven by more effective collection activities, and higher recoveries

Notes:

\* Revenue

^ Allowance/ (Write back) for losses on loans & financing and other losses

### 3QFY16 net profit after tax up 7.3% y-o-y



Notes: Reported basis (1a) include Gain on Disposal of Land of RM21.6 million; (1b) include Bancassurance Fee of RM10.0 million in Q2FY15

(2) include Implementation of Mutual Separation Scheme (MSS) amounting to RM10.6 million in Q1FY15 to right-size the Group

### Fewer write backs of loan loss provisions

Income Statement	9MFY15 RM mil (Reported)	9MFY15 RM mil (Normalised)	9MFY16 RM mil (Reported)	Y-o-Y Change (Normalised) Better / (Worse)	
				RM mil	%
Net Interest Income	634.5	634.5	636.7	2.2	0.4%
Islamic Banking Income	166.8	166.8	182.8	16.0	9.6%
Non-Interest Income	274.1	242.5	251.9	9.4	3.9%
Net Income *	1,075.4	1,043.8	1,071.4	27.6	2.6%
Operating Expenses	481.4	470.8	508.3	(37.5)	(8.0%)
Pre-Provision Operating Profit	594.0	573.0	563.1	(9.9)	(1.7%)
Credit Cost ^	15.4	15.4	40.4	(25.0)	(<100.0%)
Pre-tax profit	578.6	557.6	522.7	(34.9)	(6.2%)
<b>Net Profit After Tax</b>	<b>437.5</b>	<b>418.6</b>	<b>392.2</b>	<b>(26.4)</b>	<b>(6.3%)</b>

Notes:

\* Revenue

^ Allowance/ (Write back) for losses on loans & financing and other losses

- **Net income** up 2.6%, mainly driven by higher RAR loans and better pricing discipline and higher non-interest income
- **Operating expenses** increased, mainly from GST cost, personnel cost and deposit insurance premium
- 9MFY16 **credit cost excluding recoveries** at 25.2 bps (annualized) (FY2015: 29.4 bps)
- Lower **credit cost** in 9MFY15 was primarily due to higher recoveries. Exceptional recoveries amounted to RM48.6 million in 9MFY15, in contrast with only RM28.7 million in 9MFY16

9M FY2015: Exceptional Items	RM mil
Non-Interest Income	+31.6 mil <sup>(1)</sup>
Operating Expenses	-10.6 mil <sup>(2)</sup>
NPAT Impact	+18.9 mil
<b>9M FY2015 Normalised NPAT</b>	<b>418.6 mil</b>

Notes:

(1) Gain on disposal of land of RM21.6 million and RM10.0 million of Bancassurance Fee in Q2FY15

(2) Implementation of Mutual Separation Scheme (MSS) in Q1FY15 to right-size the Group

### Balance sheet growth

Balance Sheet	Dec 14 RM bil	Dec 15 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	51.2	54.4	3.2	6.2%
Treasury Assets *	11.4	12.4	1.0	8.8%
Net Loans	35.3	38.3	3.0	8.5%
Customer Deposits	41.5	43.5	2.0	5.0%
CASA Deposits	14.4	15.2	0.8	5.7%
Shareholders' Funds	4.3	4.7	0.4	8.0%
Net Loans Growth (y-o-y)	16.7%	8.5%		
Customer Deposit Growth (y-o-y)	13.0%	5.0%		

- +8.5% y-o-y **net loans growth**, with focus on better risk adjusted return loans namely SME, commercial and consumer unsecured lending
- **Better risk adjusted return loans** grew at an 11.5% annualized rate, over twice as fast as lower risk adjusted return loans
- **SME loans growth** of +17.2% y-o-y
- +5.0% y-o-y **customer deposits** growth, is above industry growth rate of 1.8%
- +5.7% y-o-y growth in **CASA deposits** despite intensified market competition for deposits

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at December 2015

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

	Financial Ratios	2QFY16	3QFY16	9MFY15	9MFY16
<b>Shareholder Value</b>	Return on Equity	11.7%	11.6%	13.7%	11.4%
	Earnings per Share	8.8sen	8.9sen	28.8sen	25.7sen
	Net Assets per Share	RM2.98	RM3.02	RM2.80	RM3.02
<b>Efficiency</b>	Net Interest Margin	2.19%	2.15%	2.20%	2.17%
	Non-Interest Income Ratio	25.9%	23.8%	26.4%	24.4%
	Cost to Income Ratio	45.4%	48.4%	44.8%	47.4%
<b>Balance Sheet Growth</b>	Net Loans ( <i>RM bil</i> )	37.6	38.3	35.3	38.3
	Customer Deposits ( <i>RM bil</i> )	44.1	43.5	41.5	43.5
<b>Asset Quality</b>	Gross Impaired Loans Ratio	1.1%	1.1%	1.1%	1.1%
	Net Impaired Loans Ratio	0.7%	0.7%	0.7%	0.7%
	Loan Loss Coverage Ratio ^	92.7%	125.4%^	94.2%	125.4%^
<b>Liquidity</b>	CASA Ratio	33.6%	35.0%	34.8%	35.0%
	Loan to Deposit Ratio	86.2%	88.8%	86.0%	88.8%
<b>Capital</b>	Common Equity Tier 1 Capital Ratio	11.7%	11.3%	10.9%	11.3%
	Tier 1 Capital Ratio	11.7%	11.3%	10.9%	11.3%
	Total Capital Ratio	13.6%	17.1%	12.9%	17.1%

Note:

^ Loan Loss Coverage is enhanced by Regulatory Reserve provision amounting to RM135.6 million (+32.2%)

# THANK YOU

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