



ALLIANCE FINANCIAL
GROUP BERHAD (6627-X)

Banking Made Personal

ANALYST BRIEFING
FY2016
26 May 2016



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

B E S T S M E B A N K

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Executive Summary

- Revenue and Profitability
- Effective Risk Management
- Key Results

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Appendix - Financial Results:

- 4Q FY2016
- FY2016

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

- Efficient loans growth with improved Risk Adjusted Returns (“RAR”)
- Sustained client based fee income
- Contained cost to income ratio

2**Effective Risk Management**

- Optimising funding structure with focus on customer based funding
- Deposits grew faster than industry, y-o-y NIM maintained
- Better-than-industry asset quality, credit cost contained
- Effective management of interest rate risk
- Improved and sustainable capital ratios

3**Key Results**

- Net profit after tax: RM522.0 million in FY2016, 11.2% return on equity
- Net assets per share: +23 sen, dividend payout ratio: 43%

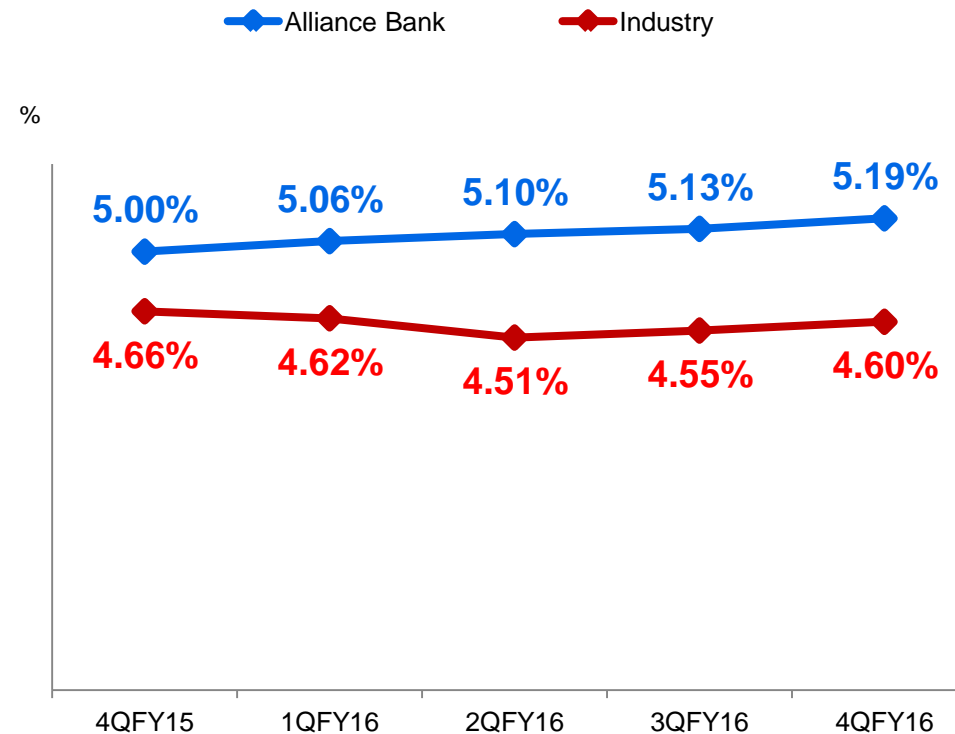
Efficient loans growth with focus on risk adjusted return

a) Q-o-Q loan portfolio yields expanded 6 bps to 5.19% thanks to:

- Improving loans mix
- Pricing for risk

b) Industry yield* up by 5 bps to 4.60%

Loan Portfolio Yield



Note:

* Industry: based on the Average Lending Rates for Commercial Banks as per BNM Monthly Statistical Bulletin March 2016

Efficient growth in better risk adjusted return loans

Improved loan origination mix: FY2016 loans growth:

- Better risk adjusted return (“RAR”) loans: 15%
- Lower RAR loans: 3%

Loans Growth FY2016				
	FY2015 Loans Growth RM (mil)	FY2016 Loans Growth RM (mil)	FY2016 Loans Growth %	
Better RAR loans				
SME & Commercial	1,035	1,075	↑	
Consumer Unsecured	149	212	↑	
Total	1,185	1,286	↑	15% RAR = 1.70%
Lower RAR loans				
Mortgage & Biz. Premises	2,836	1,165	↓	
Hire Purchase	270	(274)	↓	
Corporate	538	(79)	↓	
Total	3,644	812	↓	3% RAR = 0.65%

Q-o-Q improvement in portfolio RAR from 0.96% to 1.04%

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

Sustained client based fee income

Maintained client based fee income:

Y-o-Y Performance:

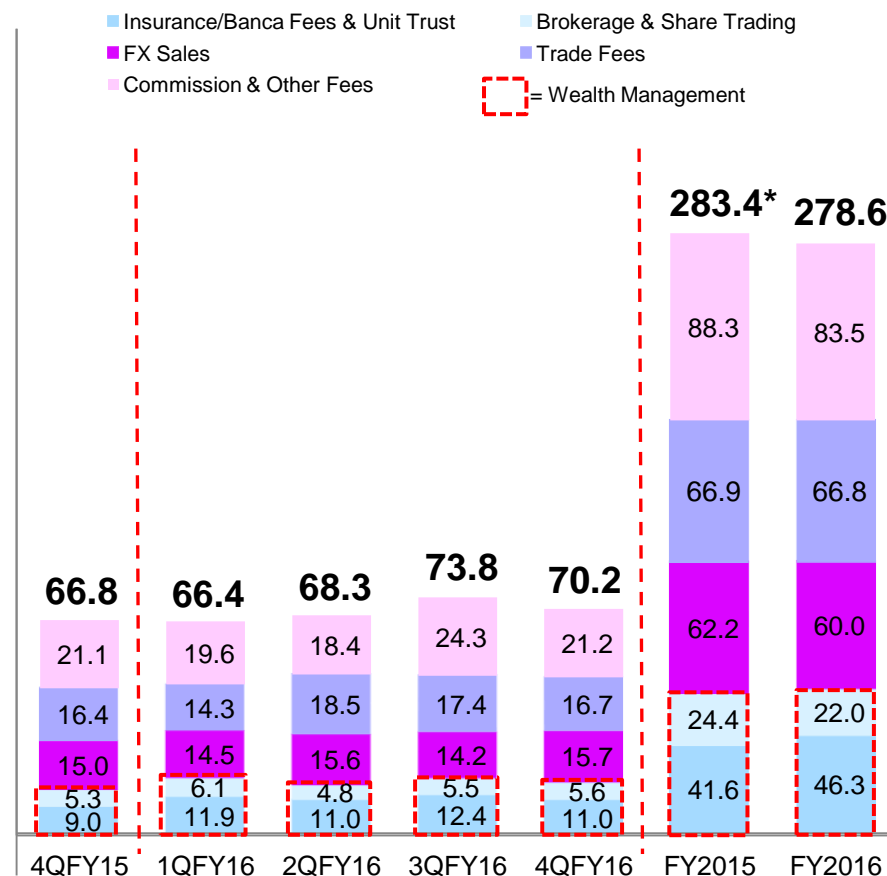
- a) Excluding exceptional item*, Wealth Management fees grew +3.5% y-o-y, offset by
- b) Lower processing fees

Q-o-Q Performance:

- a) FX sales +10.4% q-o-q, offset by
- b) Lower processing fees and service charges

Client Based Fee Income Trend

RM mil



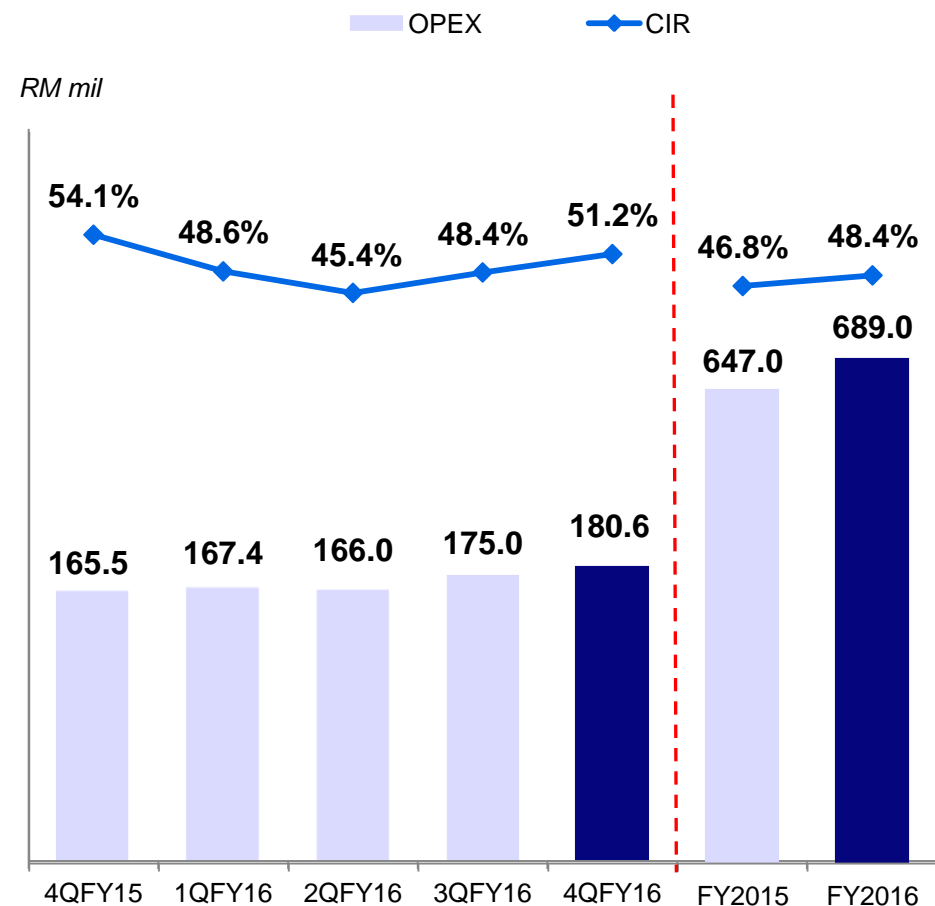
Note: Non-Interest Income in this Chart is inclusive of Islamic Banking client-based fee income

* Exclude exceptional item, Bancassurance Fee of RM10.0 million in Q2FY15

Contained cost to income ratio

- a) FY2016 cost to income ratio at 48.4%, maintained below industry average (53.2%*)
- b) Operating expenses up 3.2% q-o-q and 6.5% y-o-y, mainly due to franchise research, GST cost, personnel cost (collective agreement and sales incentives) and deposit insurance premium
- c) Cost to income ratio will be maintained below 50% with continued cost control and selected franchise investment

Operating Expenses Trend



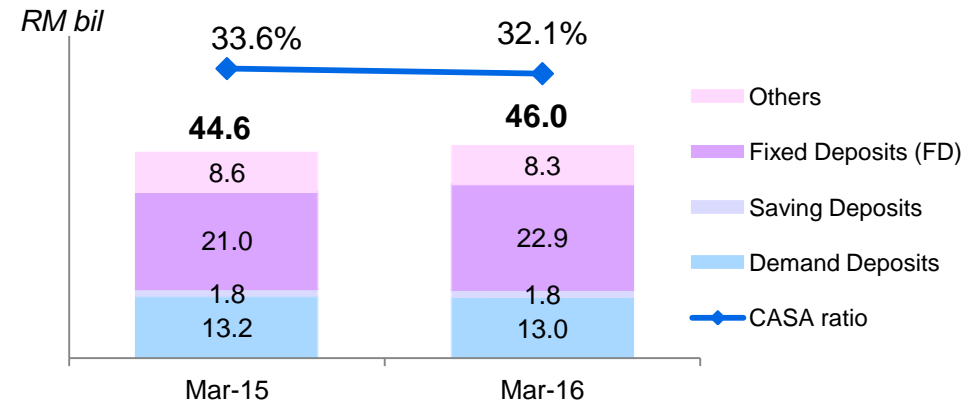
*Note: * Average cost to income ratio of local banking groups at December 2015*

Optimising funding structure with focus on customer based funding

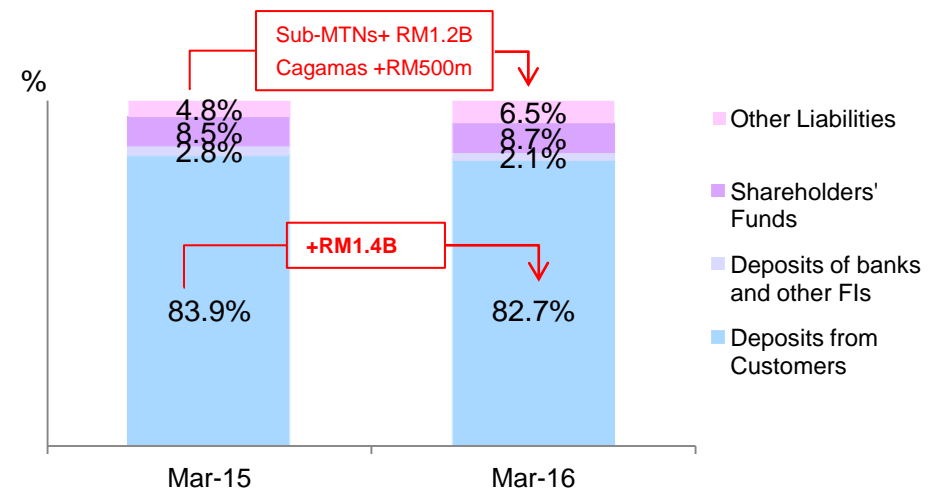
Funding mix optimisation:

- Growing customer deposits: FD grew 8.7% y-o-y
- Maintaining CASA balances: 32.1% CASA ratio
- Proportion of funding from customer deposits remained high (>80%)
- With Tier-2 Subordinated Medium Term Notes (“Sub-MTNs”) issuance and Cagamas, funding position is further optimised with longer term maturities to create a more robust balance sheet profile that will be supportive of business growth

Deposits and CASA Growth



Funding of Balance Sheet

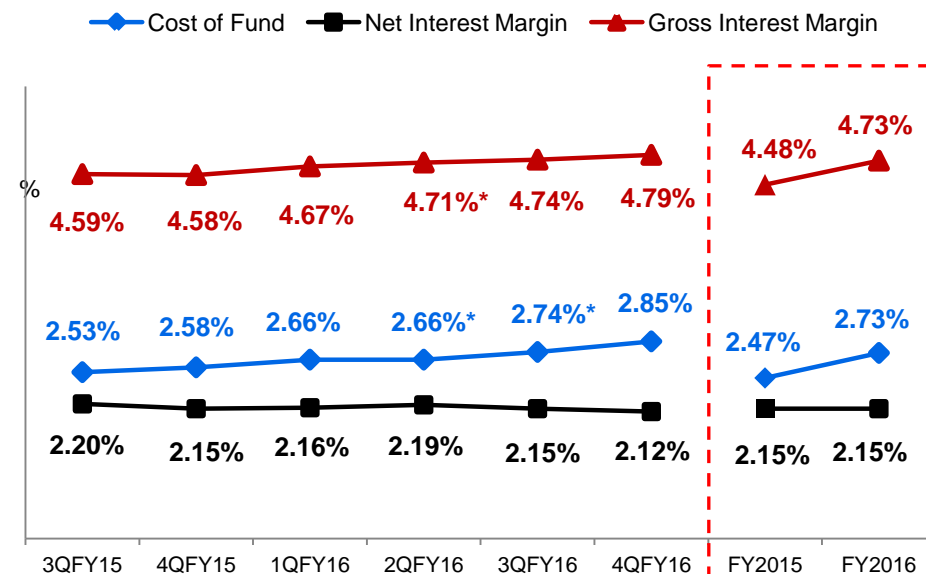


Deposits grew faster than industry, y-o-y NIM maintained

- a) +3.2% y-o-y customer deposits growth, faster than industry^ (-1.0%)
- b) Loans to deposits ratio at 84.2% (industry*: 87.7%)
- c) Small funding gap at 1.76% between deposits and loans growth (industry: 7.42%)
- d) Q-o-Q rise in cost of funds (+11 bps) mainly due to impact of recent Sub-MTNs issuance, Cagamas funding and FD growth / repricing.
- e) GIM: +5 bps q-o-q, driven by higher RAR loans and better pricing discipline
- f) NIM: -3 bps q-o-q, but maintained at 2.15% (FY16 vs FY15)

FY2016	AFG Group	Banking System
Deposits Growth	3.18%	-0.99%^
Loans Growth	4.94%	6.43%
Difference (Funding Gap)	(1.76%)	(7.42%)

Cost of Funds & Net Interest Margin Trend

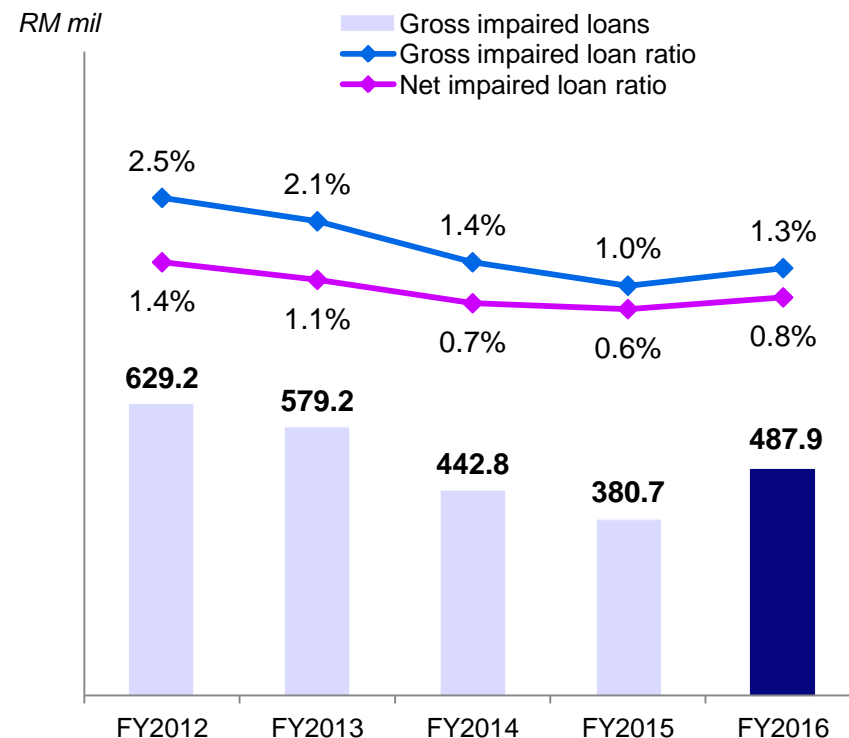


Notes: * Based on BNM Monthly Statistical Bulletin March 2016: Liquidity in the Banking System
 ^ Based on Total Deposits in the Banking System * restated figures

Better-than-industry asset quality

- a) Better-than-industry asset quality despite slow down in mortgages and hire purchase loans:
 - Gross impaired loans ratio at 1.3% (industry: 1.6%)
 - Net impaired loans ratio at 0.8% (industry: 1.2%)
 - SME gross impaired loans ratio at 1.0%
- b) Restructured & Rescheduled loans:
 - +RM33.3 million q-o-q
 - RM132.8 million (0.3% of total loans)
- c) Proactive actions:
 - Enhanced credit underwriting policies
 - Enhanced early warning systems
 - Strengthened collections

Gross Impaired Loans



	FY2012	FY2013	FY2014	FY2015	FY2016 [^]
Loan Loss Coverage	87.7%	82.5%	92.7%	102.7%	109.1%

Note:

[^] Loan Loss Coverage is enhanced by Regulatory Reserve provision amounting to RM157.2 million (+36.2%)

Industry: Based on the Banking System as per BNM Monthly Statistical Bulletin March 2016

Contained credit cost

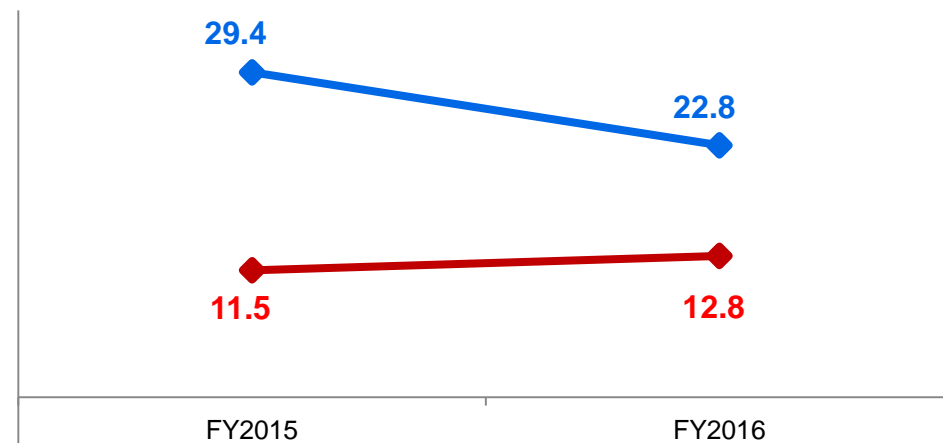
a) FY2016: Net credit cost moderated at 12.8bps

b) Recoveries:

- FY2016: RM37.8 million
- FY2015: RM61.8 million

Overall Credit Cost (bps)

—●— Excluding recoveries —◆— Including recoveries



Credit Cost (bps)	FY2015 Actual	FY2016 Actual
Including recoveries	11.5 bps	12.8 bps
Excluding recoveries	29.4 bps	22.8 bps

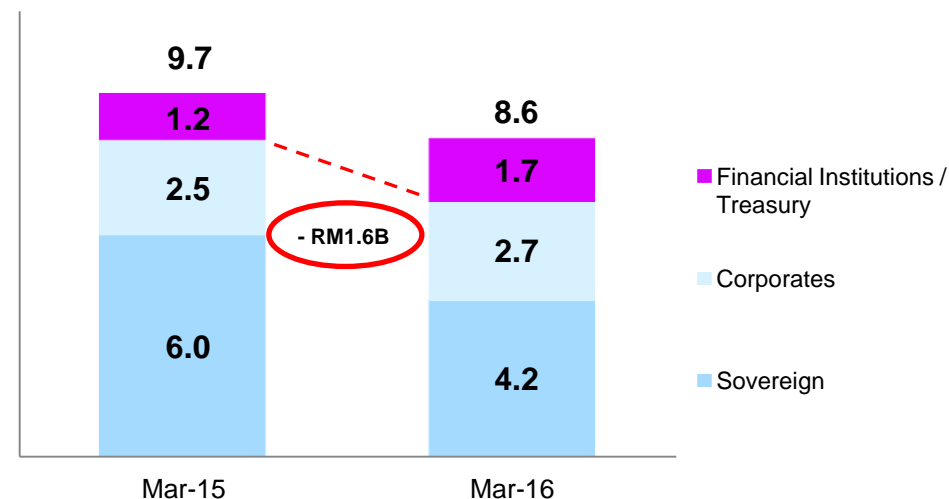
Effective management of interest rate risk

Reduced sensitivity to interest rate risks by 26%:

- a) Shorter portfolio maturity by 14%
- b) Lower net FX open positions by 93%

Available-for-Sale (AFS) Investment Securities

RM bil

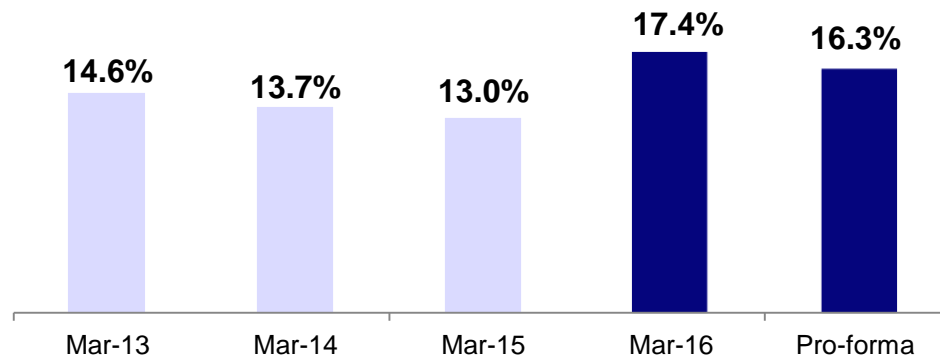


Maturity Profile	Mar 15		Mar 16	
	RM'bil	Mix %	RM'bil	Mix %
≤ 3 months	1.4	15%	1.7	20%
3-12 months	0.5	5%	0.4	5%
1-3 years	1.8	18%	2.1	24%
3-5 years	3.1	32%	2.2	26%
> 5 years	2.9	30%	2.2	25%

Improved and sustainable capital ratios

- a) Strengthened total capital ratio to 17.4%, with RM1.2 billion Tier-2 Subordinated Medium Term Notes issuance in FY2016.
- b) Strong CET-1 ratio at 11.8%, after retained earnings and regulatory reserve provision[^]
- c) Capital ratios to remain stable with focus on risk adjusted returns on loans and client based fee income

Total Capital Ratio (%)



Capital Ratios (after proposed dividends)	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Proforma Total Capital Ratio #
Alliance Financial Group	11.8%	11.8%	17.4%	16.3%
Alliance Bank	10.9%	10.9%	16.2%	14.9%
Minimum regulatory capital adequacy ratio*	5.125%	6.625%	8.625%	8.625%

Notes:

[^] Regulatory Reserve provision amounting to RM157.2 million (CET1 impact: -0.5%)

Proforma after full redemption of Tier-2 Subordinated Medium Term Notes of RM600 million (callable on 8 Apr 2016), impact to Total Capital Ratio: -1.1%

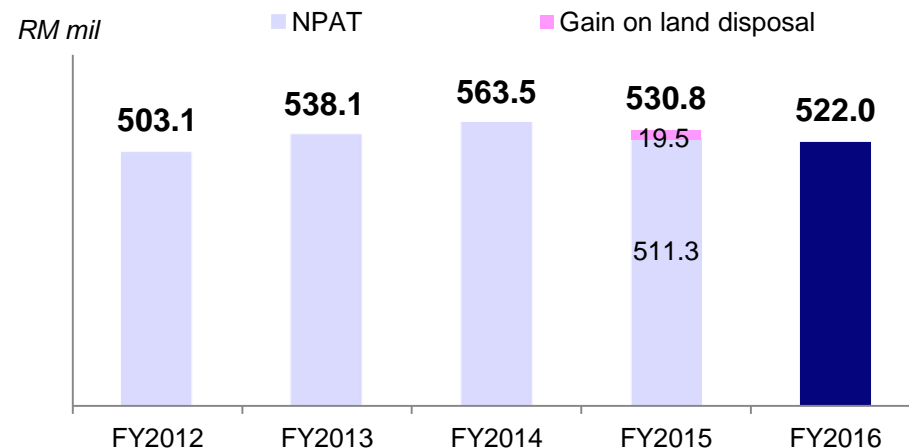
* Basel III regulatory minimum in 2016 includes capital conservation buffer amounting to 0.625%

Better Risk Adjusted Return strategy

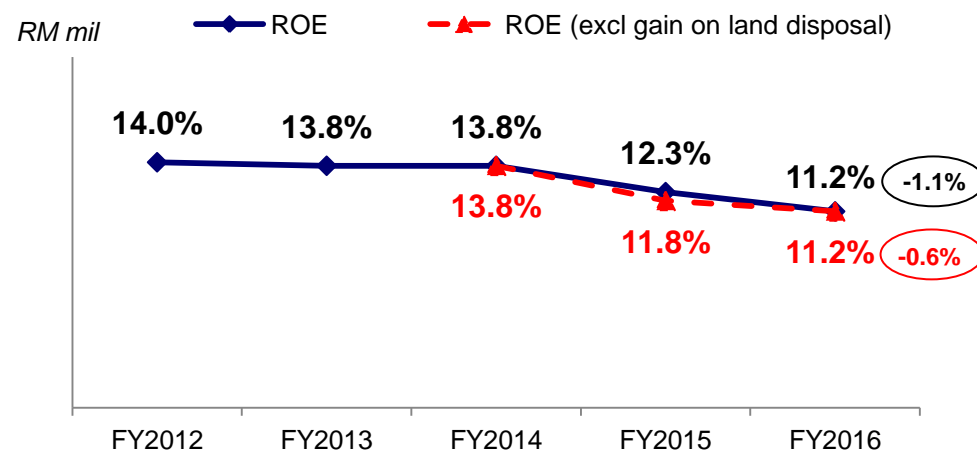
Stable y-o-y performance despite challenging environment with Risk Adjusted Return strategy:

- NPAT : RM522.0 million
- ROE : 11.2%
- ROA : well-maintained at 1.0%

Net Profit After Tax



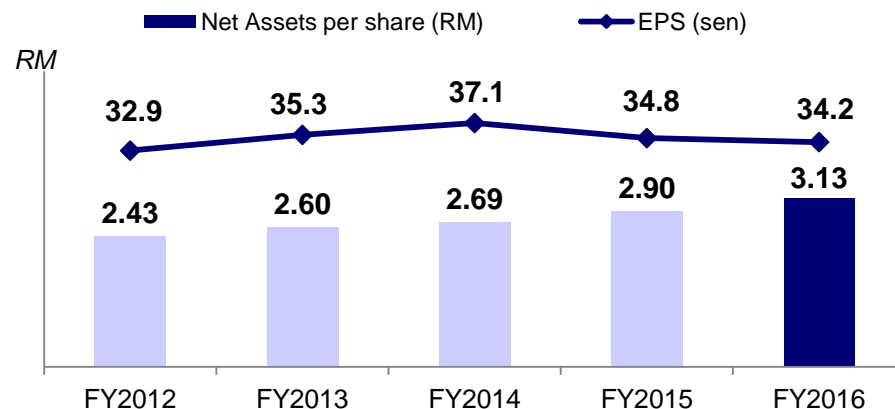
Return on Equity



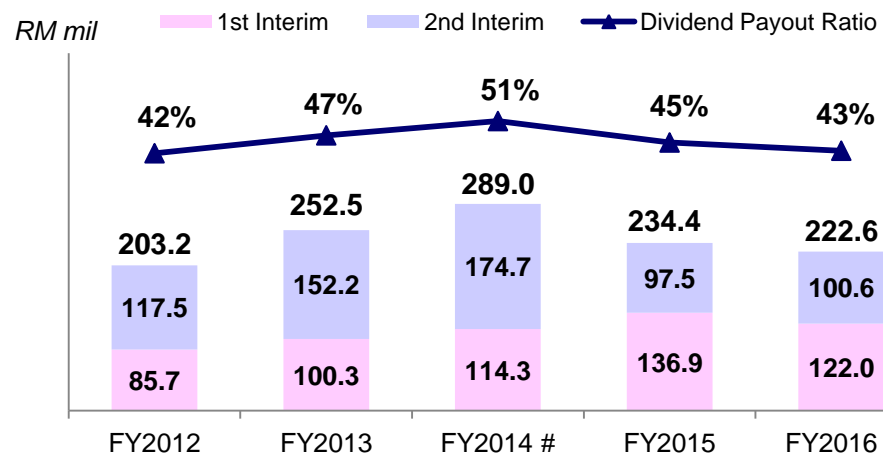
Enhanced shareholder value, dividend payout ratio at 43%

- a) Shareholder value:
 - Earnings per share (EPS) : 34.2 sen
 - Net assets per share : +23 sen
- b) FY2016: Including the proposed 2nd interim dividend of 6.5 sen per share:
 - A total of 14.5 sen per share
 - Dividend payout ratio of 43%
- c) Stable capital ratios support dividend policy

Net Assets and Earnings per share



Dividend Paid and Payout Ratio



Notes:

Excluding special dividend of 10.5 sen or Rm159.2 mil paid on 26 June 2014

^ Including proposed 2nd interim dividend of 6.5 sen per share

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

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- Sustained client based fee income
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- Net assets per share: +23 sen, dividend payout ratio: 43%

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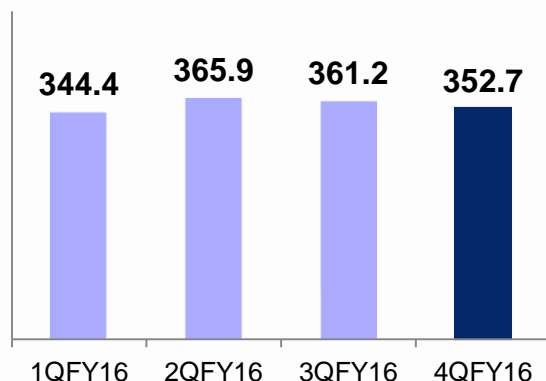
Appendix - Financial Results:

- 4Q FY2016
- FY2016

Net profit after tax: RM129.8 million

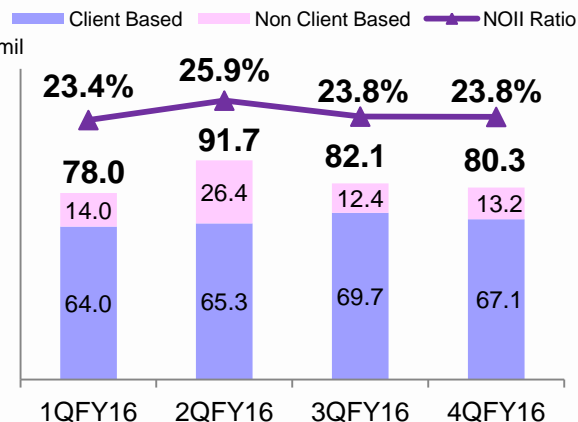
Revenue

RM mil



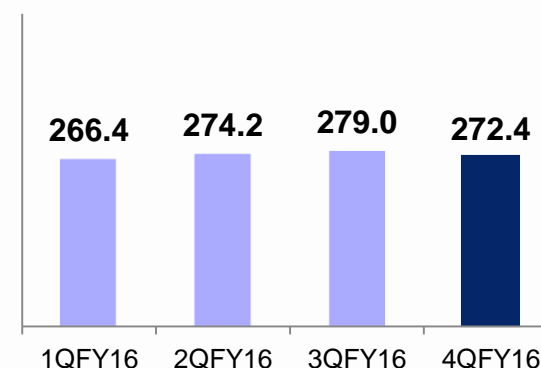
Non Interest Income & NII Ratio

RM mil



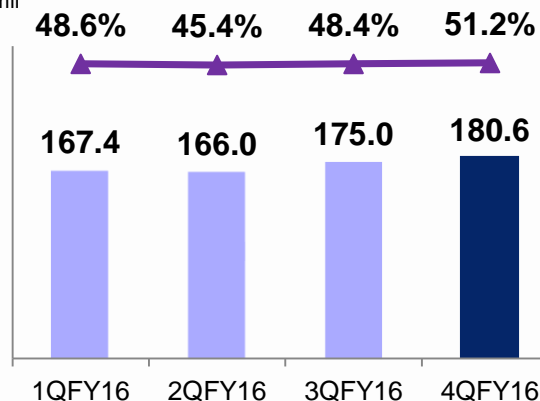
Net Interest Income & Islamic Banking Income

RM mil



Operating Expenses & CIR Ratio

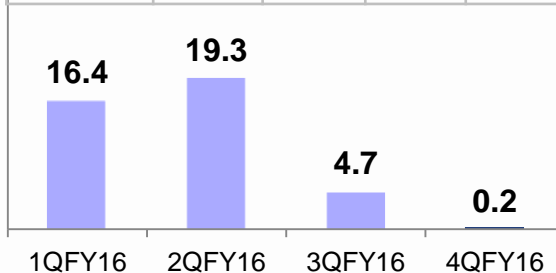
RM mil



Credit Cost

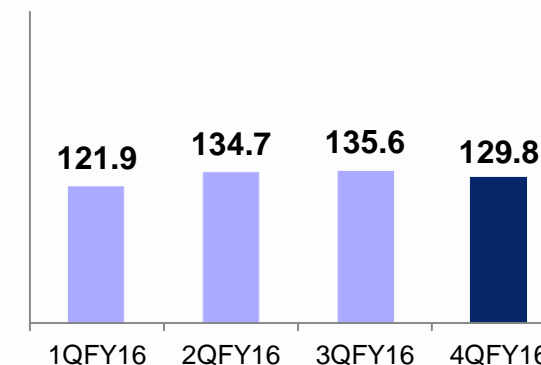
RM mil

	1QFY16	2QFY16	3QFY16	4QFY16
IA & CA	21.6	22.0	12.4	8.7
Others	3.6	6.1	3.4	0.6
Recovery	(8.8)	(8.8)	(11.1)	(9.1)



Net Profit

RM mil



Income Statement	3QFY16 RM mil	4QFY16 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	215.8	211.1	(4.7)	(2.2%)
Islamic Banking Income	63.2	61.3	(1.9)	(3.0%)
Non-Interest Income	82.2	80.3	(1.9)	(2.3%)
Net Income *	361.2	352.7	(8.5)	(2.3%)
Operating Expenses	175.0	180.6	(5.6)	(3.2%)
Pre-Provision Operating Profit	186.2	172.1	(14.1)	(7.6%)
Credit Cost ^	4.7	0.2	4.5	95.8%
Pre-tax profit	181.5	171.9	(9.6)	(5.3%)
Net Profit After Tax	135.6	129.8	(5.8)	(4.2%)

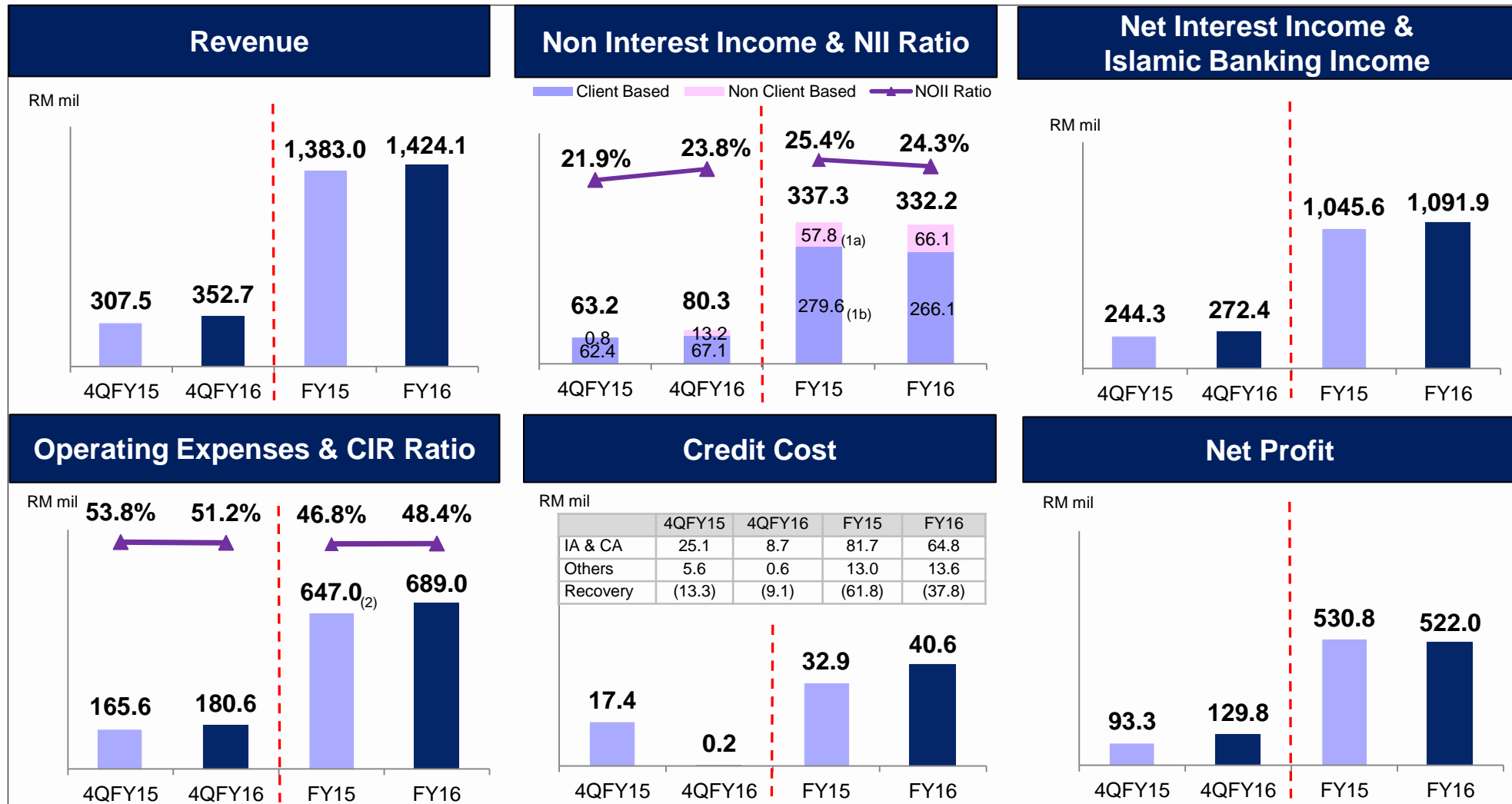
- **Net interest income** declined by 2.2% q-o-q, mainly due to increase in cost of funds (impact of recent Sub-MTNs issuance, Cagamas funding and FD growth/ repricing)
- **Non client based non-interest income** increased by RM0.8 million or 6.5% mainly due to gains from financial instruments and derivatives
- **Client based fee income** declined by RM2.6 million or 3.9% q-o-q mainly due to:
 - FX sales +10.4% q-o-q, offset by
 - lower processing fees and service charges
- **Operating expenses** increased by 3.2% q-o-q mainly from franchise research, marketing expenses, GST cost and re-carding cost
- Lower **credit cost** mainly due to write-back from collective assessment driven by more effective collection activities

Notes:

* Revenue

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

Steady profitability despite headwinds (vs 4QFY15)



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
Restated FY2015 income statement

Income Statement	4QFY15 RM mil	4QFY16 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	186.1	211.1	25.0	13.4%
Islamic Banking Income	58.2	61.3	3.1	5.4%
Non-Interest Income	63.2	80.3	17.1	27.0%
Net Income *	307.5	352.7	45.2	14.7%
Operating Expenses	165.6	180.6	(15.0)	(9.1%)
Pre-Provision Operating Profit	141.9	172.1	30.2	21.2%
Credit Cost ^	17.4	0.2	17.2	98.9%
Pre-tax profit	124.5	171.9	47.4	38.0%
Net Profit After Tax	93.3	129.8	36.5	39.2%

- **Net interest income** grew by 13.4% y-o-y, mainly driven by higher RAR loans, better pricing discipline
- **Client based fee income** improved by RM6.2 million or 10.1% y-o-y mainly due to higher wealth management fees and commission and other fees
- **Non client based non-interest income** increased by RM12.4 million mainly due to gains from financial instruments and derivatives
- **Operating expenses** increased by 9.1% y-o-y mainly from professional fees, GST cost, personnel cost (collective agreement and sales incentive), re-carding cost and deposit insurance premium
- Lower **credit cost** mainly due to write-back from collective assessment driven by more effective collection activities

Notes:

* Revenue

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

Income Statement	FY15 RM mil (Reported)	FY15 RM mil (Normalised)	FY16 RM mil (Reported)	Y-o-Y Change (Normalised) Better / (Worse)	
				RM mil	%
Net Interest Income	820.6	839.0	847.8	8.8	1.0%
Islamic Banking Income	225.1	225.1	244.2	19.1	8.5%
Non-Interest Income	337.3	305.7	332.2	26.5	8.7%
Net Income *	1,383.0	1,369.8	1,424.2	54.4	4.0%
Operating Expenses	647.0	636.4	689.0	(52.6)	(8.3%)
Pre-Provision Operating Profit	736.0	733.4	735.2	1.8	0.2%
Credit Cost ^	32.9	32.9	40.6	(7.7)	(23.4%)
Pre-tax profit	703.1	700.5	694.6	(5.9)	(0.8%)
Net Profit After Tax	530.8	530.3	522.0	(8.3)	(1.6%)

Notes: * Revenue

^ Allowance/ (Write back) for losses on loans & financing and other losses
Restated FY2015 (reported) income statement

- **Net income** up 4.0%, mainly driven by higher RAR loans, better pricing discipline and higher non-interest income (gains from financial instruments and derivatives and FX income)
- **Operating expenses** increased mainly from GST cost, personnel cost (collective agreement and sales incentive), and deposit insurance premium
- FY2016 **credit cost excluding recoveries** at 22.8 bps (FY2015: 29.4 bps)
- Lower **credit cost** in FY15 was primarily due to higher recoveries. Exceptional recoveries amounted to RM61.8 million in FY15, in contrast with only RM37.8 million in FY16

FY2015: Exceptional Items	RM mil
Net interest income	-18.4 mil ⁽¹⁾
Non-Interest Income	+31.6 mil ⁽²⁾
Operating Expenses	-10.6 mil ⁽³⁾
NPAT Impact	+0.5 mil ⁽⁴⁾
FY2015 Normalised NPAT	530.3 mil

Notes:

- (1) One-off accounting adjustment for recognition of income on balance transfer for credit cards, income amortised instead of upfront recognition
- (2) Gain on disposal of land of RM21.6 million and RM10.0 million of Bancassurance Fee in Q2FY15
- (3) Implementation of Mutual Separation Scheme (MSS) in Q1FY15 to right-size the Group
- (4) included RPGT impact of RM2.1 million for land disposal (per (2) above)

Balance Sheet	Mar 15 RM bil	Mar 16 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	53.1	55.6	2.5	4.7%
Treasury Assets *	11.5	10.2	(1.4)	(11.8%)
Net Loans	36.6	38.4	1.8	5.0%
Customer Deposits	44.6	46.0	1.4	3.2%
Fixed Deposits	21.0	22.9	1.9	8.7%
CASA Deposits	15.0	14.8	(0.2)	(1.5%)
Shareholders' Funds	4.5	4.8	0.3	7.7%
Net Loans Growth (y-o-y)	14.9%	5.0%^		
Revenue Growth (y-o-y)	2.5%	3.0%		
Customer Deposit Growth (y-o-y)	13.7%	3.2%		

- +5.0% 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 15% annualized rate, five times as fast as lower risk adjusted return loans
- **SME loans growth** of +19.7% y-o-y
- +3.2% y-o-y **customer deposits** growth, better than industry contraction rate of -1.0%
- **CASA deposits** contracted slightly due to intensified market competition for deposits
- Loan to deposit ratio at 84.2% (industry: 87.7%)

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at March 2016

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

^ Gross loans growth (y-o-y) = 4.9%

	Financial Ratios	3QFY16	4QFY16	FY15	FY16
Shareholder Value	Return on Equity	11.6%	11.0%	12.3%	11.2%
	Earnings per Share	8.9sen	8.5sen	34.8 sen	34.2sen
	Net Assets per Share	RM3.02	RM3.13	RM2.90	RM3.13
Efficiency	Net Interest Margin	2.15%	2.12%	2.15%	2.15%
	Non-Interest Income Ratio	23.8%	23.8%	25.4%	24.3%
	Cost to Income Ratio	48.4%	51.2%	46.8%	48.4%
Balance Sheet Growth	Net Loans (<i>RM bil</i>)	38.3	38.4	36.6	38.4
	Customer Deposits (<i>RM bil</i>)	43.5	46.0	44.6	46.0
Asset Quality	Gross Impaired Loans Ratio	1.1%	1.3%	1.0%	1.3%
	Net Impaired Loans Ratio	0.7%	0.8%	0.6%	0.8%
	Loan Loss Coverage Ratio ^	125.4%^	109.1%^	102.7%	109.1%^
Liquidity	CASA Ratio	35.0%	32.1%	33.6%	32.1%
	Loan to Deposit Ratio	88.8%	84.2%	82.8%	84.2%
	Loan to Fund Ratio	85.2%	80.1%	81.6%	80.1%
Capital	Common Equity Tier 1 Capital Ratio	11.3%	11.8%	11.1%	11.8%
	Tier 1 Capital Ratio	11.3%	11.8%	11.1%	11.8%
	Total Capital Ratio	17.1%	17.4%	13.0%	17.4%

Note:

^ Loan Loss Coverage includes Regulatory Reserve provision

Loan to Fund Ratio is based on Funds comprising Customer Deposits and all debt instruments (such as senior debt, Cagamas and subordinated debt)

THANK YOU

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For further information, please contact:

Alliance Financial Group
31th Floor, Menara Multi-Purpose
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur, Malaysia
Tel: (6)03-2604 3333
www.alliancefg.com/quarterlyresults

Investor Relations
Email: investor_relations@alliancefg.com