



**ALLIANCE FINANCIAL
GROUP BERHAD** (6627-X)

ANALYST BRIEFING 9M FY2017

22 February 2017

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Executive Summary

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- Effective Risk Management
- Key Results

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Appendix - Financial Results:

- 3Q FY2017
- 9M FY2017

Continued progress despite challenging economy

1

Revenue and Profitability

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

2

Effective Risk Management

- Better-than-industry asset quality, credit cost within management guidance
- Maintaining optimal funding mix
- Deposits grew faster than industry with q-o-q NIM improvement
- Sustainable capital levels

3

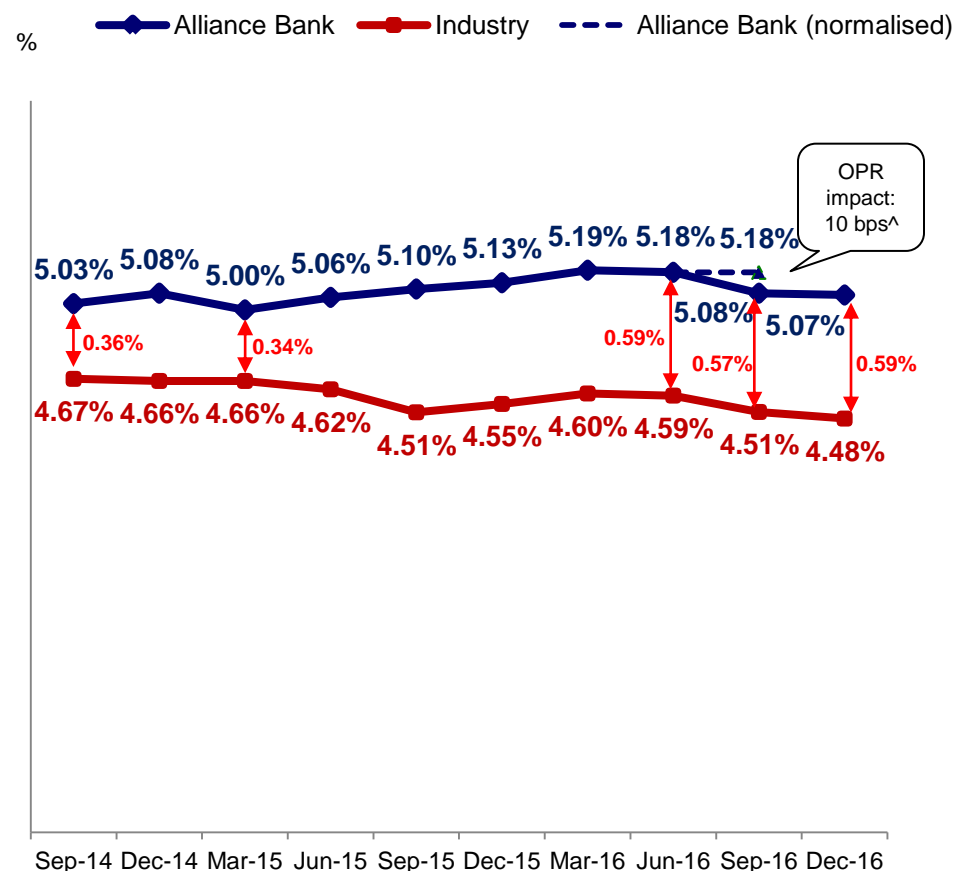
Key Results

- Net profit after tax: RM129.7 million
(9MFY17 : +0.6% y-o-y to RM394.7 million)
- Pre-provisioning operating profit: +6.2% q-o-q to RM204.3 million

Targeted loans growth with focus on risk adjusted return

- a) Loan portfolio yield : +59bps above industry *
- b) Industry yield* down 11bps to 4.48% after OPR cut
- c) Continue to enhance loan portfolio yield by:
 - Improving loans mix
 - Pricing for risk

Loan Portfolio Yield



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

^ AFG's Base Rate reduced by 15bps following OPR cut in July 2016

Targeted growth in better risk adjusted return loans

a) Improved loan origination mix: 9M FY2017 annualized loans growth:

- Better risk adjusted return ("RAR") loans: 14.6%
- Lower RAR loans: -1.4%

b) Portfolio RAR: +17 bps y-o-y

Loans Growth YTD (April – December 2016)

	9M FY2016 Loans Growth RM (mil)	9M FY2017 Loans Growth RM (mil)	9M FY2017 Annualized Loans Growth %	
Better RAR loans				
SME & Commercial	548	918	↑	
Consumer Unsecured	191	166	↓	
Total	739	1,084	↑	14.6% RAR = 1.86%
Lower RAR loans				
Mortgage & Biz. Premises	1,033	(305)	↓	
Hire Purchase	(204)	(201)	↑	
Corporate	223	218	↓	
Total	1,052	(288)	↓	-1.4% RAR = 0.76%

Y-o-Y improvement in portfolio RAR from 0.90% to 1.07%

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

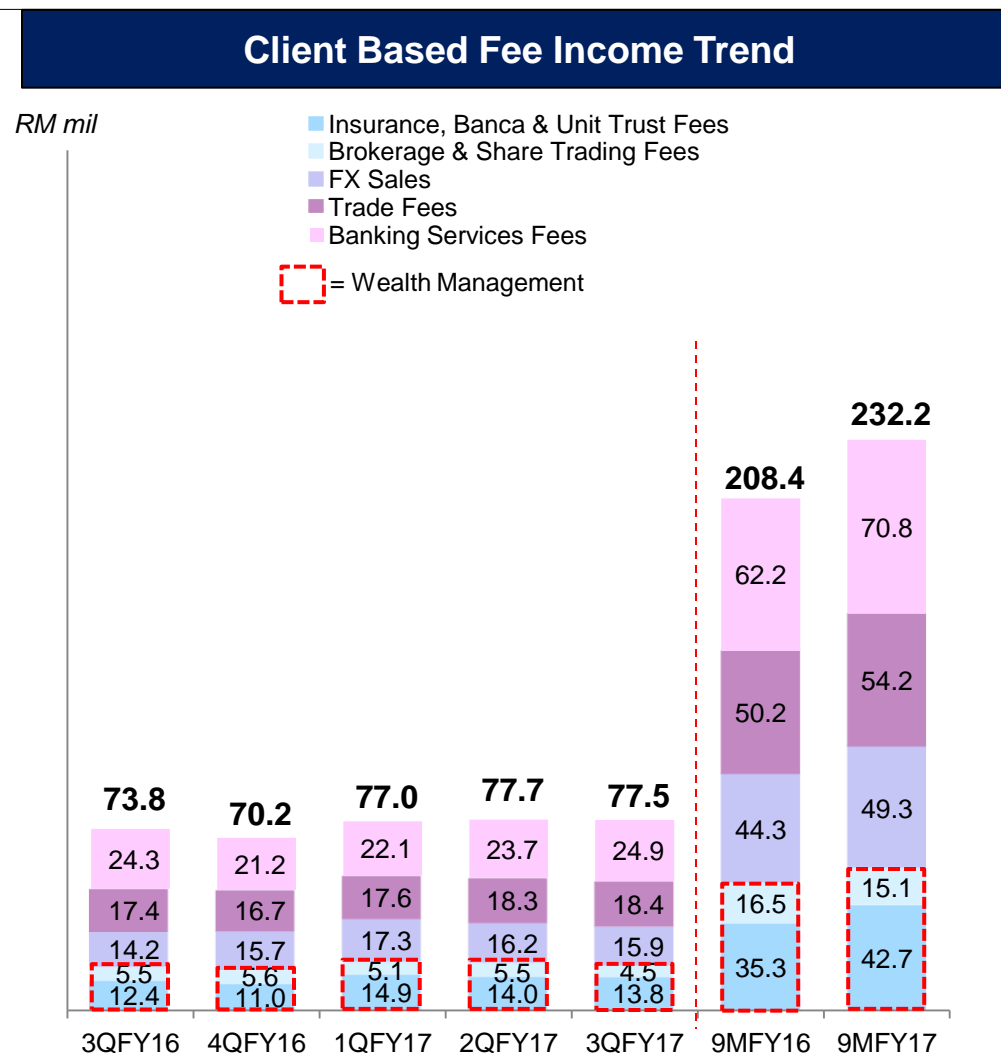
Growing client based fee income

a) 9MFY17 client based fee income up 11.4% y-o-y, with growth in:

- Wealth Management - Insurance, Banca & Unit Trust fees: +21.0%
- FX sales: +11.3%
- Trade fees: +8.1%
- Banking Services fees: +13.9%

b) 3QFY17 client based fee income maintained q-o-q:

- Banking Services Fees: +5.1%
- Trade Fees: +0.5%



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

Improved cost to income ratio with positive JAWS

a) 3QFY17: Positive JAWS

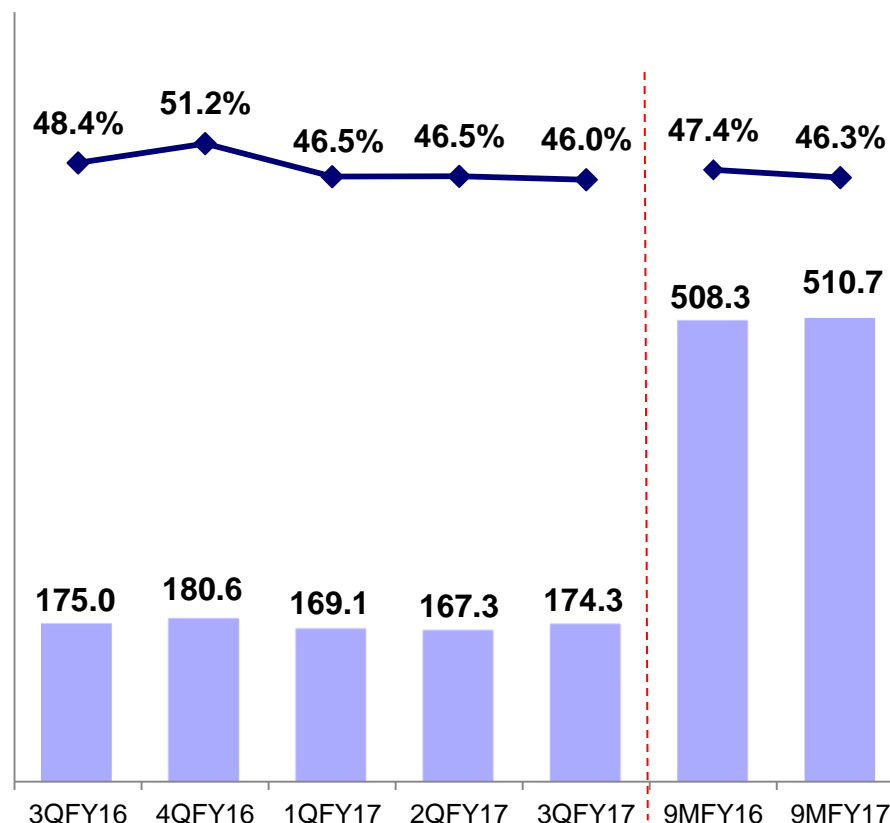
3QFY17	Q-o-Q	Y-o-Y
Revenue Growth	+5.3%	+2.9%
Expense Growth	+4.2%	+0.5%
JAWS	+1.1%	+2.4%

- b) 9MFY17 operating expenses up only 0.5% y-o-y thanks to cost discipline
- c) Cost to income ratio at 46.3% (below industry: 49.2%*)
- d) Cost to income ratio will be maintained below 50% with continued cost control and selected franchise investment
- e) Streamlined number of FTEs through branch operation optimisation, streamlining of operational processes and migration of over-the-counter transactions to self-service

Operating Expenses Trend

RM mil

OPEX CIR



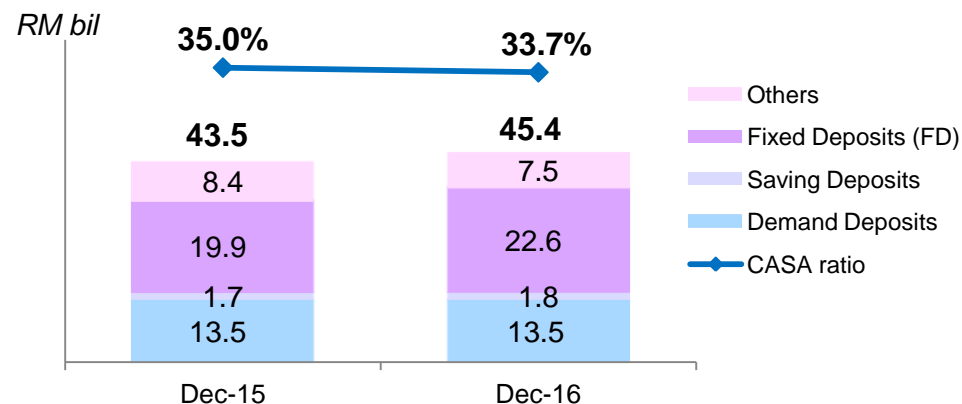
*Note: * Average cost to income ratio of local banking groups at September 2016*

Maintaining optimal funding mix

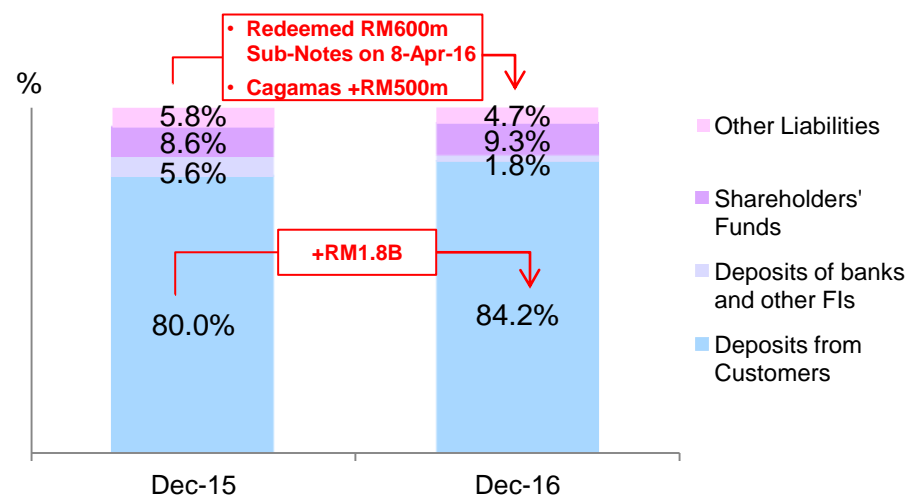
Optimising funding mix with focus on customer based funding:

- Growing customer deposits: +4.2% y-o-y
- Maintaining CASA balances: +0.2% y-o-y (CASA ratio at 33.7%)
- Proportion of funding from customer deposits remained high (>80%)

Deposits Growth and CASA Ratio



Funding of Balance Sheet

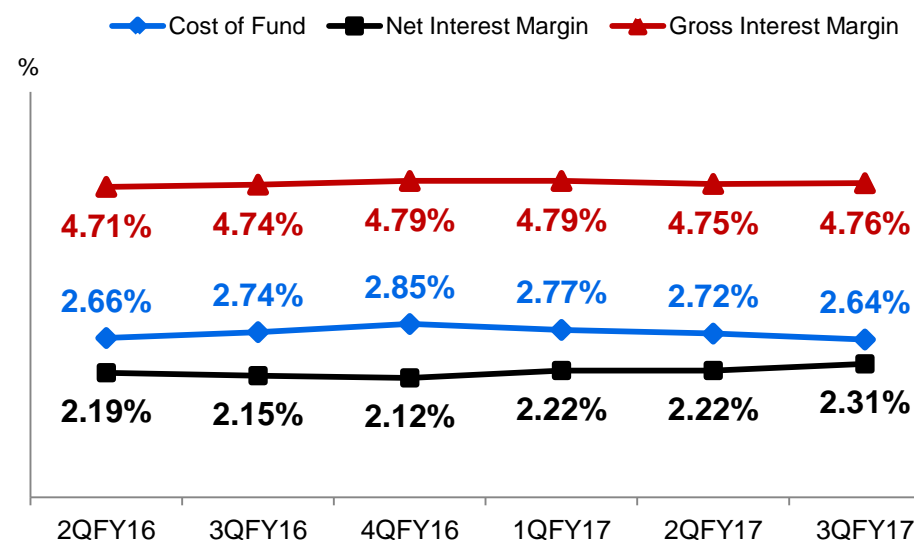


Deposits grew faster than industry, q-o-q NIM improved

- a) +4.2% y-o-y customer deposits growth, faster than industry^ (2.0%*)
- b) Loan to deposits ratio at 86.6% (industry*: 90.6%)
- c) Loan to fund ratio at 83.4% (industry#: 85.1%)
- d) Funding surplus at 2.56% between deposits and loans growth (industry: funding gap -3.29%*)
- e) Q-o-Q drop in cost of funds (-8 bps) mainly due to more efficient funding mix and repricing on Fixed Deposits
- f) GIM: +1 bp q-o-q due to higher RAR loans growth
- g) NIM: +9 bps q-o-q

Jan 2016 – Dec 2016	AFG Group	Banking System
Deposits Growth	4.17%	1.99%
Loans Growth	1.61%	5.28%
Funding Surplus / (Gap)	2.56%	(3.29%)

Cost of Funds & Net Interest Margin Trend



Notes: ^ Based on Total Deposits in the Banking System

* Based on BNM Monthly Statistical Bulletin December 2016: Liquidity in the Banking System

Based on latest peers' average

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 1.0% (industry: 1.6%)
- Net impaired loans ratio at 0.6% (industry: 1.2%)
- SME gross impaired loans ratio at 0.8% (industry: 2.5%*)
- Loan loss coverage at 137.1%^

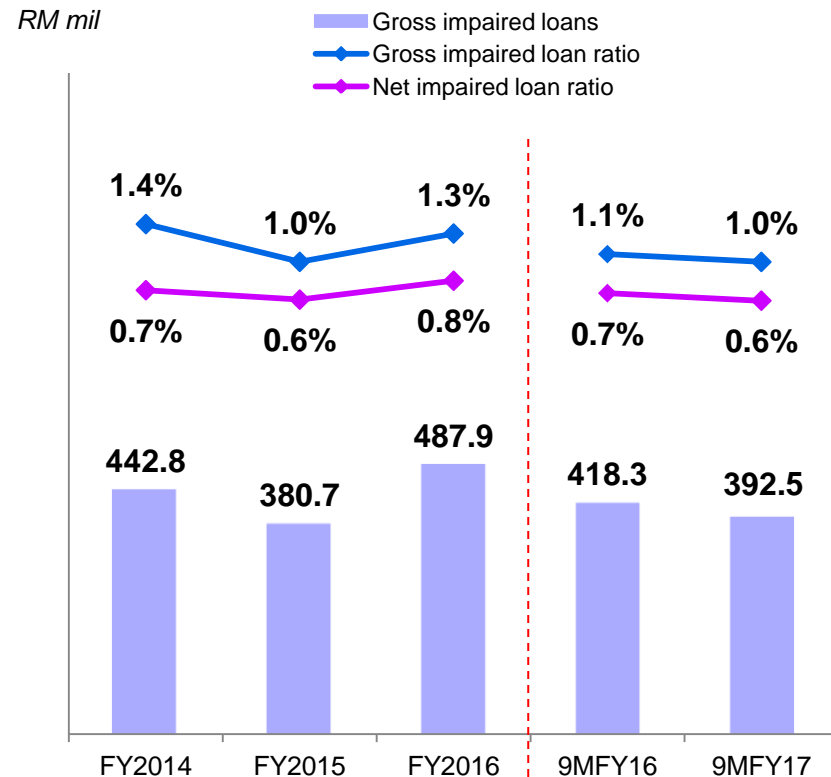
b) Restructured & Rescheduled loans:

- Flow: -RM9.9 million q-o-q
- Stock: RM75.9 million (0.2% of total loans)

c) Proactive actions:

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

Gross Impaired Loans



Note: ^ Loan Loss Coverage is enhanced by Regulatory Reserve provision amounting to RM156.6 million (+39.9%)

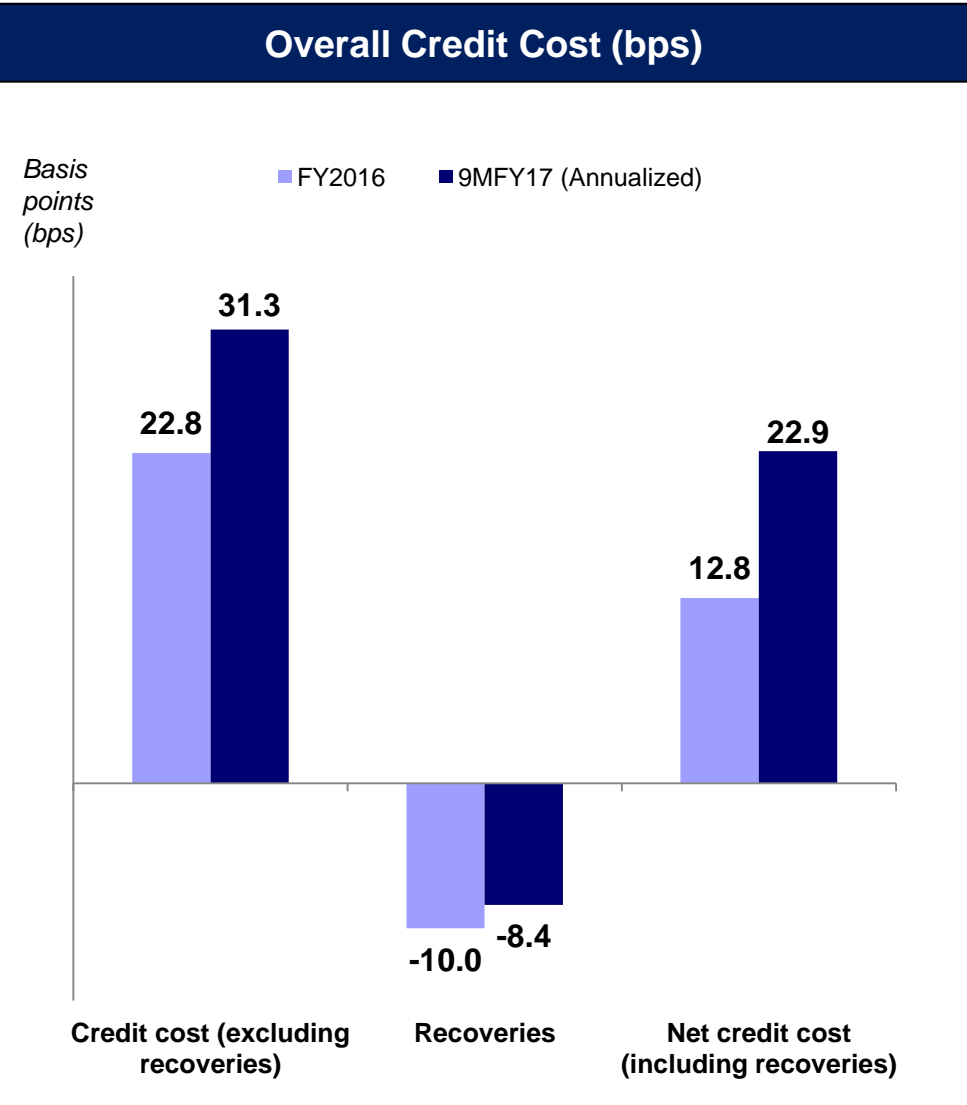
Industry: Based on the Banking System as per BNM Monthly Statistical Bulletin December 2016 (except indicated by * based on November 2016)

Credit cost within management guidance

a) 9MFY2017: Annualized net credit cost normalised to 22.9bps

b) Continued reduction in recoveries:

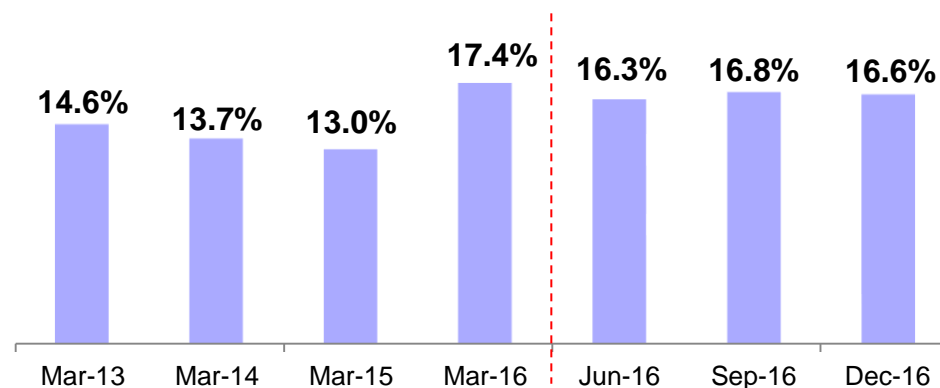
- FY2016: RM37.8 million
- 9MFY17: RM24.7 million (annualized RM32.7 million)



Sustainable capital levels

- a) After redemption of RM600 million Tier-2 Sub-Notes in April 2016, Total Capital Ratio remained strong at 16.6%
- b) Strong CET-1 ratio at 12.0%, 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	12.0%	12.0%	16.6%
Alliance Bank	11.2%	11.2%	15.3%

Notes:

[^] Regulatory Reserve provision amounting to RM156.6 million (CET1 impact: -0.5%)

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

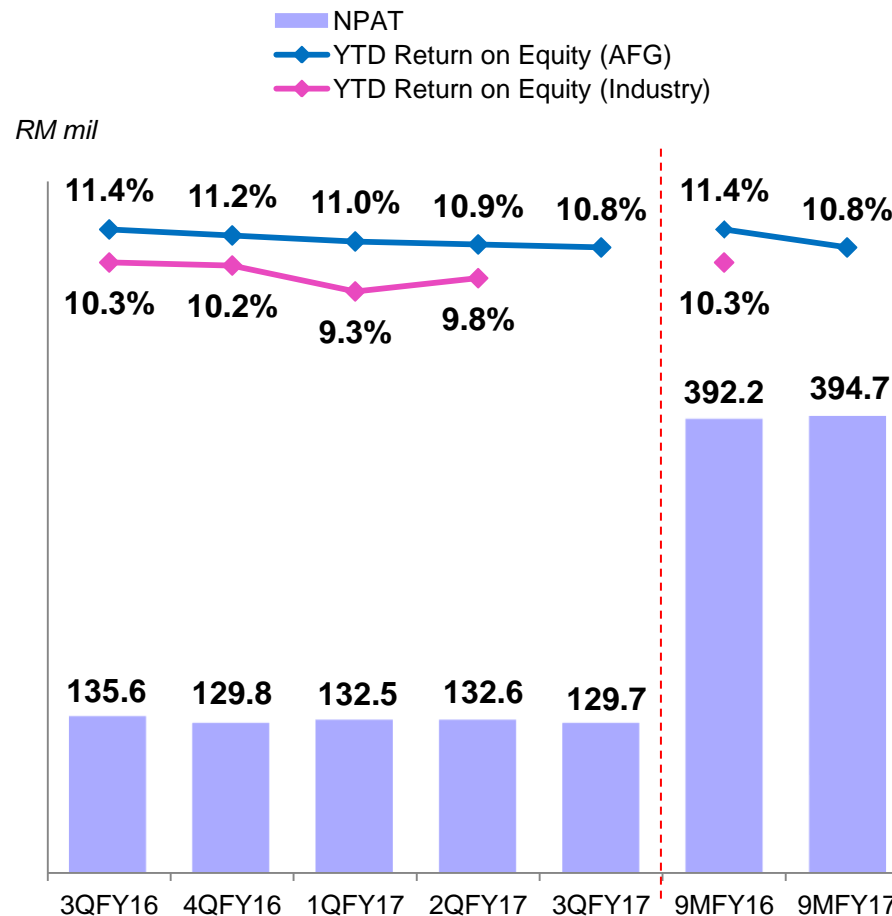
Competitive ROE with Better Risk Adjusted Return strategy

a) Steady q-o-q performance despite challenging environment:

- NPAT : RM129.7 million
- YTD ROE : 10.8%

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**

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

2**Effective Risk Management**

- Better-than-industry asset quality, credit cost within management guidance
- Maintaining optimal funding mix
- Deposits grew faster than industry with q-o-q NIM improvement
- Sustainable capital levels

3**Key Results**

- Net profit after tax: RM129.7 million
(9MFY17 : +0.6% y-o-y to RM394.7 million)
- Pre-provisioning operating profit: +6.2% q-o-q to RM204.3 million

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Appendix - Financial Results:

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- 9M FY2017

Building the Future

Offerings	Description of Offerings	Value Propositions
Loan Consolidation Service	<div> <div> Bank A 14% p.a.  </div> <div> Bank B 6% p.a.  </div> <div> Bank C 18% p.a.  </div> </div> <div>    </div> <div>  ALLIANCE BANK 6.88% p.a. Loan Consolidation Service  +  +  +  </div>	<ul style="list-style-type: none"> ✓ Consolidate your loans into one account for convenience ✓ Pay lower Interest ✓ Lower monthly payment ✓ Have more money available ✓ Be debt-free faster
Mobile Foreign Remittance	<ul style="list-style-type: none"> ▪ Provide foreign remittance services via mobile phones <i>through the employers of the foreign workers</i> ▪ Recipients can be pre-configured and the amount remitted will be deducted directly from the employees' salary accounts <div> <div> 1 Log in  </div> <div> 2 Send Money to Receiver  </div> <div> 3 Done!  </div> </div>	<p>Proposition to Business Owners</p> <ul style="list-style-type: none"> ✓ Positioned as a service or “HR benefit” ✓ Simple, mass on-boarding process <p>Proposition to their Foreign Workers</p> <ul style="list-style-type: none"> ✓ Easy remittance (at competitive rates) ✓ Automatic salary crediting, avoid carrying large amount of physical cash ✓ Prepaid reload incentives for repeated remittances

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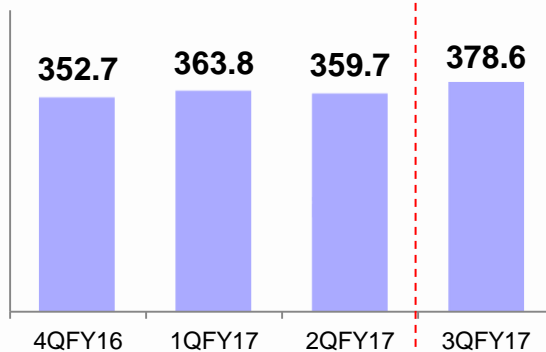
Appendix - Financial Results:

- 3Q FY2017
- 9M FY2017

Net profit after tax: RM129.7 million

Revenue

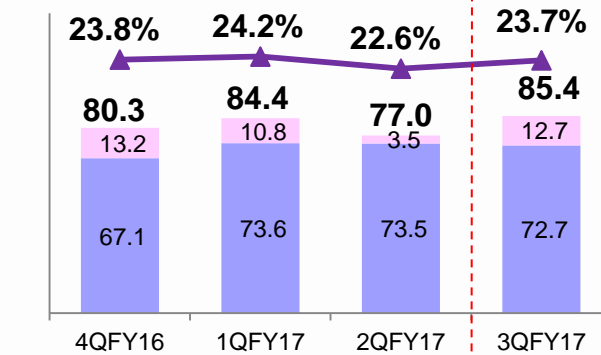
RM mil



Non Interest Income & NOII Ratio

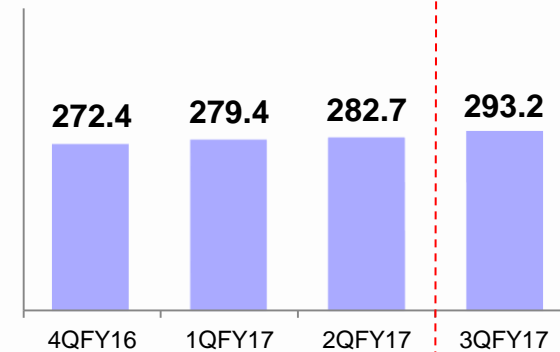
Client Based Non Client Based NOII Ratio

RM mil



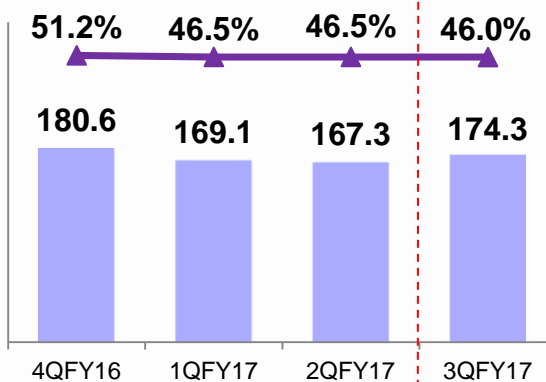
Net Interest Income & Islamic Banking Income

RM mil



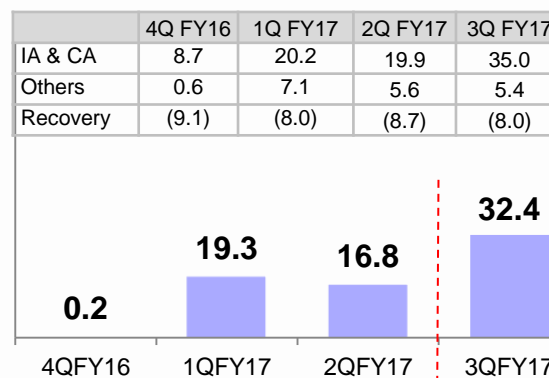
Operating Expenses & CIR Ratio

RM mil



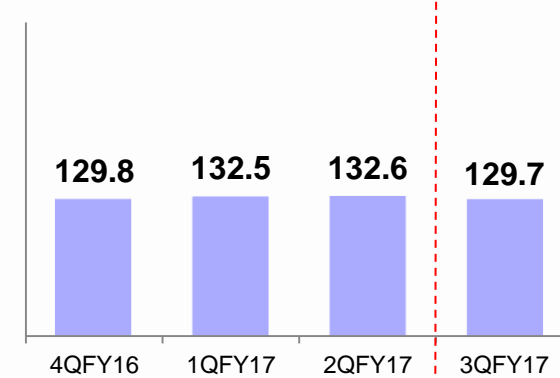
Credit Cost

RM mil



Net Profit

RM mil



Income Statement	2QFY17 RM mil	3QFY17 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	204.2	218.4	10.3	3.7%
Islamic Net Financing Income	74.3	70.4		
Islamic Non-Financing Income	4.2	4.4	8.6	10.6%
Non-Interest Income	77.0	85.4		
Net Income *	359.7	378.6	18.9	5.3%
Operating Expenses	167.3	174.3	(7.0)	(4.2%)
Pre-Provision Operating Profit	192.4	204.3	11.9	6.2%
Net Credit Cost ^	16.8	32.4	(15.6)	(93.1%)
Pre-tax profit	175.6	171.9	(3.7)	(2.1%)
Net Profit After Tax	132.6	129.7	(2.9)	(2.2%)

- **Net income** increased by 5.3% q-o-q, due to:
 - +3.7% increase in net interest income⁺ (mainly contributed by higher RAR loan growth)
 - +10.6% rise in non-interest income⁺
- **Client based fee income** declined by RM0.2 million or 0.2% q-o-q due to lower wealth management fees (-5.9%) and FX sales (-1.6%)
- **Non client based non-interest income** improved by RM9.2 million mainly due to higher treasury income from derivatives and foreign exchange trading
- **Operating expenses** increased by RM7.0 million or 4.2% q-o-q mainly due to higher general administration and marketing expenses
- **Pre-provision operating profit** improved by 6.2% q-o-q
- Higher **credit cost** due to higher collective assessment allowance from impairment in the consumer segment and higher write-back in the previous quarter

Notes:

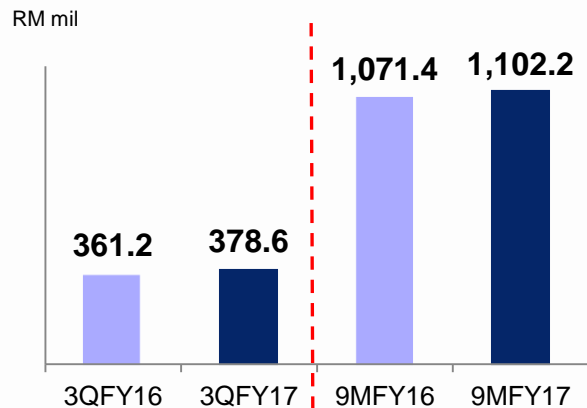
* Revenue

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

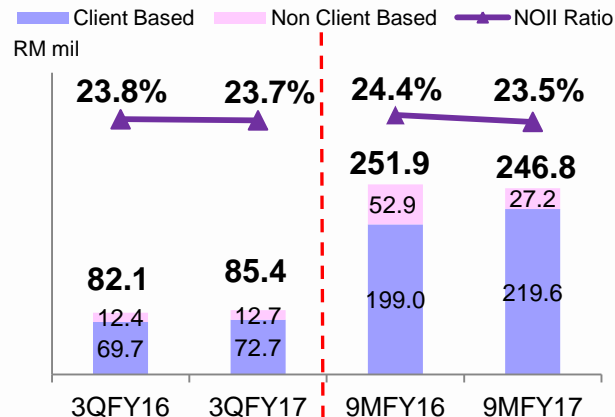
* Inclusive of Islamic Banking Income

9MFY17 net profit after tax improve 0.6% y-o-y

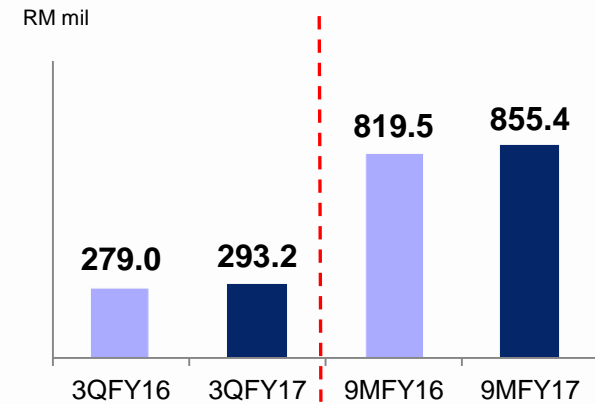
Revenue



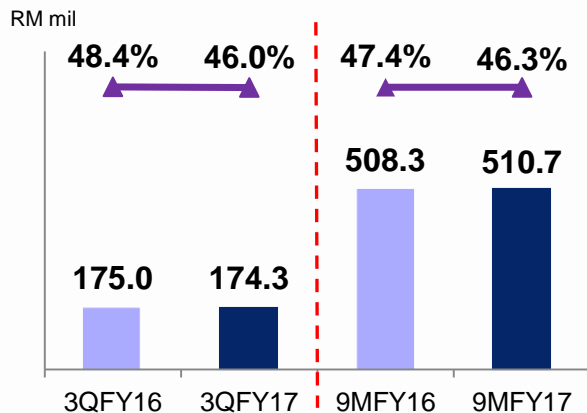
Non Interest Income & NOII Ratio



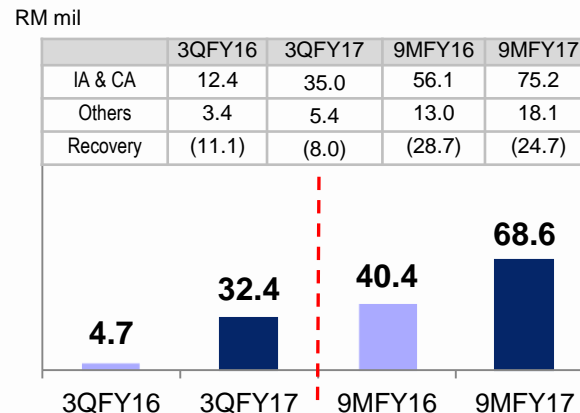
Net Interest Income & Islamic Banking Income



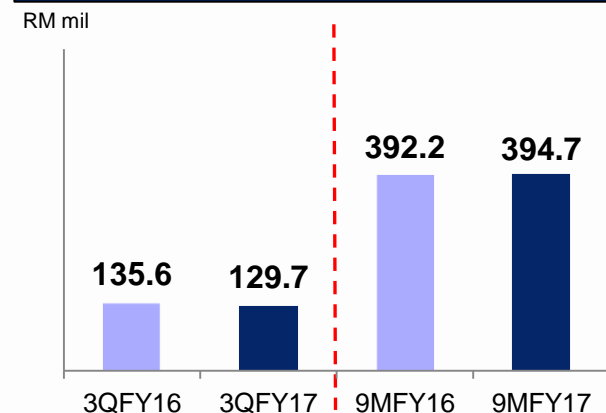
Operating Expenses & CIR Ratio



Credit Cost



Net Profit



Income Statement	3QFY16 RM mil	3QFY17 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	215.8	218.4	13.8	5.0%
Islamic Net Financing Income	59.2	70.4		
Islamic Non-Financing Income	4.0	4.4	3.6	4.2%
Non-Interest Income	82.2	85.4		
Net Income *	361.2	378.6	17.4	4.8%
Operating Expenses	175.0	174.3	0.7	0.4%
Pre-Provision Operating Profit	186.2	204.3	18.1	9.7%
Net Credit Cost ^	4.7	32.4	(27.7)	(>100%)
Pre-tax profit	181.5	171.9	(9.6)	(5.3%)
Net Profit After Tax	135.6	129.7	(5.9)	(4.4%)

- **Net income** increased by 4.8% y-o-y, due to:
 - +5.0% rise in net interest income⁺ (mainly contributed by higher RAR loan growth)
 - +4.2% increase in non-interest income⁺
- **Client based fee income** grew by RM3.8 million or 5.1% y-o-y due to higher FX sales (+11.7%), trade fees (+5.6%) and banking services fees (+2.9%)
- **Non client based non-interest income** improved by RM0.3 million mainly due to higher treasury income from derivatives and gain on treasury assets redemption
- **Operating expenses** decreased by RM0.7 million or 0.4% y-o-y mainly due to lower personnel cost but offset by higher general administration expenses
- **Pre-provision operating profit** improved by 9.7% y-o-y
- Higher **credit cost** due to higher collective assessment allowances on loans and financing and lower recoveries

Notes:

* Revenue

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

* Inclusive of Islamic Banking Income

Income Statement	9MFY16 RM mil	9MFY17 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	636.7	634.8	33.1	4.1%
Islamic Net Financing Income	173.3	208.3		
Islamic Non-Financing Income	9.5	12.2	(2.4)	(0.9%)
Non-Interest Income	251.9	246.8		
Net Income *	1,071.4	1102.1	30.7	2.9%
Operating Expenses	508.3	510.7	(2.4)	(0.5%)
Pre-Provision Operating Profit	563.1	591.4	28.3	5.0%
Net Credit Cost ^	40.4	68.6	(28.2)	(69.9%)
Pre-tax profit	522.7	522.8	0.1	0.0%
Net Profit After Tax	392.2	394.7	2.5	0.6%

Notes:

* Revenue

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

* Inclusive of Islamic Banking Income

- **Net income** grew by 2.9% y-o-y, driven by:
 - +4.1% rise in net interest income⁺ (mainly contributed by higher RAR loan growth)
 - -0.9% drop in non-interest income⁺
- **Client based fee income** grew by RM23.8 million or 11.4% y-o-y due to higher banking services fees (+13.9%), wealth management fees (+11.6%) and FX Treasury sales (+11.3%) .
- **Non client based non-interest income** declined by RM25.8 million mainly due to lower treasury income from derivatives and foreign exchange trading gain
- **Operating expenses** increased by RM2.4 million or 0.5% y-o-y mainly due to higher IT investment and higher personnel cost offset by lower marketing expenses
- **Pre-provision operating profit** improved by 5.0% y-o-y
- Higher **credit cost** due to higher impairment allowances on loans and financing, lower recoveries and higher non-loan impairment charges

Balance Sheet	Sep 16 RM bil	Dec 16 RM bil	Change Q-o-Q	
			RM bil	%
Total Assets	54.8	53.8	(1.0)	(1.8%)
Treasury Assets *	9.5	11.9	2.4	24.8%
Net Loans	38.8	38.9	0.1	0.4%
Customer Deposits	46.2	45.4	(0.8)	(1.9%)
CASA Deposits	15.2	15.3	0.1	0.3%
Shareholders' Funds	5.1	5.0	(0.1)	(1.5%)
Net Loans Growth (y-o-y)	3.1%	1.6%^		
Customer Deposit Growth (y-o-y)	4.9%	4.2%		

- 0.4% q-o-q **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 14.6% annualized rate, compared to a contraction of -1.4% of lower risk adjusted return loans
- **SME loans growth** of +2.7% q-o-q, better than industry growth of 1.9%
- **Customer deposits** contracted by 1.9% q-o-q
- **CASA deposits** grew by 0.3% q-o-q, despite intensified market competition for deposits
- Loan to deposit ratio at 86.6% (industry: 90.6%)

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at December 2016

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

^ Gross loans growth (y-o-y) = 1.6% (q-o-q: 0.4%)

Balance Sheet	Mar 16 RM bil	Dec 16 RM bil	Change YTD	
			RM bil	%
Total Assets	55.6	53.8	(1.8)	(3.2%)
Treasury Assets *	10.2	11.9	1.7	17.0%
Net Loans	38.4	38.9	0.5	1.3%
Customer Deposits	46.0	45.4	(0.6)	(1.5%)
CASA Deposits	14.8	15.3	0.5	3.4%
Shareholders' Funds	4.8	5.0	0.2	3.1%
Net Loans Growth (y-o-y)	5.0%	1.6%^		
Customer Deposit Growth (y-o-y)	3.2%	4.2%		

- 1.3% year-to-date (YTD) **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 14.6% annualized rate, compared to a contraction of -1.4% of lower risk adjusted return loans
- **SME loans growth** of +6.6% YTD
- **Customer deposits** contracted by 1.5% YTD
- **CASA deposits** grew by 3.4% YTD, despite intensified market competition for deposits
- Loan to deposit ratio at 86.6% (industry: 90.6%)

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at December 2016

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

^ Gross loans growth (y-o-y) = 1.6% (YTD: 1.4%, YTD annualised: 1.8%)

Balance Sheet	Dec 15 RM bil	Dec 16 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	54.4	53.8	(0.6)	(1.1%)
Treasury Assets *	12.4	11.9	(0.5)	(4.1%)
Net Loans	38.3	38.9	0.6	1.6%
Customer Deposits	43.5	45.4	1.9	4.2%
CASA Deposits	15.2	15.3	0.1	0.2%
Shareholders' Funds	4.7	5.0	0.3	6.9%
Net Loans Growth (y-o-y)	8.5%	1.6%^		
Customer Deposit Growth (y-o-y)	5.0%	4.2%		

- 1.6% 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 14.6% annualized rate, compared to a contraction of -1.4% of lower risk adjusted return loans
- **SME loans growth** of +12.3% y-o-y, better than industry growth of 8.1%
- **Customer deposits** growth of +4.2% y-o-y
- **CASA deposits** grew by 0.2% y-o-y, despite intensified market competition for deposits
- Loan to deposit ratio at 86.6% (industry: 90.6%)

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at December 2016

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

^ Gross loans growth (y-o-y) = 1.6%

	Financial Ratios	3QFY16	2QFY17	3QFY17	9MFY16	9MFY17
Shareholder Value	Return on Equity	11.6%	10.7%	10.4%	11.4%	10.8%
	Earnings per Share	8.9sen	8.7sen	8.5sen	25.7sen	25.9sen
	Net Assets per Share	RM3.02	RM3.27	RM3.22	RM3.02	RM3.22
Efficiency	Net Interest Margin	2.15%	2.22%	2.31%	2.17%	2.25%
	Non-Interest Income Ratio	23.8%	22.6%	23.7%	24.4%	23.5%
	Cost to Income Ratio	48.4%	46.5%	46.0%	47.4%	46.3%
Balance Sheet Growth	Net Loans (<i>RM bil</i>)	38.3	38.8	38.9	38.3	38.9
	Customer Deposits (<i>RM bil</i>)	43.5	46.2	45.4	43.5	45.4
Asset Quality	Gross Impaired Loans Ratio	1.1%	0.9%	1.0%	1.1%	1.0%
	Net Impaired Loans Ratio	0.7%	0.5%	0.6%	0.7%	0.6%
	Loan Loss Coverage Ratio ^	125.4%	147.0%	137.1%	125.4%	137.1%
Liquidity	CASA Ratio	35.0%	32.9%	33.7%	35.0%	33.7%
	Loan to Deposit Ratio	88.8%	84.6%	86.6%	88.8%	86.6%
	Loan to Fund Ratio	85.2%	81.5%	83.4%	85.2%	83.4%
Capital	Common Equity Tier 1 Capital Ratio	11.3%	12.2%	12.0%	11.3%	12.0%
	Tier 1 Capital Ratio	11.3%	12.2%	12.0%	11.3%	12.0%
	Total Capital Ratio	17.1%	16.8%	16.6%	17.1%	16.6%

Note:

^ Loan Loss Coverage includes Regulatory Reserve provision; excluding Regulatory Reserve, 97.2% at 3QFY17 or 9MFY17 (vs. 101.9% at 2QFY17 or 1HFY17)

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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