ALLIANCE FINANCIAL GROUP BERHAD (6627-X)

ANALYST BRIEFING 1Q FY2017

22 August 2016

Contents

Continued progress despite challenging economy

1 Revenue and Profitability

- Efficient loans growth with improved Risk Adjusted Returns ("RAR")
- Growing client based fee income
- Improved cost to income ratio

2 Effective Risk Management

- Better-than-industry asset quality, credit cost contained
- Funding mix optimisation
- Deposits grew faster than industry, q-o-q NIM improved
- Sustainable capital ratios

3 Key Results

- Net profit after tax: +2.0% q-o-q to RM132.5 million

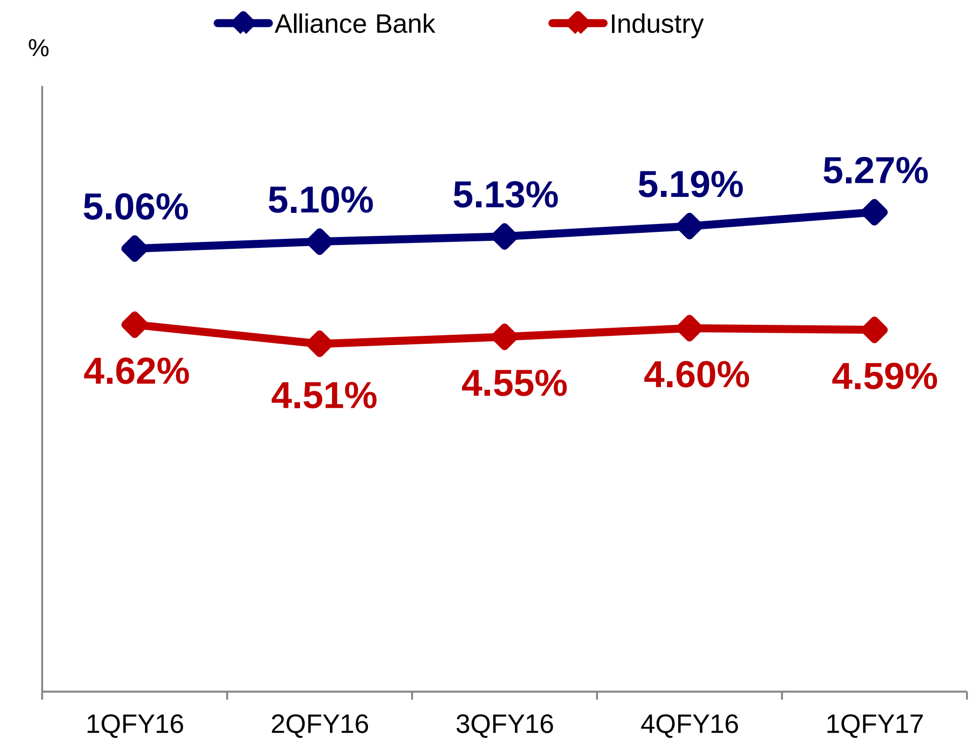
Efficient loans growth with focus on risk adjusted return

a) Q-o-Q loan portfolio yields expanded 8 bps to 5.27% thanks to:

- Improving loans mix
- Pricing for risk

b) Industry yield* contracted by 1 bp to 4.59%

Loan Portfolio Yield



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

Efficient growth in better risk adjusted return loans

a) Improved loan origination mix: 1Q FY2017 annualized loans growth:

- Better risk adjusted return ("RAR") loans: 5.6%
- Lower RAR loans: -3.6%

b) Portfolio RAR continue to improve

Loans Growth YTD *(April – June 2016)*

	1Q FY2016 Loans Growth RM (mil)	1Q FY2017 Loans Growth RM (mil)	1Q FY2017 Annualized Loans Growth %	
Better RAR loans				
SME & Commercial	45	78		
Consumer Unsecured	35	59		
Total	80	137	5.6%	*RAR =2.05%*
Lower RAR loans				
Mortgage & Biz. Premises	498	(77)		*Y-o-Y RAR improved from 0.29% to 0.46%*
Hire Purchase	(62)	(69)		
Corporate	(57)	(106)		*Y-o-Y RAR improved from 1.19% to 2.24%*
Total	379	(252)	-3.6%	*RAR = 0.73%*

Q-o-Q improvement in portfolio RAR from 1.04% to 1.10%

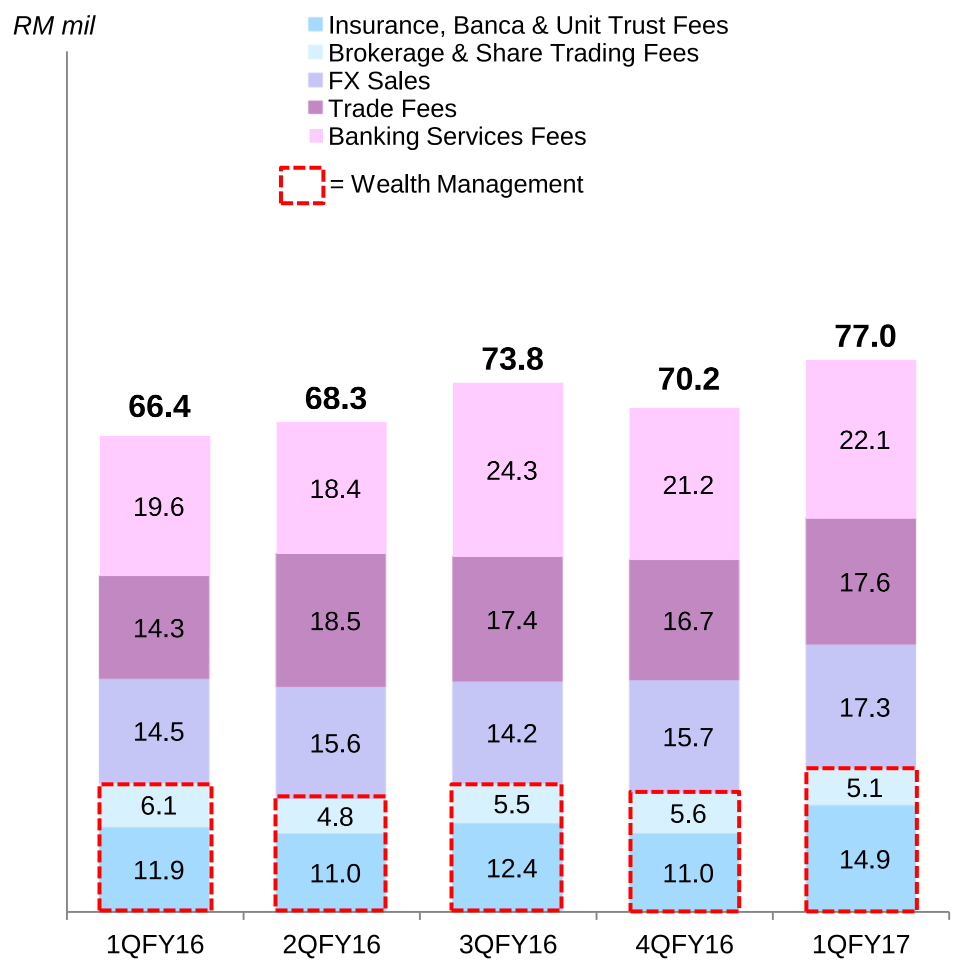
Note: Risk Adjusted Return: Net Interest Margin less (Direct Variable Cost + Business as Usual Credit Cost) ÷ Average Loan Balance

Growing client based fee income

a) Q-o-Q: Client based fee income up 9.7%, with growth in:

- Wealth Management fee: +20.6%
- FX sales: +10.1%
- Trade fees: +5.4%
- Banking Services fees: +4.4%

Client Based Fee Income Trend



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

Improved cost to income ratio

a) 1QFY17: Positive JAWS

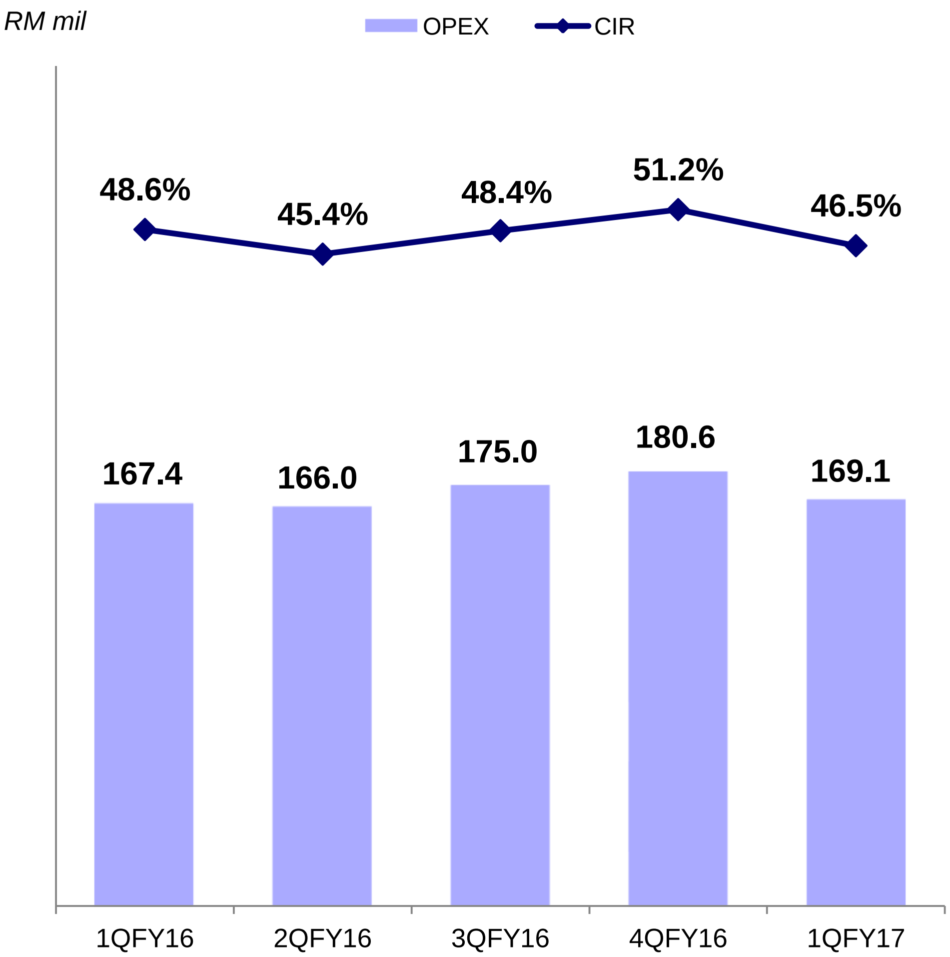
1Q FY17	Q-o-Q	Y-o-Y
Revenue Growth	+3.1%	+5.7%
Expense Growth	-6.4%	+1.0%
Positive JAWS	**+9.5%**	**+4.7%**

b) 1QFY17 cost to income ratio improved to 46.5%, below industry average (52.1%*)

c) Operating expenses reduced 6.4% q-o-q mainly due to lower personnel cost, admin and regulatory cost, and marketing expenses

d) 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 March 2016*

Funding mix optimisation

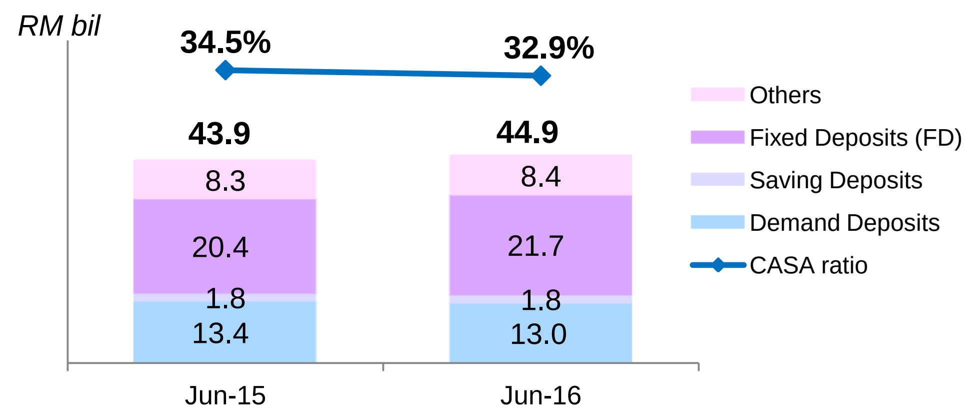
Optimising funding mix with focus on customer based funding:

a) Maintaining CASA balances: 32.9% CASA ratio

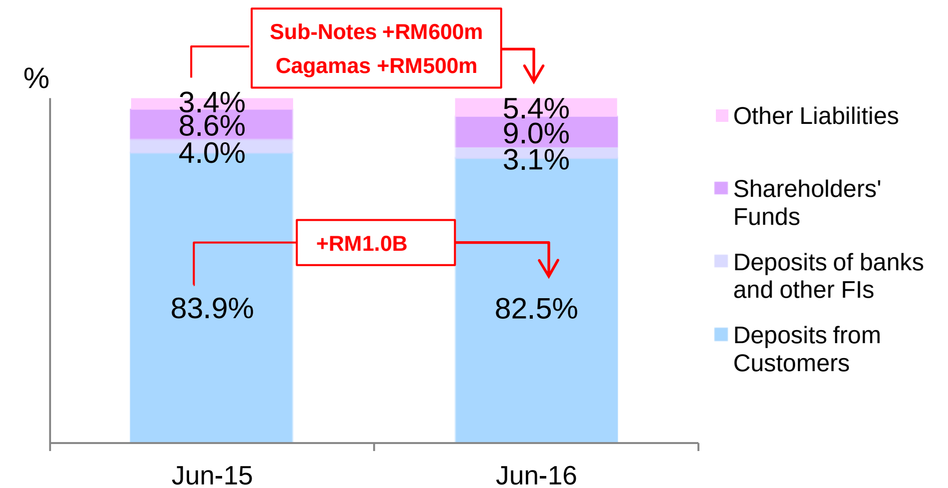
c) Proportion of funding from customer deposits remained high (>80%)

c) Continue to maintain optimal funding mix, with +RM1.1 billion of recent Tier-2 Sub-Notes and Cagamas funding

Deposits Growth and CASA Ratio



Funding of Balance Sheet



Deposits grew faster than industry, q-o-q NIM improved

a) +2.3% y-o-y customer deposits growth, faster than industry^ (-0.8%)

b) Loans to deposits ratio at 85.7% (industry*: 88.5%)

c) Small funding gap at 0.71% between deposits and loans growth (industry: 6.36%)

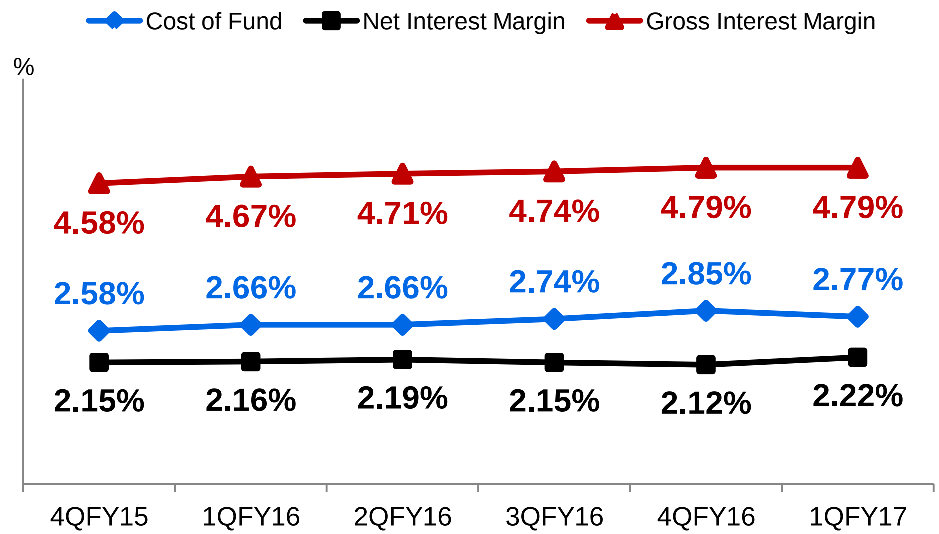
d) Q-o-Q drop in cost of funds (-8 bps) mainly due to the recent Sub-Notes redemption and more efficient funding mix

e) GIM: maintained q-o-q despite our base rate reduction due to the statutory reserve rate revision

f) NIM: +10 bps q-o-q

Jul 2015 - Jun 2016	AFG Group	Banking System
Deposits Growth	2.31%	(0.77%)
Loans Growth	3.02%	5.59%
Difference (Funding Gap)	**(0.71%)**	**(6.36%)**

Cost of Funds & Net Interest Margin Trend



*Notes: ^ Based on Total Deposits in the Banking System * Based on BNM Monthly Statistical Bulletin June 2016: Liquidity in the Banking System*
 # Normalised basis including some

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 1.2% (industry: 1.7%)
- Net impaired loans ratio at 0.7% (industry: 1.3%)
- SME gross impaired loans ratio at 0.8% (industry: 2.6%*)
- Loan loss coverage at 119.2%^

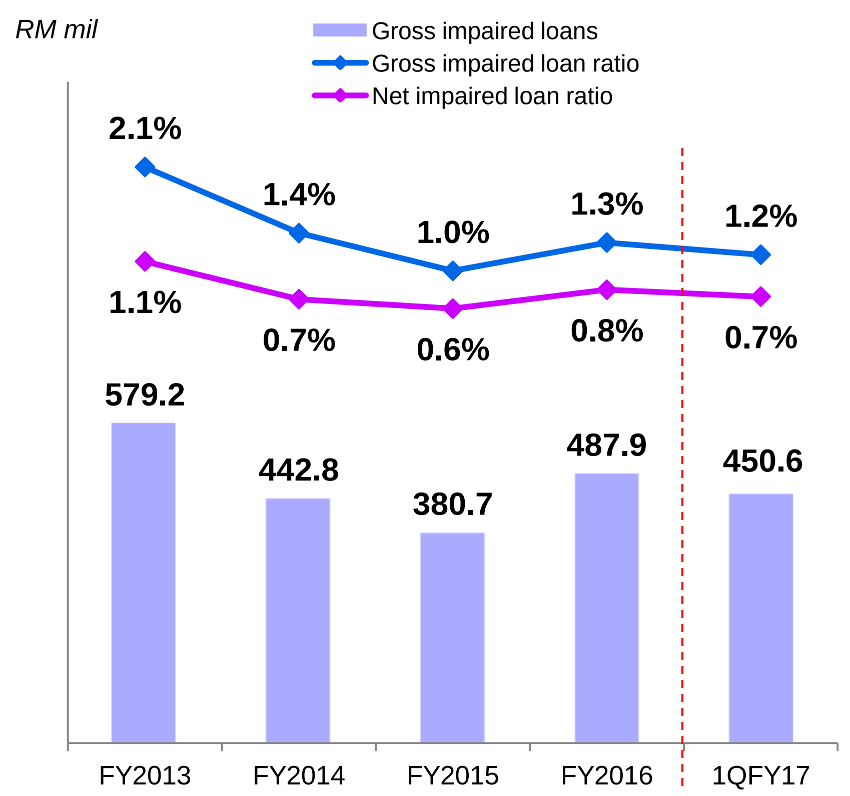
b) Restructured & Rescheduled loans:

- Flow: -RM11.3 million q-o-q
- Stock: RM121.4 million (0.3% of total loans)

c) Proactive actions:

- Enhanced credit underwriting policies
- Enhanced early warning systems
- Strengthened collections

Gross Impaired Loans



<u>Note</u>:
^ Loan Loss Coverage is enhanced by Regulatory Reserve provision amounting to RM159.0 million (+35.3%)
Industry: Based on the Banking System as per BNM Monthly Statistical Bulletin June 2016
** Based on the Banking System as per BNM Monthly Statistical Bulletin May 2016*

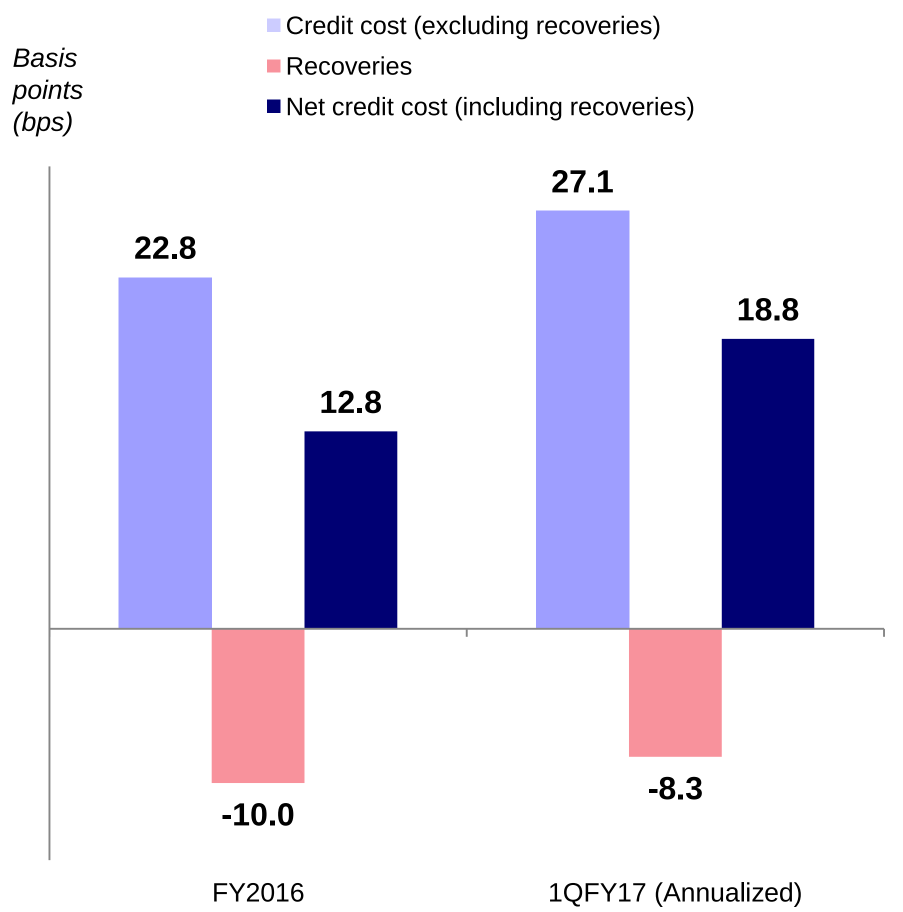
Contained credit cost

a) 1QFY2017: Annualized net credit cost normalised to 18.8bps

b) Continued reduction in recoveries:

- FY2016: RM37.8 million
- 1QFY17: RM8.0 million
  (annualized RM31.8 million)

Overall Credit Cost (bps)



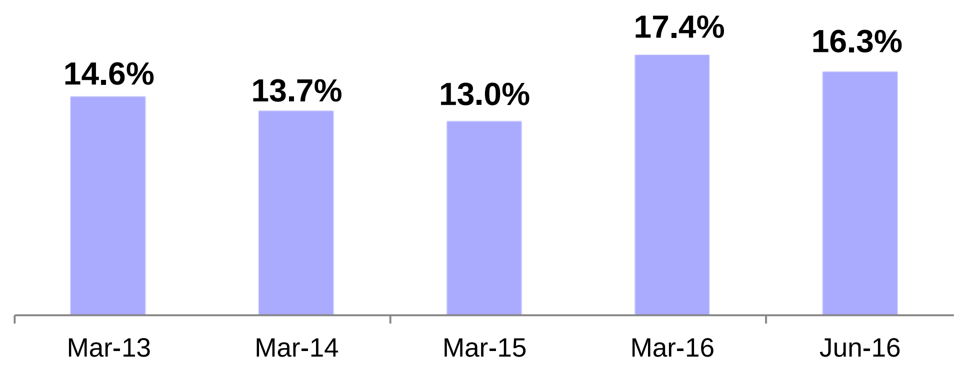
Sustainable capital ratios

a) After redemption of RM600 million Tier-2 Subordinated Notes on 8 April 2016, Total Capital Ratio stabilised to 16.3%.

b) Strong CET-1 ratio at 11.7%, 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
Alliance Financial Group	11.7%	11.7%	16.3%
Alliance Bank	10.9%	10.9%	14.9%
Minimum regulatory capital adequacy ratio*	**5.125%**	**6.625%**	**8.625%**

Notes:
^ Regulatory Reserve provision amounting to RM159.0 million (CET1 impact: -0.5%)
** Basel III regulatory minimum for 2016 includes capital conservation buffer amounting to 0.625%*

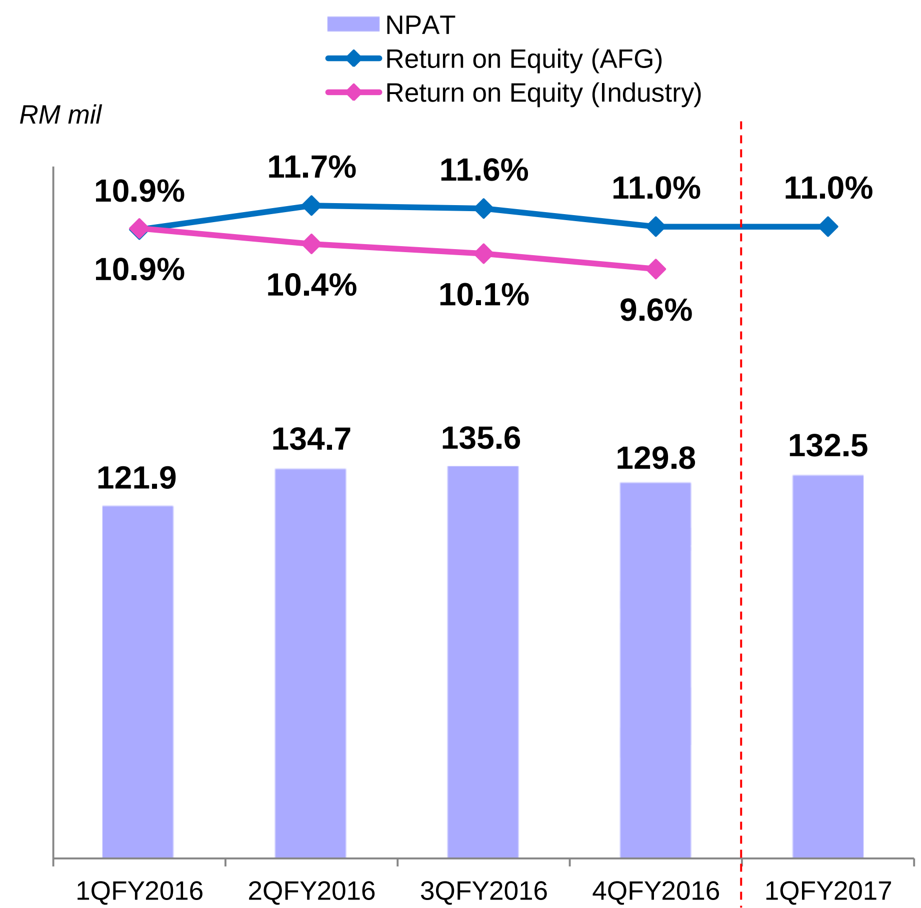
Competitive ROE with Better Risk Adjusted Return strategy

a) Steady q-o-q performance despite challenging environment with Risk Adjusted Return strategy:

- NPAT : +2.0% to RM132.5 million
- ROE : 11.0%

b) Maintain ROE above the industry average

Net Profit After Tax and Return on Equity



Note: Industry ROE is the average of local banks

Focus on sustainable profitability

1 Revenue and Profitability

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

2 Effective Risk Management

- Better-than-industry asset quality, credit cost contained
- Funding mix optimisation
- Deposits grew faster than industry, q-o-q NIM improved
- Sustainable capital ratios

3 Key Results

- Net profit after tax: +2.0% q-o-q to RM132.5 million

Contents

FY17: Priorities and Targets

FY17 Priorities

1 Optimization and Streamlining

- **Efficient asset growth**: focus on better Risk Adjusted Return loans
- **Deposits growth faster than loans**
- Continue to **strengthen risk management**
- **Streamline key processes** to improve efficiency

2 Maximize Franchise Linkages

- **Joint collaboration** between Lines of Business

3 Execution of New Strategy

- Embark on **transformation program**
- Deploy **new innovative propositions**

FY17 Management Guidance

Mid-to-high single digit loans growth

Maintain NIM

Cost to Income ratio <50%

Net credit cost 25-30 bps

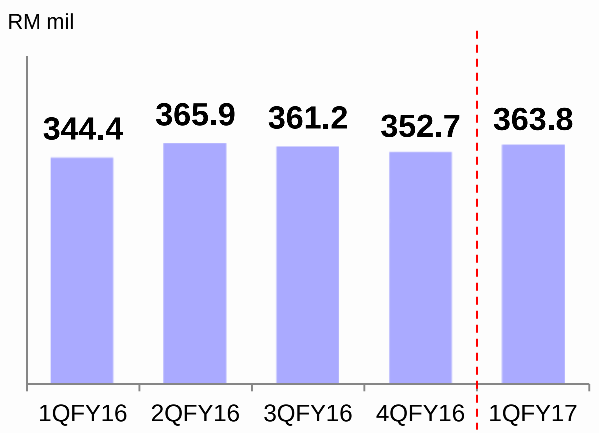
ROE ≥11%

Maintain dividend payout policy

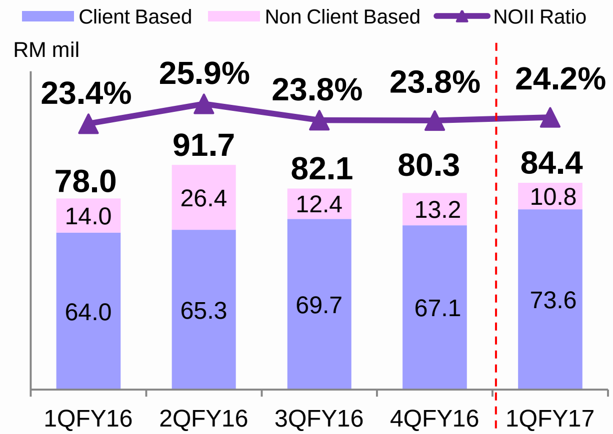
Contents

Net profit after tax: RM132.5 million

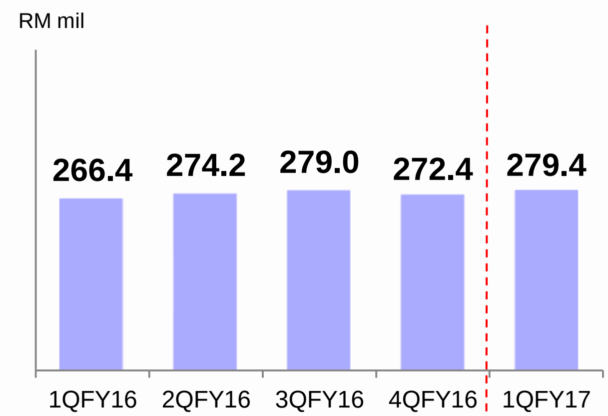
Revenue



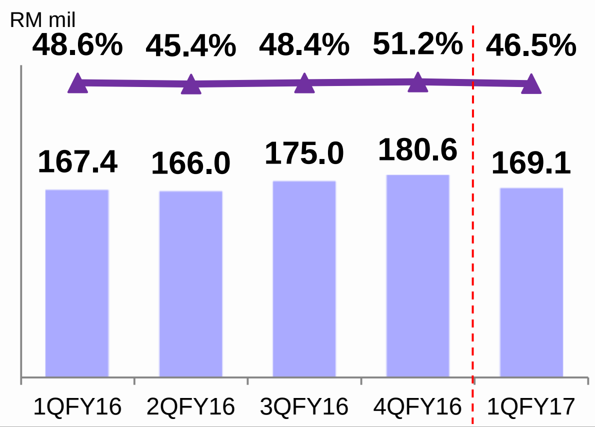
Non Interest Income & NII Ratio



Net Interest Income & Islamic Banking Income



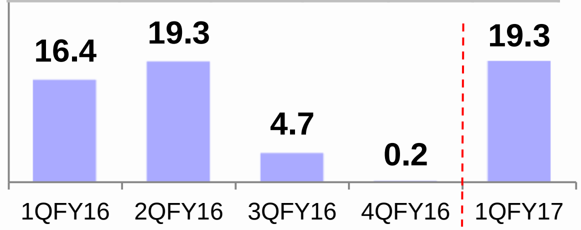
Operating Expenses & CIR Ratio



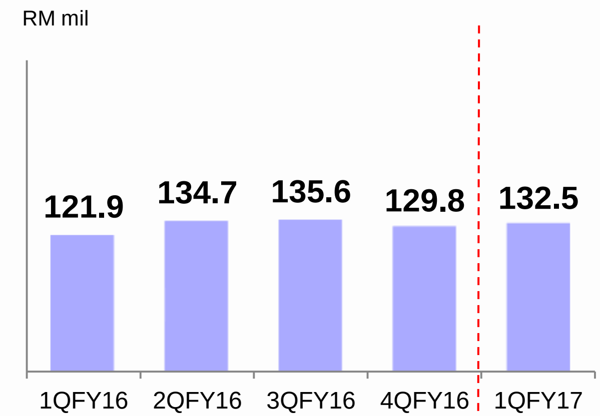
Credit Cost

RM mil

	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17
IA & CA	21.6	22.0	12.4	8.7	20.2
Others	3.6	6.1	3.4	0.6	7.1
Recovery	(8.8)	(8.8)	(11.1)	(9.1)	(8.0)



Net Profit



1Q FY2017: Income Statement

Income Statement	4QFY16 RM mil	1QFY17 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	211.1	212.1	1.0	0.5%
Islamic Banking Income	61.3	67.3	6.0	9.8%
Non-Interest Income	80.3	84.4	4.1	5.1%
Net Income *	352.7	363.8	11.1	3.1%
Operating Expenses	180.6	169.1	11.5	6.4%
Pre-Provision Operating Profit	172.1	194.7	22.6	13.2%
Net Credit Cost ^	0.2	19.3	(19.1)	(>100%)
Pre-tax profit	171.9	175.4	3.5	2.0%
Net Profit After Tax	**129.8**	**132.5**	**2.7**	**2.0%**

- **Net income** grew by 3.1% q-o-q, driven by:
  - +0.5% net interest income growth from higher RAR loans and better pricing discipline
  - +5.1% non-interest income growth
- **Client based fee income** grew by RM6.8 million or 9.7% q-o-q due to higher wealth management fees (+20.6%), FX sales (+10.1%), trade fees (+5.4%) and banking services fees (+4.4%)
- **Non client based non-interest income** declined by RM2.7 million or 19.7% mainly due to lower foreign exchange income
- **Operating expenses** reduced by 6.4% q-o-q mainly due to lower personnel cost, admin and regulatory cost and marketing expenses
- **Pre-provision operating profit** improved by 13.2% q-o-q
- Higher **credit cost** due to lower recoveries and lower write-back in collective assessment

<u>Notes</u>:
** Revenue*
^ Allowance/ (Write back) for losses on loans & financing and other losses

1Q FY2017: Income Statement

Income Statement	1QFY16 RM mil	1QFY17 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	207.8	212.1	4.3	2.1%
Islamic Banking Income	58.6	67.3	8.7	15.0%
Non-Interest Income	78.0	84.4	6.4	8.1%
Net Income *	344.3	363.8	19.5	5.7%
Operating Expenses	167.4	169.1	(1.7)	(1.0%)
Pre-Provision Operating Profit	177.0	194.7	17.7	10.0%
Credit Cost ^	16.4	19.3	(2.9)	(17.7%)
Pre-tax profit	160.7	175.4	14.7	9.2%
Net Profit After Tax	**121.9**	**132.5**	**10.6**	**8.6%**

- **Net income** grew by 5.7% y-o-y, driven by:
  - +2.1% net interest income growth from higher RAR loans and better pricing discipline
  - +8.1% non-interest income growth
- **Client based fee income** grew by RM10.6 million or 16.0% y-o-y due to higher wealth management fees (+10.6%), FX sales (+19.4%), trade fees (+23.1%) and banking services fees (+13.2%)
- **Non client based non-interest income** declined by RM3.2 million mainly due to lower foreign exchange income
- **Operating expenses** increased by 1.0% y-o-y mainly due to higher personnel cost offset by lower marketing expenses
- **Pre-provision operating profit** improved by 10.0% y-o-y
- Higher **credit cost** mainly due to lower recoveries and impairment allowance

Notes:
** Revenue*
^ Allowance/ (Write back) for losses on loans & financing and other losses

Summarised Balance Sheet

Balance Sheet	Mar 16 RM bil	Jun 16 RM bil	Change Q-o-Q RM bil	Change Q-o-Q %
Total Assets	55.6	54.5	(1.1)	(2.1%)
Treasury Assets *	10.2	9.6	(0.6)	(5.0%)
Net Loans	38.4	38.1	(0.3)	(0.7%)
Customer Deposits	46.0	44.9	(1.1)	(2.4%)
CASA Deposits	14.8	14.8	-	-
Shareholders' Funds	4.8	4.9	0.1	1.1%
Net Loans Growth (y-o-y)	5.0%	3.1%^		
Customer Deposit Growth (y-o-y)	3.2%	2.3%		

- **Better risk adjusted return loans** grew at a 5.6% annualized rate, compared to a contraction of -3.6% of lower risk adjusted return loans. This resulted in a **net loans contraction** of -0.7% q-o-q
- -2.4% q-o-q **customer deposits** contraction, compared to industry growth rate of +0.2%
- **CASA deposits** remained stable due to intensified market competition for deposits
- Loan to deposit ratio at 85.7% (industry: 88.5%)

Note:
Industry comparison from BNM Monthly Statistical Bulletin as at June 2016
** Treasury assets comprise financial assets (HFT, AFS & HTM), derivative financial assets & placements with Financial Institutions*
^ Gross loans growth (y-o-y) = 3.0% (q-o-q: gross loan contraction -0.7%)

Summarised Balance Sheet

Balance Sheet	Jun 15 RM bil	Jun 16 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	52.3	54.5	2.2	4.1%
Treasury Assets *	11.2	9.6	(1.6)	(13.9%)
Net Loans	37.0	38.1	1.1	3.1%
Customer Deposits	43.9	44.9	1.0	2.3%
CASA Deposits	15.1	14.8	(0.3)	(2.5%)
Shareholders' Funds	4.5	4.9	0.4	8.2%
Net Loans Growth (y-o-y)	12.7%	3.1%^		
Customer Deposit Growth (y-o-y)	10.8%	2.3%		

- 3.1% 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 a 5.6% annualized rate, compared to a contraction of -3.6% of lower risk adjusted return loans
- **SME loans growth** of +16.1% y-o-y
- +2.3% y-o-y **customer deposits** growth, better than industry contraction rate of -0.8%
- **CASA deposits** contracted slightly due to intensified market competition for deposits
- Loan to deposit ratio at 85.7% (industry: 88.5%)

Note:
Industry comparison from BNM Monthly Statistical Bulletin as at June 2016
** Treasury assets comprise financial assets (HFT, AFS & HTM), derivative financial assets & placements with Financial Institutions*
^ Gross loans growth (y-o-y) = 3.0%

Key Financial Ratios

	Financial Ratios	1QFY16	4QFY16	1QFY17
Shareholder Value	Return on Equity	10.9%	11.0%	11.0%
	Earnings per Share	8.0sen	8.5sen	8.7sen
	Net Assets per Share	RM2.92	RM3.13	RM3.16
Efficiency	Net Interest Margin	2.16%	2.12%	2.22%
	Non-Interest Income Ratio	23.4%	23.8%	24.2%
	Cost to Income Ratio	48.6%	51.2%	46.5%
Balance Sheet Growth	Net Loans (*RM bil)*	37.0	38.4	38.1
	Customer Deposits (*RM bil)*	43.9	46.0	44.9
Asset Quality	Gross Impaired Loans Ratio	1.0%	1.3%	1.2%
	Net Impaired Loans Ratio	0.6%	0.8%	0.7%
	Loan Loss Coverage Ratio ^	105.4%	109.1%^	119.2%^
Liquidity	CASA Ratio	34.5%	32.1%	32.9%
	Loan to Deposit Ratio	85.1%	84.2%	85.7%
	Loan to Fund Ratio	83.9%	80.1%	82.5%
Capital	Common Equity Tier 1 Capital Ratio	11.1%	11.8%	11.7%
	Tier 1 Capital Ratio	11.1%	11.8%	11.7%
	Total Capital Ratio	13.0%	17.4%	16.3%

Note:
^ Loan Loss Coverage includes Regulatory Reserve provision; excluding Regulatory Reserve, 1QFY17 at 83.9%
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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