



ALLIANCE BANK

ANALYST BRIEFING

1Q FY2019

30 August 2018

**BUILDING
ALLIANCES
TO IMPROVE LIVES**

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1QFY19 Financial Performance

- Key Results
- Revenue and Profitability
- Effective Risk Management

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 - ✓ FY19 YTD Progress

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- 1QFY19

1QFY19 Performance Highlights

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Key Results

- **NPAT at RM136.4 million**, highest quarterly net profit since 2QFY15 (NPAT up 1.0% y-o-y)
- **ROE improved q-o-q to 10.2%** (in line with guidance)

2

Revenue and Profitability

- **Overall revenue** grew 3.8% y-o-y to RM401 million
 - ✓ **Net interest margin** improved 11bps y-o-y to 2.43%, **top 2 in the industry**
 - ✓ **Better risk-adjusted return (“RAR”) loans**, grew 21.3% y-o-y (Overall net loans up 3.6% y-o-y)
- **Cost to income ratio** at 45.7% (guidance <50%)

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Effective Risk Management

- **Customer based funding** grew 1.2% y-o-y (**CASA ratio** at 37.4%)
- Healthy **liquidity coverage ratio** at 150%, better than industry average
- **MFRS 9 day-1 impact** in line with guidance
- **Net credit cost** for the quarter at 9.2 bps
- Sustainable **capital position**

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Transformation Progress

- **Alliance One Account**: 1QFY19 loan growth of RM531 million to RM1.6 billion
- **SME Expansion**: 1QFY19 loan acceptance increased to ~RM740 mil (+RM322 mil y-o-y)
- **Alliance@Work**: Acquired >5,700 local employee CASA and 213 new company payroll accounts in 1QFY19

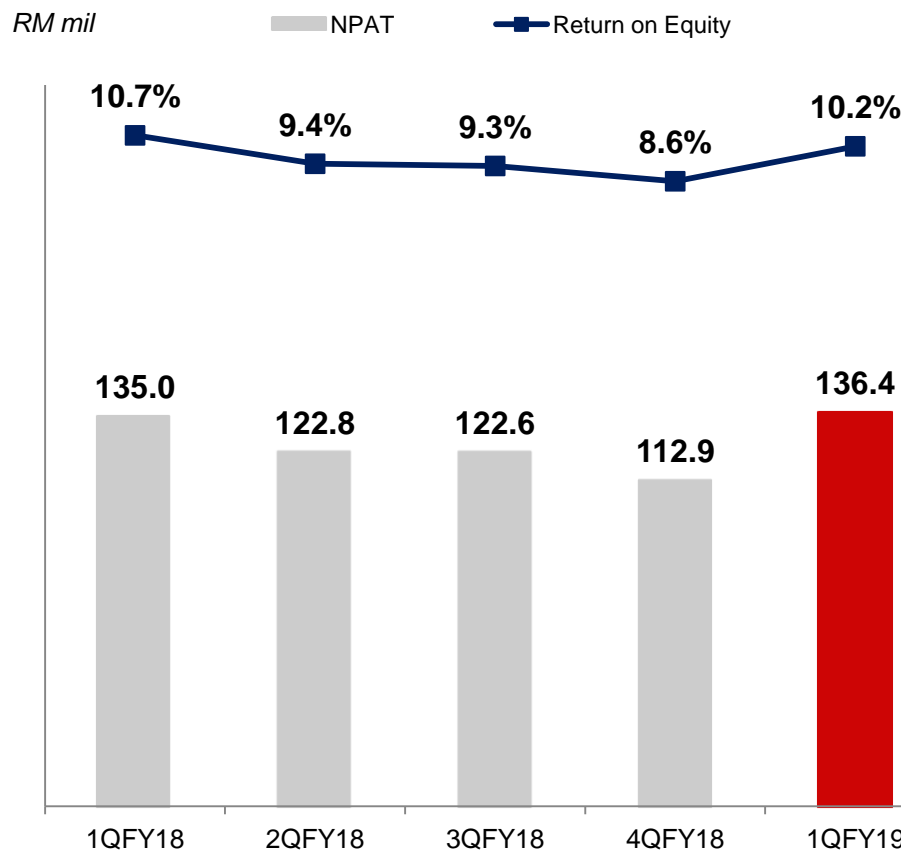
Highest quarterly NPAT at RM136.4 million

a) 1QFY19 Net Profit After Tax (NPAT) grew 1.0% y-o-y to RM136.4 million:

- Highest quarterly net profit in last 15 quarters (since 2QFY15)

b) ROE improved q-o-q to 10.2% (in line with guidance)

NPAT & ROE



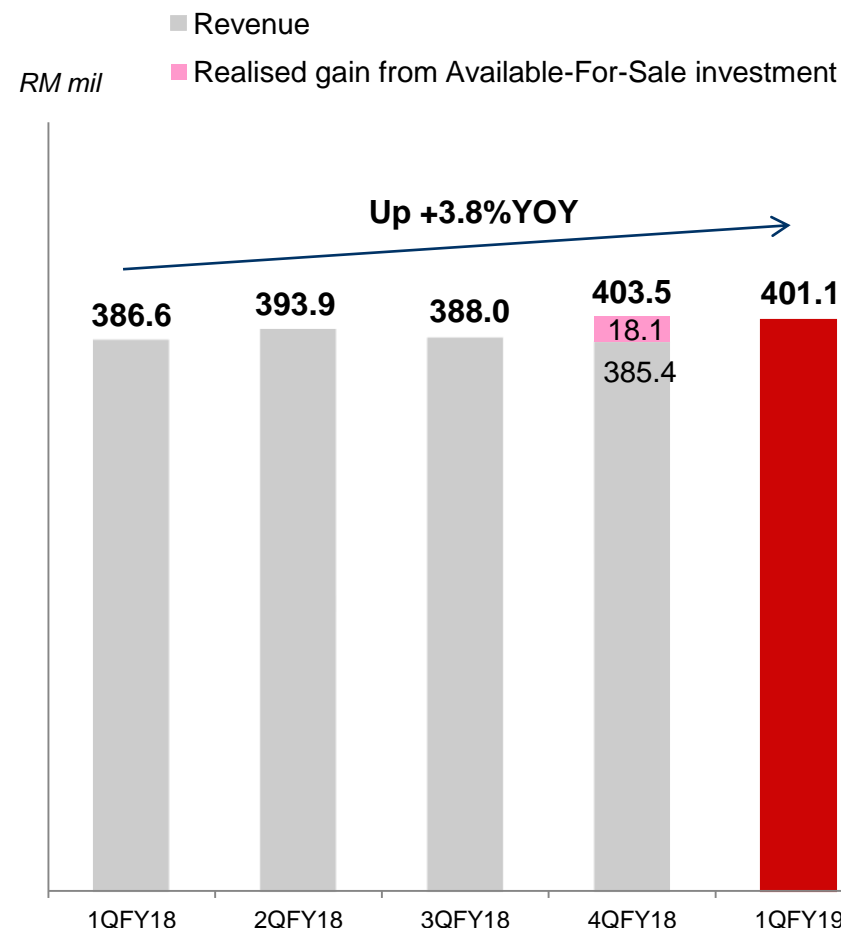
Steady growth in revenue

a) 1QFY19 revenue grew 3.8% y-o-y to RM401.1 million (FY14 – FY18 CAGR: 3.9%):

- Higher net interest income (+8.0%), driven by better risk adjusted return (“RAR”) loans
- Stable client based fee income partly offset by, lower treasury income

b) 1QFY19 revenue grew 4.1% q-o-q (excluding realised gain from Available-For-Sale investment in 4QFY18)

Revenue Growth Trend

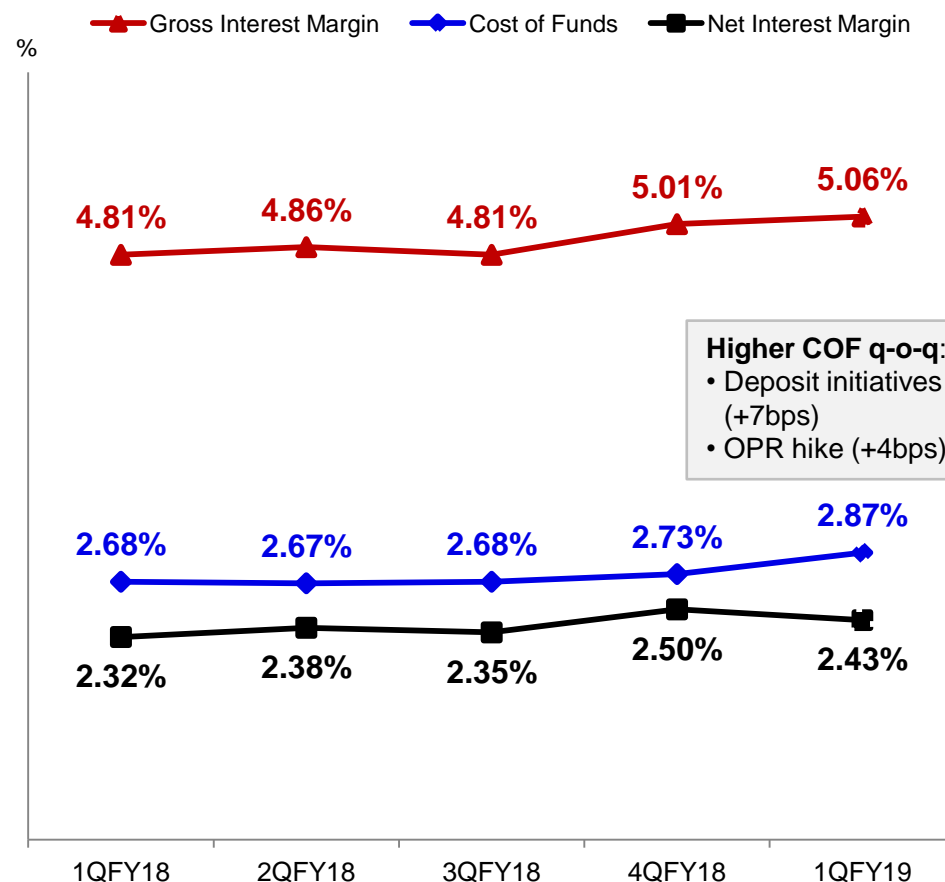


Note: Revenue includes Islamic Banking Income

NIM improved to 2.43%, top 2 in the industry

- a) NIM: +11bps y-o-y to 2.43% (in line with guidance)
- b) GIM: +25 bps y-o-y, due to yield improvement from better RAR loans and OPR hike impact (Jan-18)
- c) COF: +19 bps y-o-y, due to the full quarter effect of 4QFY18 deposit initiatives and higher funding rate post OPR hike

Interest Margin Trend



Better risk adjusted return loans grew 21.3% y-o-y (mix: 37% of portfolio)

a) Y-o-Y loans growth:

- Better risk adjusted return ("RAR") loans: +21.3%
- Lower RAR loans: -4.4%

b) Improved loan mix:

- Better RAR loans: 37% of portfolio
- Strong growth of Alliance One Account

c) Portfolio RAR improved to 1.13% (1QFY18: 1.08%)

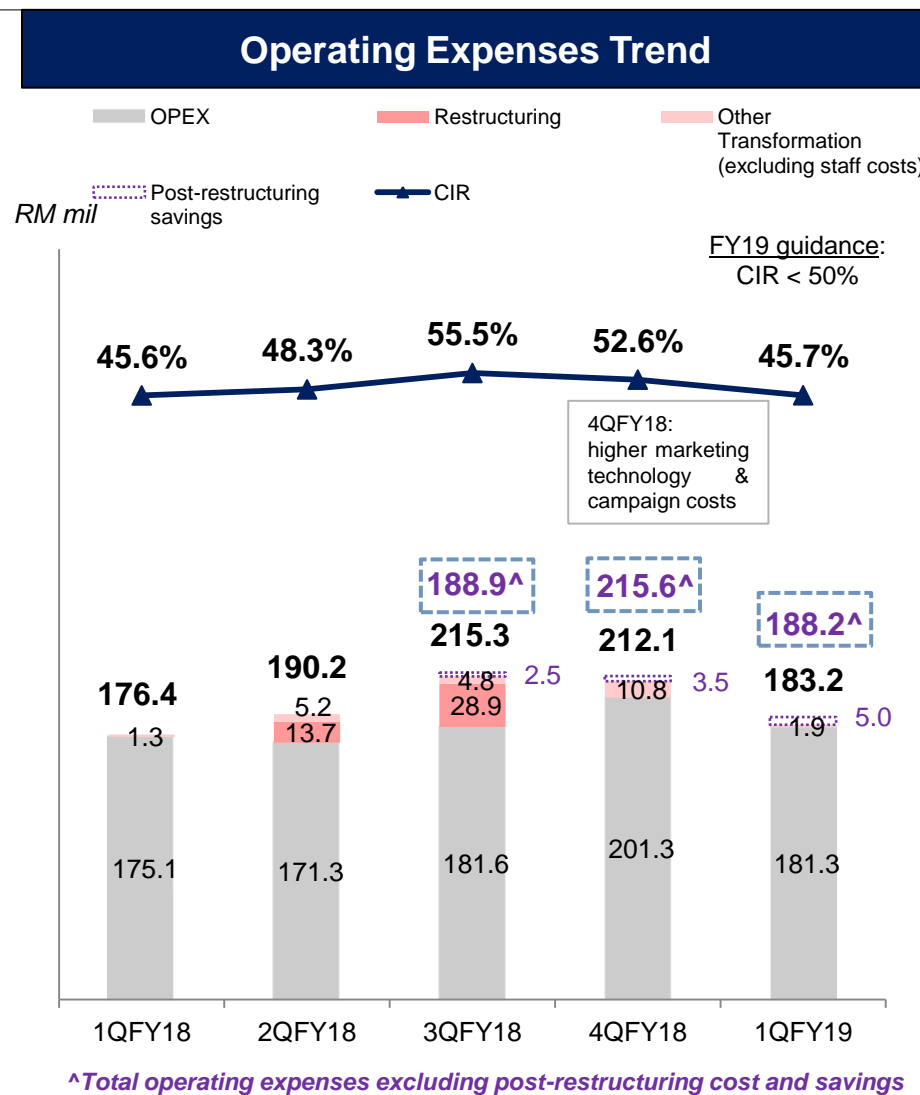
Gross Loans Growth				
	1QFY18 Gross Loans (RM 'mil)	1QFY19 Gross Loans (RM 'mil)	YoY Loans Growth (RM 'mil)	Y-o-Y Loans Growth %
Better RAR loans				
SME & Commercial	9,450	10,185	735	
Consumer Unsecured	1,889	2,270	381	
Share Margin	954	984	30	
Alliance One Account	85	1,576	1,491	
Total	12,378	15,015	2,637	+21.3%
	FY15: 27%	32%	37%	
Lower RAR loans				
Mortgage	17,697	16,424	(1,273)	
Biz Premises	2,738	2,747	9	
Hire Purchase	695	474	(221)	
Corporate	5,355	5,671	316	
Total	26,485	25,316	(1,169)	-4.4%
	FY15: 73%	68%	63%	

• YoY: better RAR loans growth > lower RAR loans contraction

Note: RAR: Net Interest Margin less (Direct Variable Cost + Trailing 12M Credit Cost) ÷ Average Loan Balance

Cost to income ratio improved to 45.7% (guidance <50%)

- a) 1QFY19 cost to income ratio at 45.7%, better than industry average
- b) Operating expenses increased 3.9% y-o-y mainly due to higher personnel expenses from scaling up sales force for AOA, SME expansion and Alliance@Work
- c) FY19 cost to income ratio guidance: <50%



Customer based funding grew 1.2% y-o-y (CASA ratio at 37.4%)

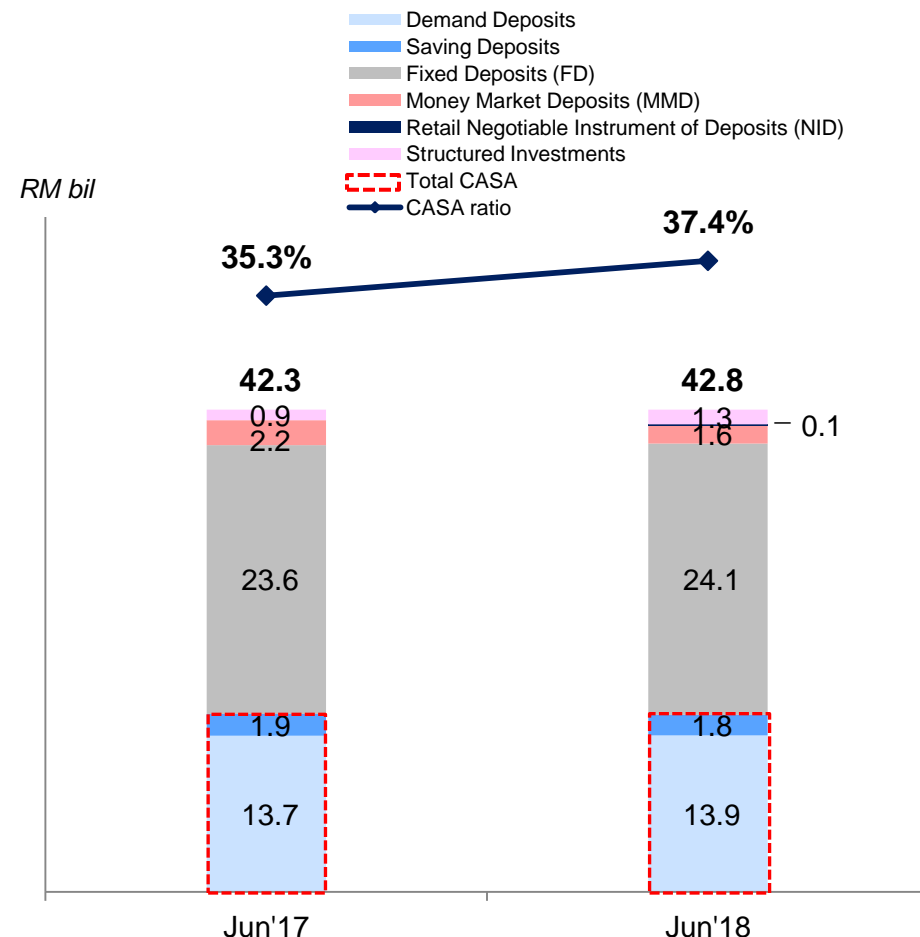
a) Focusing on customer based funding:

- Customer based funding : +1.2% y-o-y
- CASA ratio improved to 37.4%
- Structured investments: +44.7% y-o-y

b) Maintaining effective funding mix (deposits initiatives):

- Consumer deposit: SavePlus
- Alliance@Work: company payroll & employee CASA

Customer Based Funding



Note: Customer based funding = CASA + Fixed Deposits (FD) + Money Market Deposits (MMD) + Retail Negotiable Instrument of Deposits (NID) + Structured Investments

Healthy liquidity coverage ratio at 150%

a) Healthy liquidity position:

- Liquidity coverage ratio¹ at 150.3% (industry*: 139.7%)
- Loan to fund ratio² at 87.0% (industry#: 86.5%)

b) Net stable funding ratio (NSFR):

- Proforma NSFR is already above 100%

Notes:

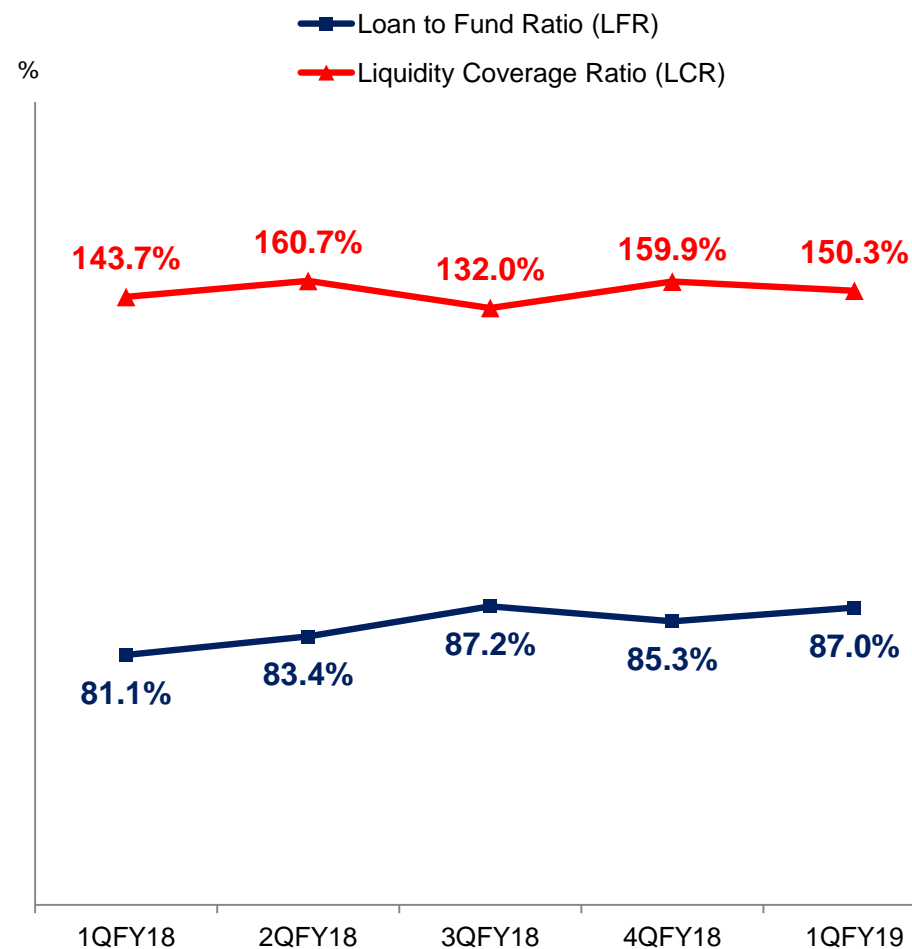
¹ Liquidity Coverage Ratio refers to highly liquid asset held by bank to meet short term obligation

² Loan to Fund Ratio is based on Funds comprising Customer Deposits, structured investments and other deposits and all debt instruments (such as senior debt and subordinated debt)

* Based on BNM Monthly Statistical Bulletin June 2018

Based on Mar'18 local peers' average

Liquidity: LCR, LFR



MFRS 9 day-1 impact in line with guidance

a) MFRS 9 day-1 impact:

- Total provision: +22%

	RM'mil	Δ%
Stage 1	-27.1	-27%
Stage 2	+133.4	+151%
Stage 3	+40.9	+20%

- Net asset per share: -6 sen
- Capital ratios: -0.2%

MFRS 9 Day-1 Impact

<u>Impact to provision</u>	Mar-18 (RM 'mil)	MFRS 9 Day 1 Impact	
Expected Credit Losses	398.5	545.7	
Regulatory reserve (RR)	186.1	168.7	
Total provisions	584.6	714.4	+22%
<u>Impact to net asset per share</u>			
Net asset per share (RM)	3.53	3.47	-6 sen
<u>Impact to capital ratios</u>			
CET 1 ratio	13.4%	13.2%	-0.2%
Tier 1 ratio	13.8%	13.6%	
Total capital ratio	18.3%	18.2%	

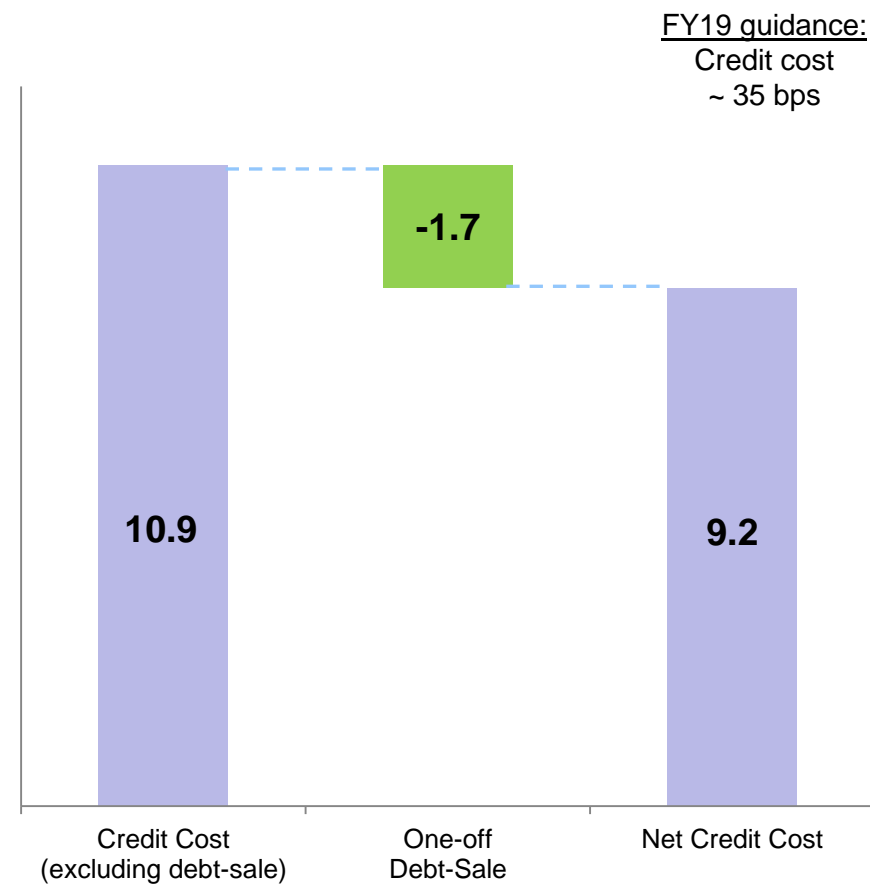
Net credit cost for the quarter at 9.2 bps

- a) 1QFY19 net credit cost: 9.2 bps
(without debt-sale: 10.9 bps)
- b) One-off debt-sale: -1.7 bps
- c) Credit cost: +3.2 bps y-o-y (vs 1QFY18: 7.7 bps), due to:

	<u>RM mil</u>	<u>bps</u>	
Stage 1 & 2	(4.6)	(1.3)	business accounts write-back
Stage 3	18.6	4.5	mortgage & business impaired accounts
Total	<u>13.8</u>	<u>3.2</u>	

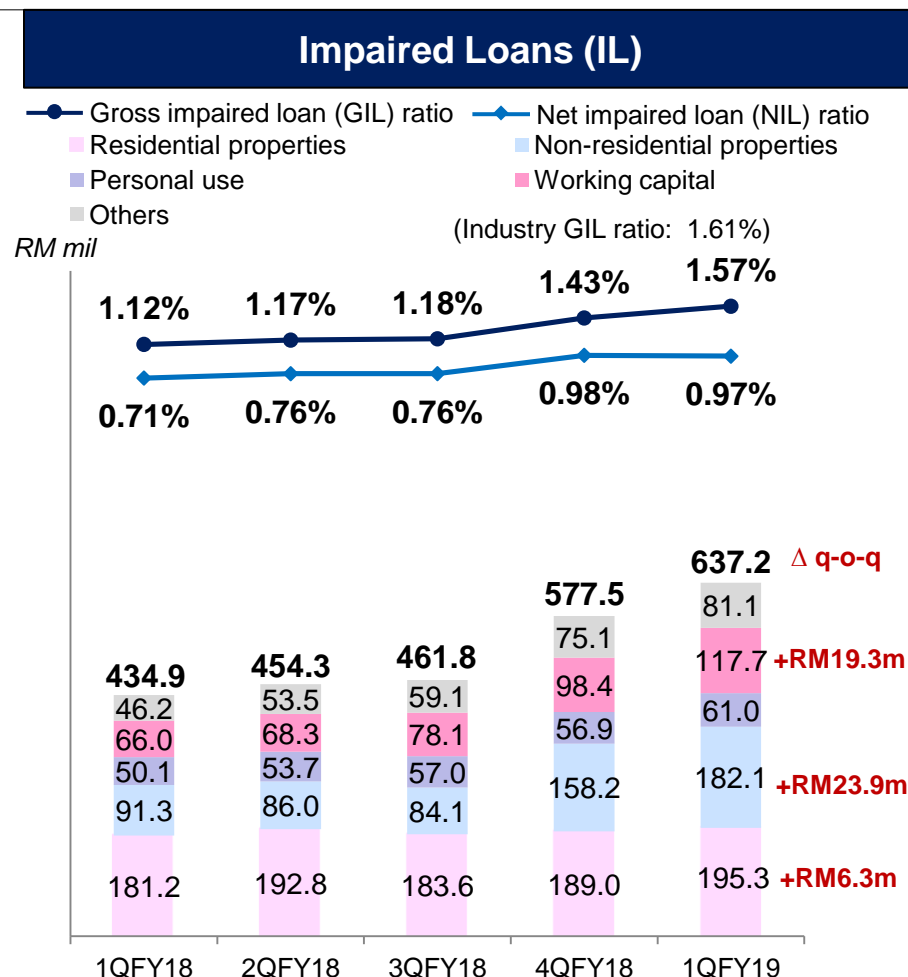
- d) Continue with mitigating proactive actions:
- Strengthening collections & recoveries
 - Enhancing credit underwriting policies

1QFY19 Credit Cost (bps)



Gross impaired loans (GIL) mostly secured, not materially affecting credit cost

- a) 1QFY19 GIL ratio: 1.57%, shortfall is fully provided (stage 3 provision represent 120% of the shortfall)
- b) NIL ratio remains steady at 0.97%
- c) GIL up RM59.7 million q-o-q, mainly due to:
 - Non-residential properties & working capital: +RM43.2 million
 - Impairment of several business accounts: +RM34.7 million
 - Proactive restructured & rescheduled (R&R) remedial programme: +RM8.5 million
 - Residential properties: +RM6.3 million



Sustainable capital position

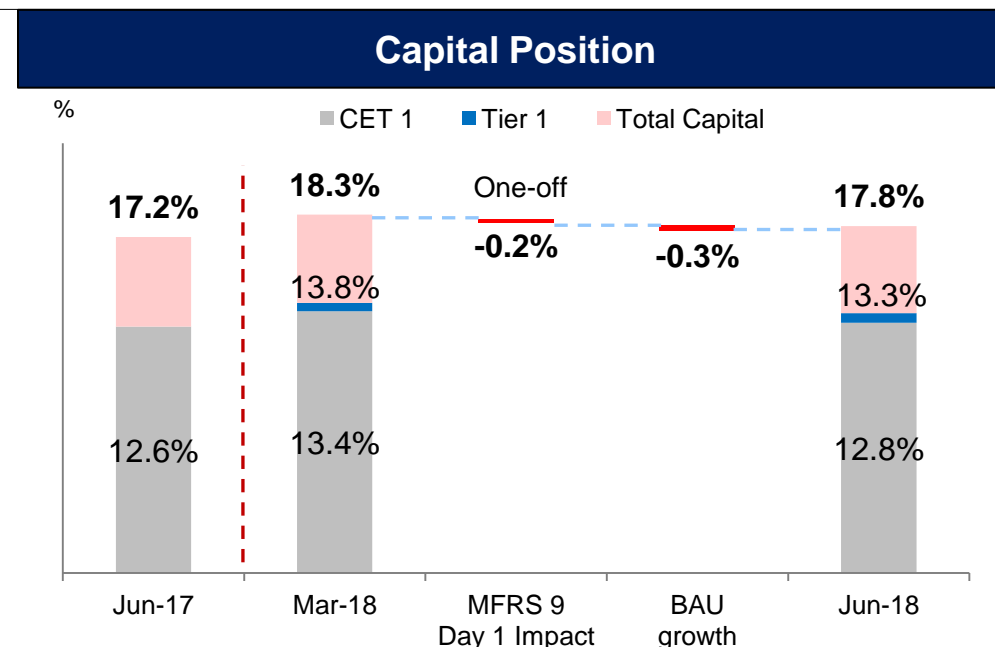
a) Continued strong capital position:

- CET-1 ratio: 12.8%
- Tier 1 ratio: 13.3%
- Total capital ratio: 17.8%

b) Capital ratios able to:

- absorb MFRS 9 day-1 impact: -0.2%
- support BAU growth: -0.3%
(including one-off cross-quarter trade exposure: -0.1%)

c) With proactive capital management, capital ratios will continue to be supportive of future business expansion



Capital Ratios (after proposed dividends)	Alliance Bank Group (ABG)	Alliance Bank (ABMB)	Alliance Islamic Bank (AIS)	Alliance Investment Bank (AIB)
CET 1 Capital Ratio	12.8%	11.0%	11.2%	56.2%
Tier 1 Capital Ratio	13.3%	11.5%	11.2%	56.2%
Total Capital Ratio	17.8%	16.5%	14.1%	57.3%

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Appendix - Financial Results:

- 1QFY19

Where we are in the transformation journey

	FY19 Ambition	FY19 YTD Progress
1 AOA	<ul style="list-style-type: none"> Ramp up monthly disbursements 3X to RM500 mil by end of FY19 Capture about 8% of industry market share of new mortgage originations 	<ul style="list-style-type: none"> Loan approval >RM935mil in 1QFY19, with RAR that is 3X of normal standalone mortgage Scaled up to ~RM1.57 billion in loan balances
2 SME	<ul style="list-style-type: none"> SME loans growth target of 20% in FY19 	<ul style="list-style-type: none"> 1QFY19 loan acceptance increased to ~RM740 mil (+RM322 mil y-o-y) Launched New Loan Origination system in July'18
3 Alliance@Work	<ul style="list-style-type: none"> >20,000 new local employee CASA accounts >1,000 new company payroll accounts 	<ul style="list-style-type: none"> Acquired >5,700 local employee CASA and 213 new company payroll accounts in 1QFY19
4 Branch Transformation	<ul style="list-style-type: none"> Digitizing key processes at branches to improve customer experience (e.g. CASA STP account opening) 	<ul style="list-style-type: none"> CASA STP account opening to be launched in 3QFY19 STP Personal Loan approval is on-track for 4QFY19 launch

Progress in key transformation priorities (1 of 3)

Key Initiatives

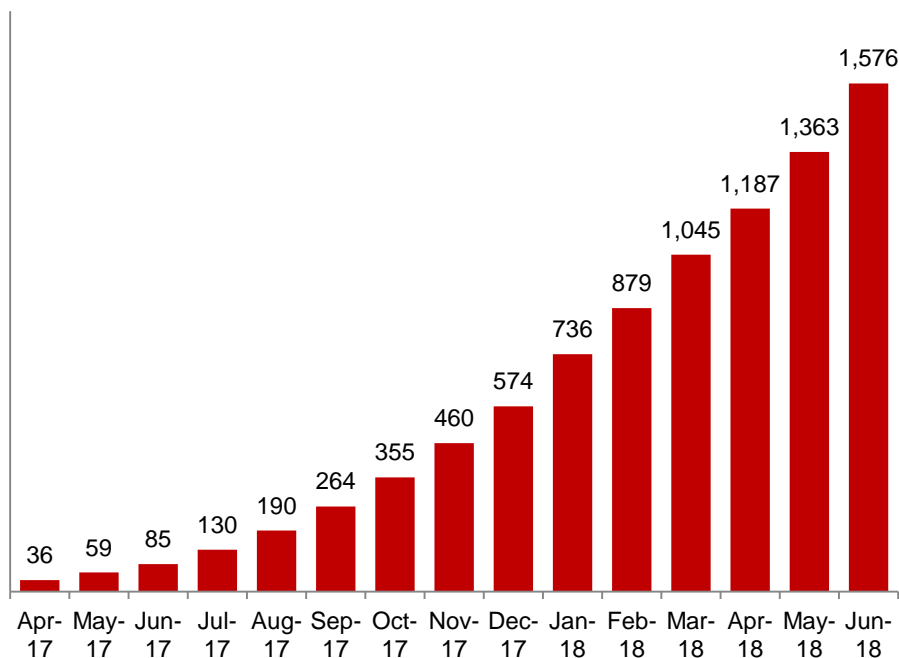
1 Alliance One Account (AOA)

- To capture 8% of industry market share for new mortgage originations

Loan Balances / ENR (RM mil)

- 1QFY19 Loan balances: ~ RM1.57 bil (+RM531 mil Q-o-Q)

■ ENR for AOA

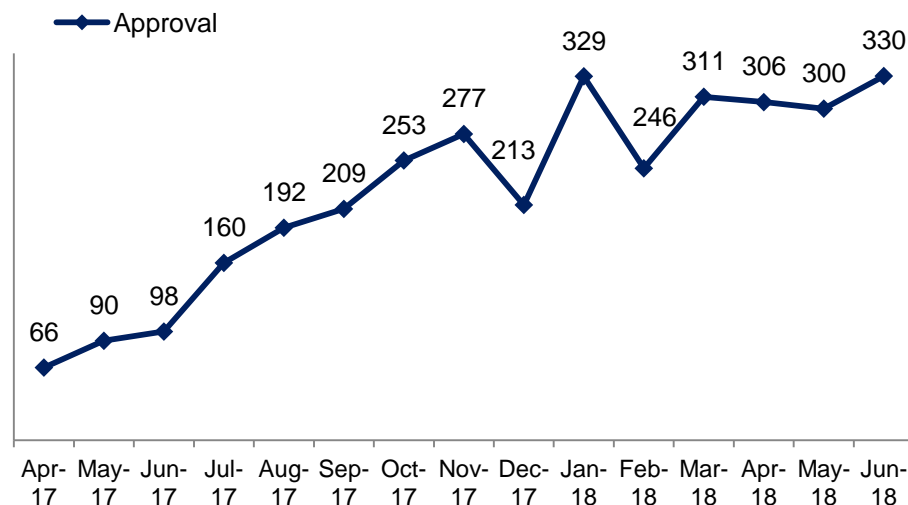


Progress Update

- Results for 1QFY19:
 - Loan approval: >RM935 mil YTD
 - Loan disbursements: >RM558 mil YTD
 - Loan balances (ENR): ~RM1.57 bil
- Better leads generation through Partners and Digital Marketing

Loan Approval (RM mil)

- 1QFY19 approval: > RM935 mil YTD



Progress in key transformation priorities (2 of 3)

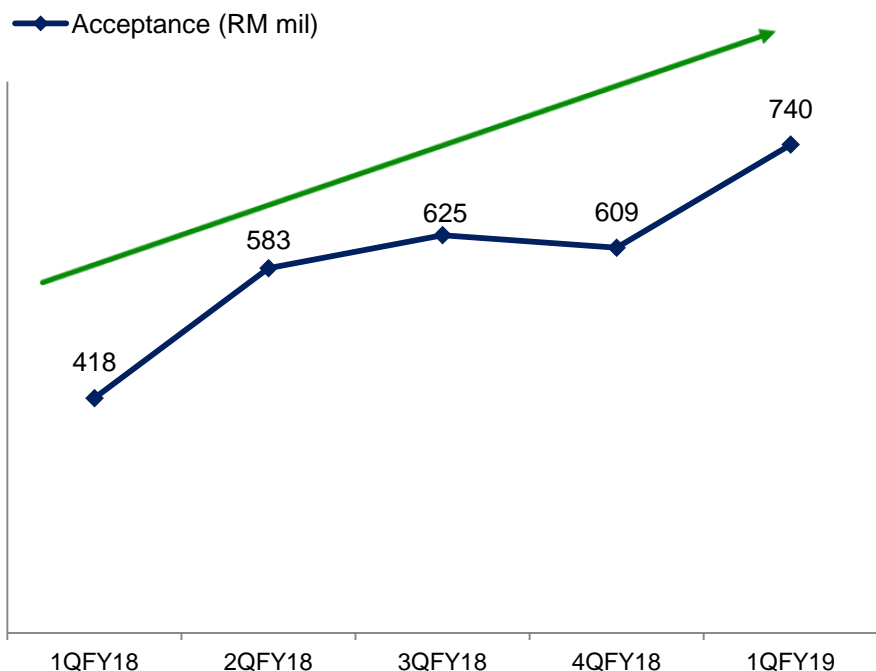
Key Initiatives

2 SME Expansion

- SME loans growth target of 20% in FY19

SME Loan Acceptance (RM mil)

- 1QFY19 Loan acceptance: ~RM740 mil (+RM322 mil y-o-y)



Progress Update

- Launched a new SME loan origination system with workflow automation & integration to 3rd party data sources to free up time for sales (since July'18):
 - Reduced processing time: 15 hours to 6 hours (per case)
- Simplified loan application process and streamlined mandatory documents for credit assessment
- Introduced more structured sales coaching & sales management discipline:
 - Increased RM productivity: +44% (1QFY19 vs. 1Q FY18)

Progress in key transformation priorities (3 of 3)

Key Initiatives

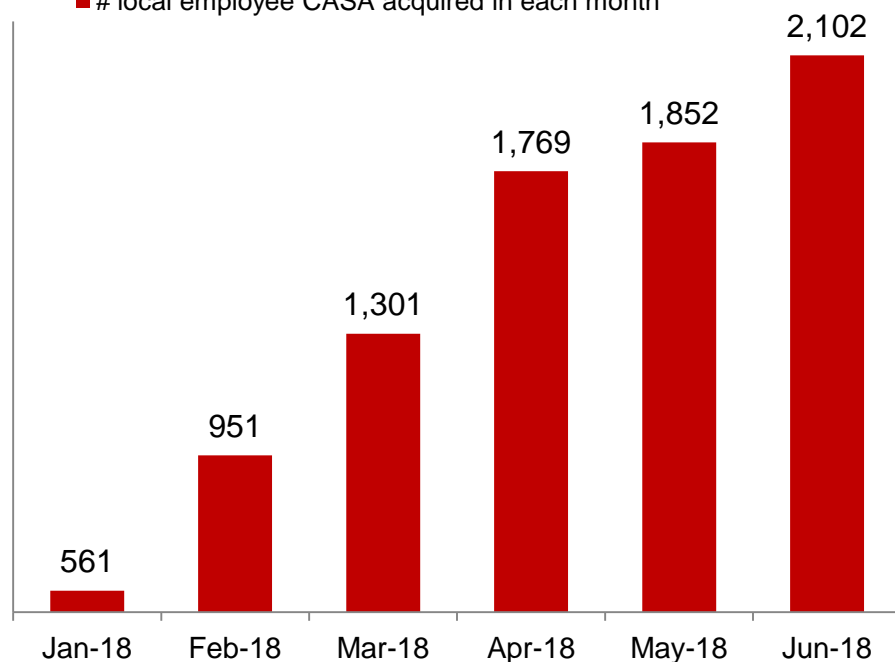
3 Alliance@Work

- Acquisition engine for new consumer banking customers

Local Employee CASA Acquisition

- 1QFY19 New Local Employee CASA acquisition: >5,700

■ # local employee CASA acquired in each month



Progress Update

- Acquired **>5,700 local employee CASA** and **213 new company payroll accounts** in 1QFY19
- Piloted digital on-boarding (through assisted e-KYC) of local employees via our new mobile banking app in July' 18 (Full launch: Aug' 18)
 - Paperless, mass on-boarding
 - Account opening in less than 10 minutes
 - Instant activation of Alliance Online and Alliance Mobile at the same time

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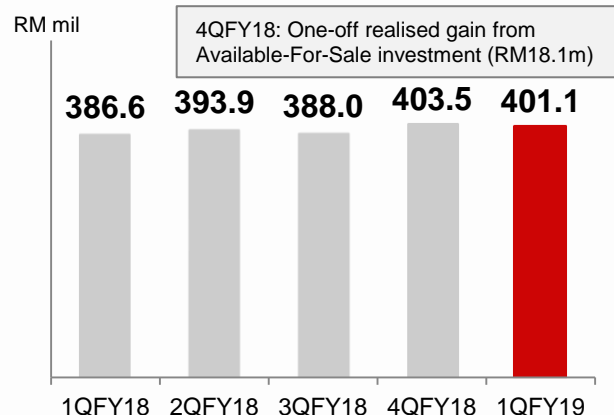
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Appendix - Financial Results:

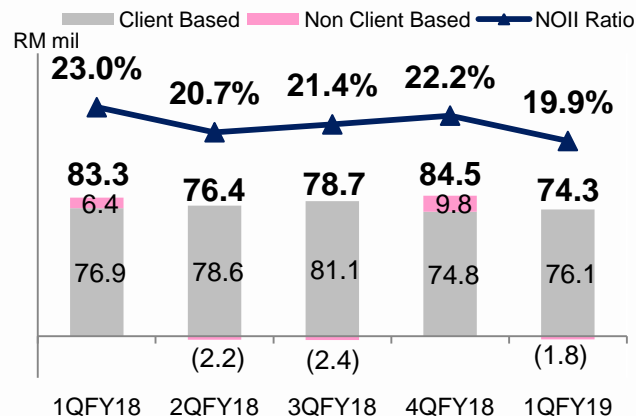
- 1QFY19

Net profit after tax: RM136.4 million

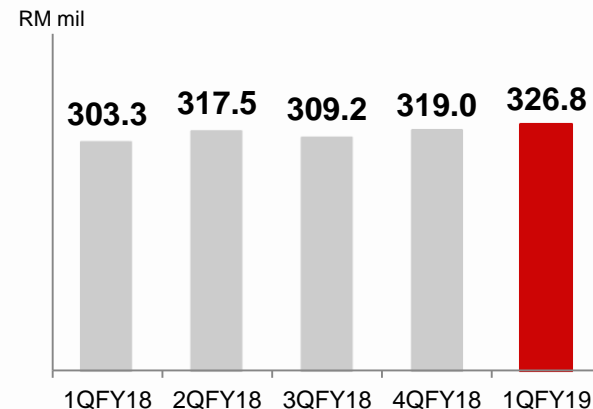
Revenue



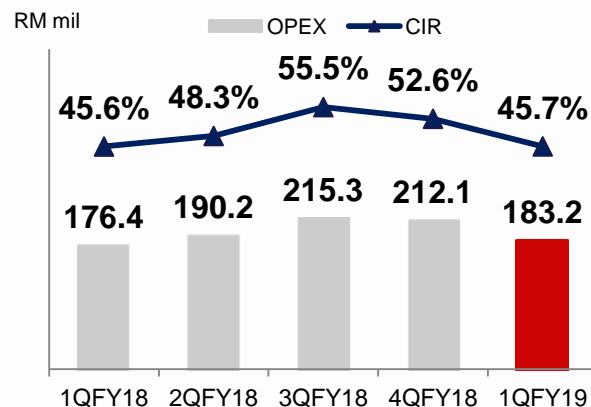
Non Interest Income^ & NOII Ratio



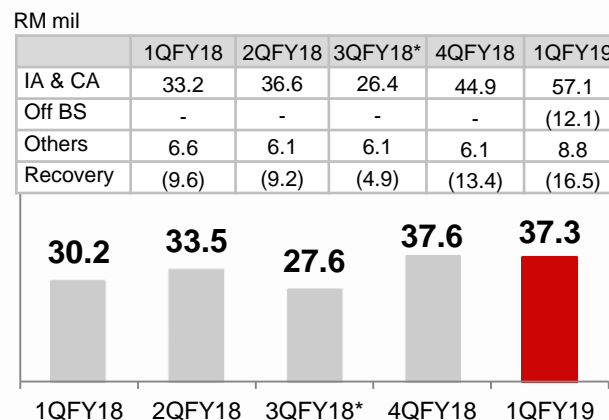
Net Interest Income & Islamic Banking Income



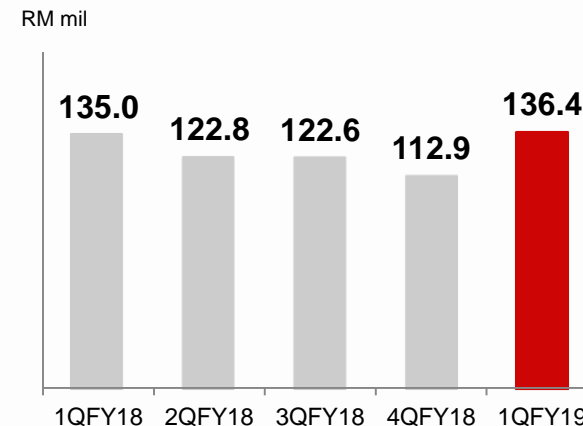
Operating Expenses & CIR Ratio



Credit Cost



Net Profit



Notes: ^ excluding Islamic Banking Income

* allowance/(write back) for losses on loan & financing and other losses, excluding one-off write back from credit rating scale alignment for corporates

Income Statement	4QFY18 RM mil	1QFY19 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	235.5	243.9	7.5	2.4%
Islamic Net Financing Income	78.3	77.4		
Islamic Non-Financing Income	5.2	5.5	(9.9)	(11.0%)
Non-Interest Income	84.5	74.3		
Net Income *	403.5	401.1	(2.4)	(0.6%)
OPEX	212.1	183.2	28.9	13.6%
Pre-Provision Operating Profit (PPOP)	191.4	217.9	26.5	13.8%
Net Credit Cost & impairment^	37.6	36.8	0.8	2.1%
Pre-tax profit	153.7	181.1	27.4	17.8%
Net Profit After Tax	112.9	136.4	23.5	20.8%

- **Revenue** declined marginally RM2.4 mil or 0.6% q-o-q, mainly due to:
 - Lower treasury income by RM11.7 mil on lower realised gain from available-for-sale investment
- **Client based fee income** grew by RM1.8 mil or +2.2% q-o-q, mainly contributed by higher wealth management and trade income.
- **Operating expenses** decreased by RM28.9 mil or 13.6% q-o-q mainly due to lower marketing expenses.
- **Net credit cost** decreased by RM0.8 mil or 2.1% mainly due to debt-sale and Stage 1 & 2 business account write backs, partly offset by increase in Stage 3 mortgage and business accounts impairment.

Notes:

* Revenue

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

* Inclusive of Islamic Banking Income

Income Statement	1QFY18 RM mil	1QFY19 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	225.3	243.9	23.7	8.0%
Islamic Net Financing Income	72.3	77.4		
Islamic Non-Financing Income	5.7	5.5	(9.2)	(10.3%)
Non-Interest Income	83.3	74.3		
Net Income *	386.6	401.1	14.5	3.8%
OPEX	176.4	183.2	(6.8)	(3.9%)
Pre-Provision Operating Profit (PPOP)	210.2	217.9	7.7	3.7%
Net Credit Cost & impairment^	30.2	36.8	(6.6)	(21.9%)
Pre-tax profit	180.0	181.1	1.1	0.6%
Net Profit After Tax	135.0	136.4	1.4	1.0%

Notes:

* Revenue

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

* Inclusive of Islamic Banking Income

- **Revenue** grew RM14.5 mil or 3.8% y-o-y, driven by:
 - increase in net interest income* (+RM23.7 mil or 8.0%) on better risk adjusted return ("RAR") loans
- **Client based fee income** declined marginally by RM0.1 mil or 0.1% y-o-y, mainly due to lower wealth management fee income.
- **Non client based non-interest income** declined by RM9.1 mil or 126.4% y-o-y mainly due to lower FX trading income gain and realised gain from financial investments.
- **Operating expenses** increased by RM6.8 mil or 3.9% y-o-y mainly due to higher personnel expenses from scaling up sales force for AOA, SME expansion and Alliance@Work.
- **Net credit cost** increased by RM6.6 mil or 21.9% y-o-y mainly due to Stage 3 mortgage and business accounts impairment, partly offset by debt-sale and Stage 1 & 2 some write-back from business accounts

Balance Sheet	Mar 18 RM bil	Jun 18 RM bil	Change Q-o-Q	
			RM bil	%
Total Assets	53.9	53.8	(0.1)	(0.2%)
Treasury Assets*	9.0	9.6	0.6	6.7%
Net Loans	40.0	40.0	-	-
CASA Deposits	16.0	15.7	(0.3)	(1.9%)
Customer Based Funding ⁺	43.6	42.8	(0.8)	(1.8%)
Shareholders' Funds	5.5	5.4	(0.1)	(1.8%)
Net Loans Growth (y-o-y)	2.6%	3.6%		
CASA Deposits Growth (y-o-y)	3.1%	0.5%		
Customer Based Funding ⁺ Growth (y-o-y)	4.1%	1.2%		

- **Net loans** remained stable at RM40.0 bil (vs industry: +1.4%^).
- **Better RAR loans** grew 3.3% q-o-q while lower RAR loans contracted 1.1% q-o-q:
 - SME loans growth of 0.6% q-o-q (vs industry: -0.1%#)
 - Continued strong build up for Alliance One Account (+RM531 mil or 50.8% q-o-q).
- **CASA deposits** declined by 1.9%.
- **Customer based funding** declined by 1.8% q-o-q mainly on lower money market deposits and CASA deposits.
- **Liquidity coverage ratio:** 150.3% (vs industry: 139.7%^).

Notes:

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

⁺ Customer based funding = CASA + Fixed Deposits + Money Market Deposits + Retail Negotiable Instrument of Deposits + Structured Investments

^ BNM Monthly Statistical Bulletin June 2018

industry SME loan growth based on June 2018 statistics (latest available)

Balance Sheet	Jun 17 RM bil	Jun 18 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	54.6	53.8	(0.8)	(1.5%)
Treasury Assets*	11.6	9.6	(2.0)	(17.2%)
Net Loans	38.6	40.0	1.4	3.6%
CASA Deposits	15.6	15.7	0.1	0.5%
Customer Based Funding ⁺	42.3	42.8	0.5	1.2%
Shareholders' Funds	5.2	5.4	0.2	3.8%
Net Loans Growth (y-o-y)	1.3%	3.6%		
CASA Deposits Growth (y-o-y)	5.8%	0.5%		
Customer Based Funding ⁺ Growth (y-o-y)	6.8%	1.2%		

- **Net loans** grew 3.6% y-o-y (vs industry: +5.0%^).
- **Better RAR loans** grew 21.3% y-o-y while lower RAR loans contracted 4.4% y-o-y:
 - SME loans grew 5.5% y-o-y (vs industry : +4.3%#)
 - Continued strong build up for Alliance One Account (+RM1.5 bil y-o-y).
- **CASA deposits** grew 0.5% y-o-y.
- **Customer based funding** rose 1.2% contributed by fixed deposits and structured investments growth.
- **Liquidity coverage ratio:** 150.3% (vs industry: 13971%^).

Notes:

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

⁺ Customer based funding = CASA + Fixed Deposits + Money Market Deposits + Retail Negotiable Instrument of Deposits + Structured Investments

^ BNM Monthly Statistical Bulletin June 2018

industry SME loan growth based on June 2018 statistics (latest available)

	Financial Ratios	1QFY18	4QFY18	1QFY19
Shareholder Value	Return on Equity	10.7%	8.6%	10.2%
	Earnings per Share	8.8sen	7.3sen	8.8sen
	Net Assets per Share	RM3.33	RM3.53	RM3.48
Efficiency	Net Interest Margin	2.32%	2.50%	2.43%
	Non-Interest Income Ratio	23.0%	22.2%	19.9%
	Cost to Income Ratio	45.6%	52.6%	45.7%
Balance Sheet Growth	Net Loans (<i>RM bil</i>)	38.6	40.0	40.0
	Total Deposits (<i>RM bil</i>)	44.2	42.7	42.0
Asset Quality	Credit cost (basis points) (annualised)	30.9	38.5	37.0
	Gross Impaired Loans Ratio	1.1%	1.4%	1.6%
	Net Impaired Loans Ratio	0.7%	1.0%	1.0%
	Loan Loss Coverage Ratio^	122.1%	96.7%	108.0%
Liquidity	CASA Ratio	35.3%	37.3%	37.4%
	Loan to Deposit Ratio	88.2%	94.3%	96.4%
	Loan to Fund Ratio	81.1%	85.3%	87.0%
	Liquidity Coverage Ratio	143.7%	159.9%	150.3%
Capital	Common Equity Tier 1 Capital Ratio	12.6%	13.4%	12.8%
	Tier 1 Capital Ratio	12.6%	13.8%	13.3%
	Total Capital Ratio	17.2%	18.3%	17.8%

THANK YOU

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