



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

*Banking Made Personal*

# **INVESTOR PRESENTATION**

## **9 Months FY2013 Results**

### **20 February 2013**



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### Executive Summary

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### Financial Results for 9 Months FY2013

- Income Statement
- Balance Sheet

**“To Be The Best Customer Service Bank, Delivering Consistent and Sustainable Financial Performance”**

*Line of Business*

**Consumer  
Banking**

**Business  
Banking**

**Financial  
Markets**

**Investment  
Banking**

**Transaction & Alternate  
Banking**

**Islamic  
Banking**

*Strategy*

**Revenue: Driving Fee Income through Cross-Selling**

**ROE; CIR**



*Major Products*

## **CONSUMER BANKING**

- Mortgage Loans
- Credit Cards
- Personal Loans
- Hire Purchase
- Deposits

**Existing Opportunities**

## **BUSINESS BANKING**

- **SME**
- **Wholesale**
- **Transaction Banking**
  - Cash Management
  - Trade Finance
  - Treasury Sales
  - Investment Banking

**Existing Opportunities**

- Wealth Management
- Bancassurance
- Advisory
- Stock broking

**New Growth  
Opportunities**

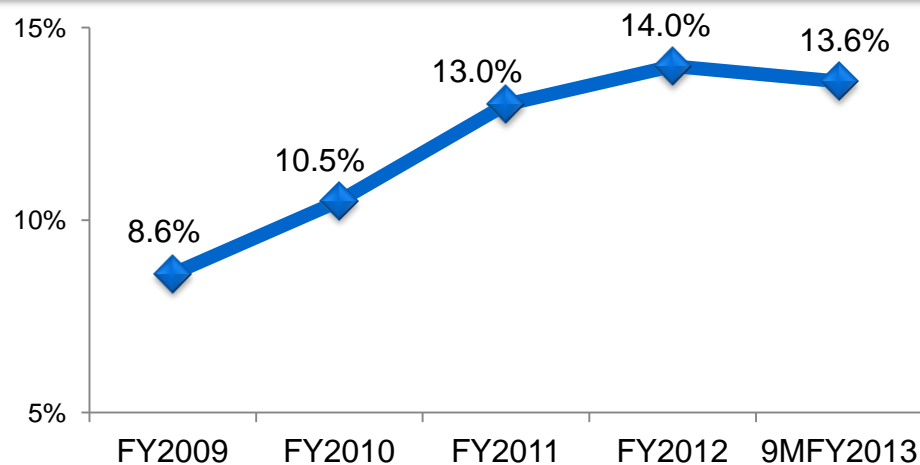
**We are making good progress against our 3-Year Medium Term Targets FY2012 – FY2015**

		<b>FY2011*</b>	<b>9MFY2013</b>
<b>Asset Quality</b>	... gross impaired loans to be better than industry average	<b>3.3%</b>	<b>2.1%</b>
<b>Non-Interest Income Ratio</b>	... to increase non-interest income to 30% of total revenue	<b>20.8%</b>	<b>27.2%</b>
<b>Cost to Income Ratio</b>	... move to industry average (45% - 48%) through: <ul style="list-style-type: none"> <li>targeted revenue growth</li> <li>improved productivity</li> </ul>	<b>48.3%</b>	<b>47.8%</b>
<b>Return on Equity</b>	... achieve industry average (14% - 16%) through: <ul style="list-style-type: none"> <li>focus on underlying earnings momentum</li> <li>effective capital management</li> </ul>	<b>13.0%</b>	<b>13.6%</b>
<b>Dividend Policy</b>	... pay up to 50% of net profits after tax, subject to regulatory approvals and strong capital ratios	<b>7.00 sen</b>	<b>16.60 sen</b>

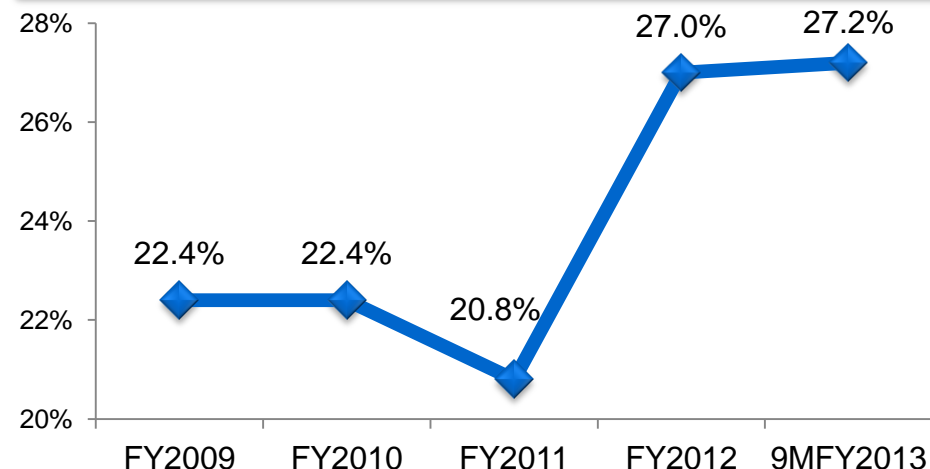
*Note: \* Figures have not been restated for MFRS139*

### Improving Financial Performance, with Key Metrics in the Right Direction

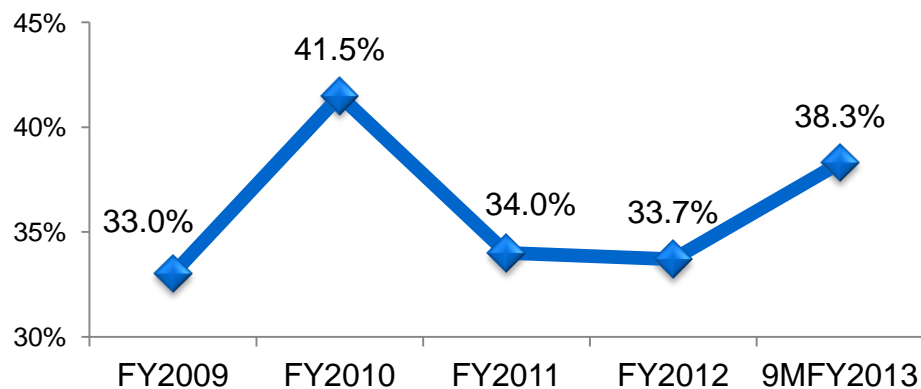
#### Return on Equity



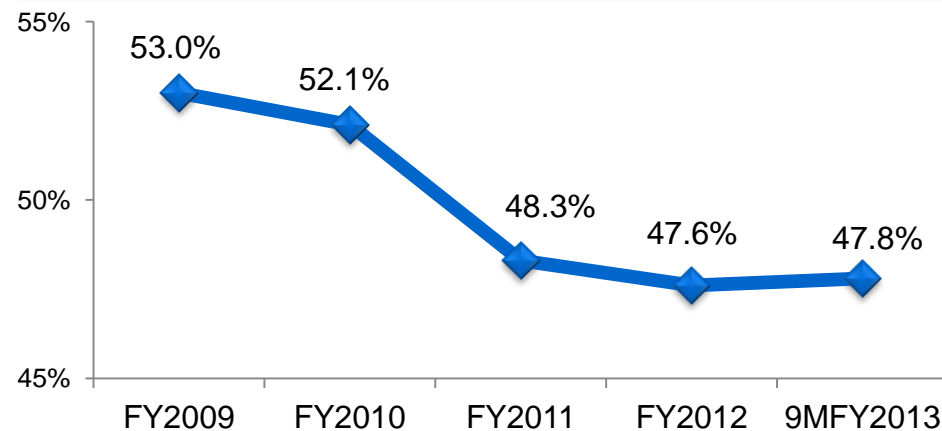
#### Non-Interest Income Ratio



#### CASA Ratio



#### Cost-to-Income Ratio



FY2012 restated for MFRS139

## We Continue to Maintain Steady Y-O-Y NPAT growth

	9M FY13 RM mil	9M FY12 RM mil	Change	
			RM mil	%
Net Interest & Islamic Banking Income	<b>727.9</b>	698.7	29.2	+4.2%
Non-Interest Income	<b>250.1</b>	231.7	18.4	+7.9%
Net Income	<b>978.0</b>	930.4	47.6	+5.1%
Operating Expenses	<b>467.6</b>	435.2	32.4	+7.4%
Operating Profit	<b>510.4</b>	495.2	15.2	+3.1%
Write-back of loans and impairment provisions	<b>29.2</b>	16.7	12.5	+75.2%
Pre-tax profit*	<b>535.7</b>	510.6	25.1	+4.9%
Net Profit After Taxation	<b>399.3</b>	380.6	18.7	+4.9%
Non-Interest Income Ratio	<b>27.2%</b>	26.3%		+0.9%
Cost to Income Ratio	<b>47.8%</b>	46.8%		+1.0%
Return on Equity	<b>13.6%</b>	14.0%		-0.4%
Earnings per Share	<b>26.2 sen</b>	24.9 sen		+5.2%

- Sustained y-o-y gross loans growth of 12.3% and expansion of business activities driving net interest and non-interest income growth
- Interest margins remain under pressure
- Increase in overheads expenses mainly due to personnel cost, and investments in human capital and IT infrastructure
- Lower loan impairment allowances despite double digit loans growth due to improvement in asset quality

\* Include share of results of associate companies



**Sustainable Net Loans Growth at 12.9%, with continued improvement in Asset Quality**

	<b>9M FY13</b>	<b>9M FY12 (Restated)</b>	<b>Change</b>
<b>Balance Sheet &amp; Asset Quality</b>			
Net Loans Growth (y-o-y)	<b>12.9%</b>	12.5%	+0.4%
Gross Impaired Loans Ratio	<b>2.1%</b>	2.6%	-0.5%
Net Impaired Loans Ratio	<b>1.2%</b>	1.4%	-0.2%
Loan Loss Coverage Ratio	<b>83.8%</b>	88.8%	-5.0%
Customer Deposits Growth (y-o-y)	<b>2.2%</b>	9.1%	-6.9%
<b>Liquidity &amp; Capital Ratio</b>			
CASA Ratio	<b>38.3%</b>	35.6%	+2.7%
Loan to Deposit Ratio	<b>86.7%</b>	78.9%	+7.8%
Risk Weighted Capital Ratio	<b>14.88%</b>	15.18%	- 0.30%
Core Capital Ratio	<b>11.88%</b>	11.36%	+ 0.52%

- 12.9% y-o-y above industry net loans growth – targeting profitable consumer and SME segments
- 1.2% net impaired loans ratio, with proactive & disciplined credit risk management
- Improvement in CASA ratio as Group continued to focus on transaction banking
- 86.7% loans to deposits ratio, raised to industry average, for efficient balance sheet management
- 14.88% Risk Weighted Capital Ratio – well capitalised to support future balance sheet expansion

*Note: Restated for MFRS, where applicable*

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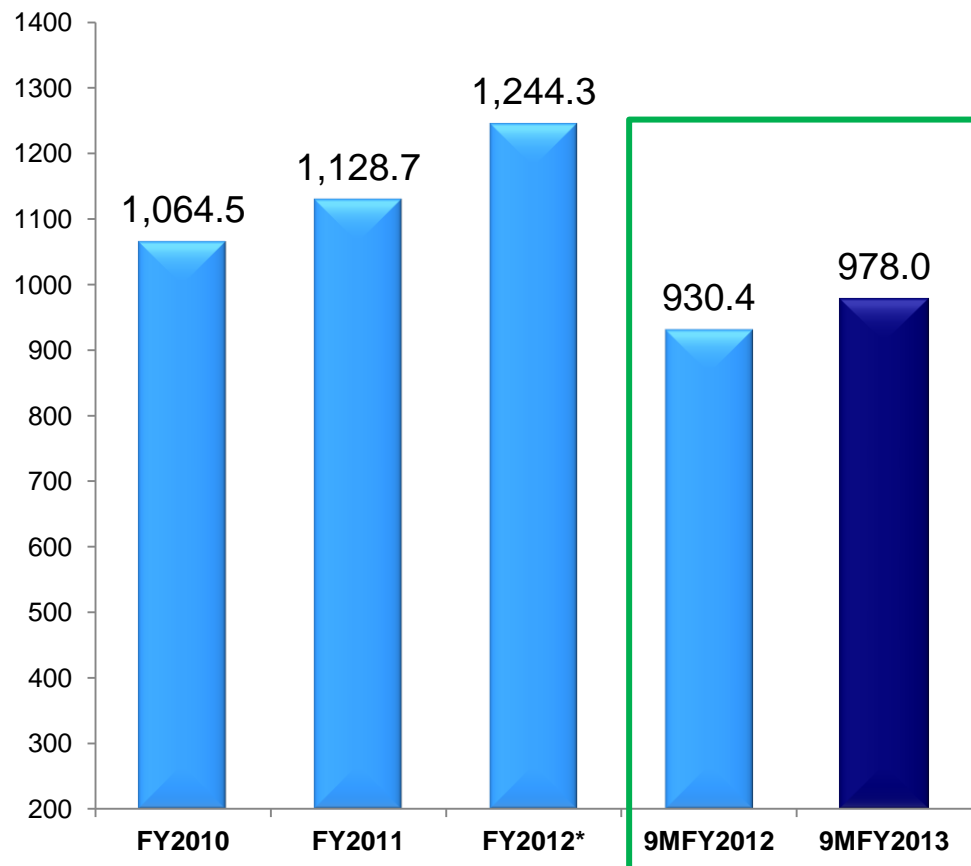
Financial Results for 9 Months FY2013  
- Income Statement



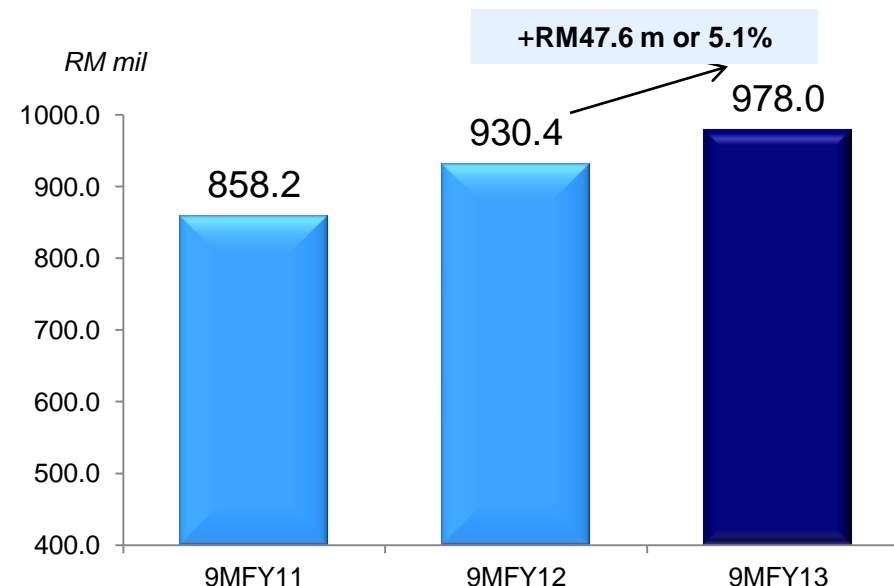
### Steady growth in net income driven by higher loans growth

RM mil

#### Net Income Trend



#### Net Income

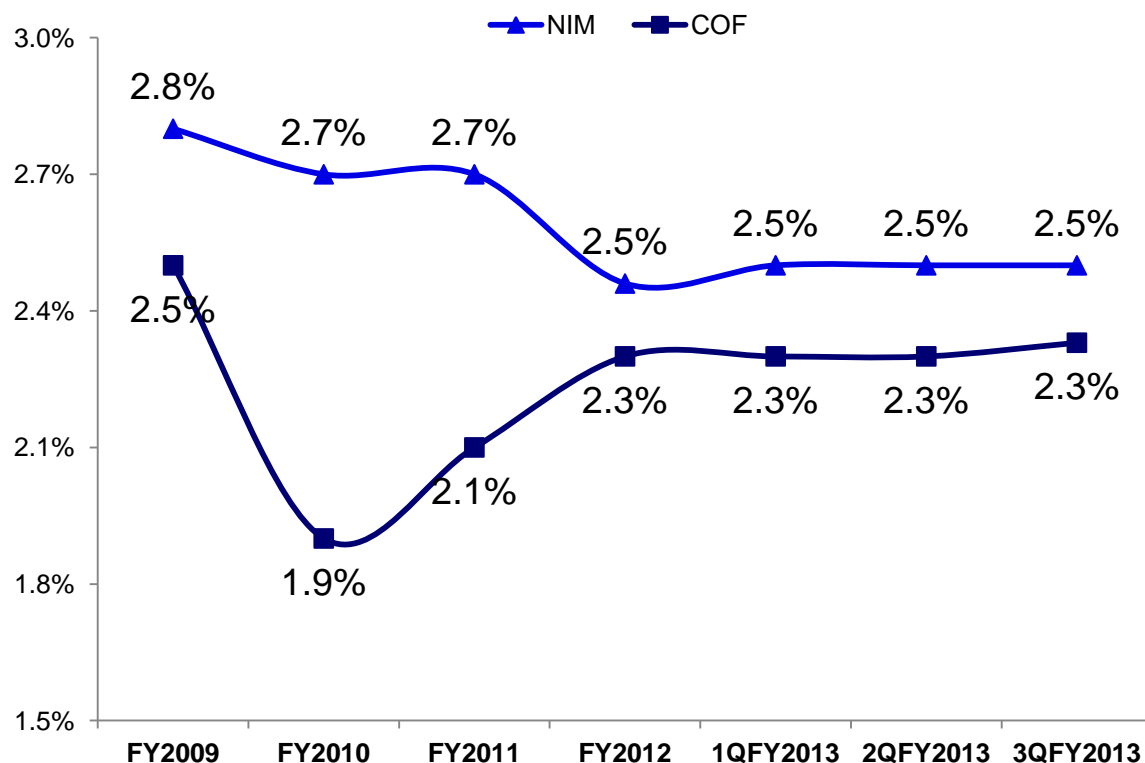


Net income growth of RM47.6 million or 5.1% driven by:

- +RM74.4 million growth in interest income primarily from loans growth; but offset by
- +RM36.1 million rise in interest expense from expansion in deposits

## Net Interest Margin Continue To Be Under Pressure

**NIM and Cost of Funds Trend**

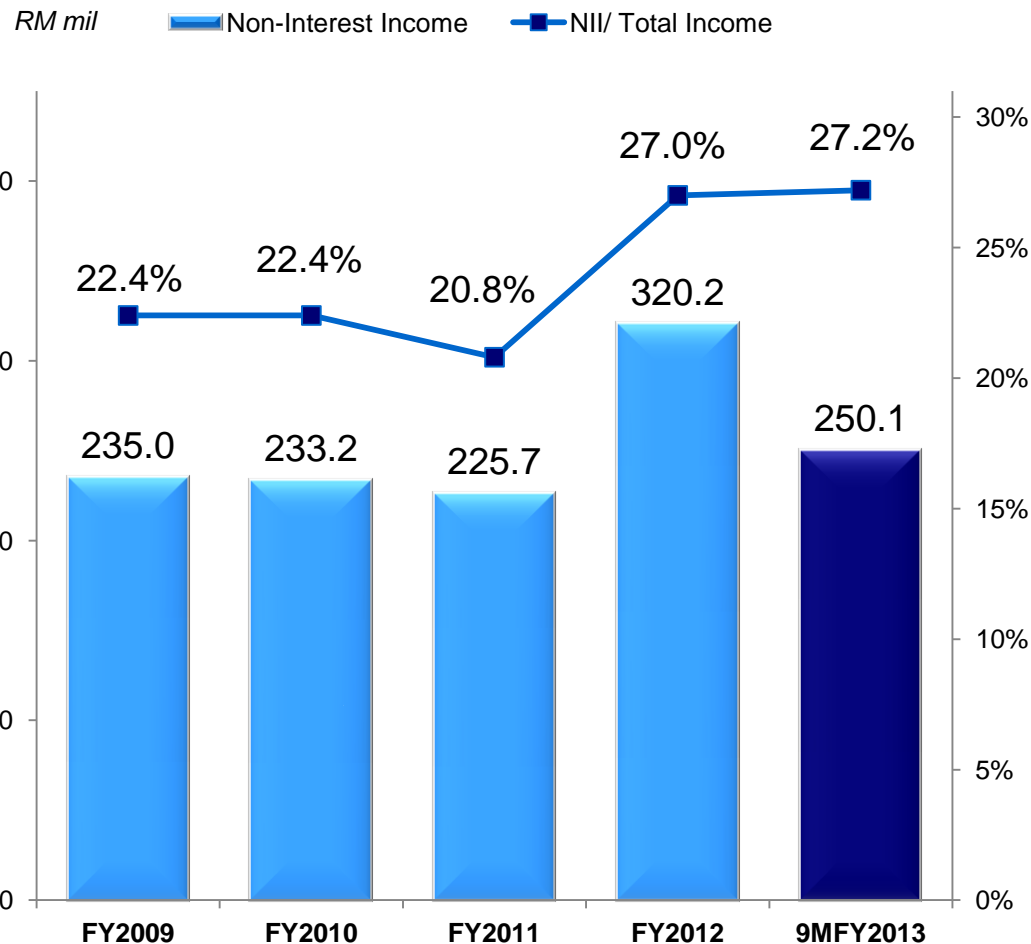


- Continuing margin compression due to:
  - New mortgage loans at lower yield
  - Run-off of high yielding Co-op loans – down from RM1,023 million at March 2011 to RM554 million at end-December 2012
  - Intensified competition for loans and deposits
- Margin pressure partially offset by rise in loans to deposits ratio from 77.7% at March 2012 to 86.7% in December 2012

Effective	OPR	SRR
June 2010	2.50%	1%
July 2010	2.75%	1%
April 2011	2.75%	2%
May 2011	3.00%	3%
July 2011	3.00%	4%

### Non-Interest Income Ratio at 27.2%, with growth in recurring fee income

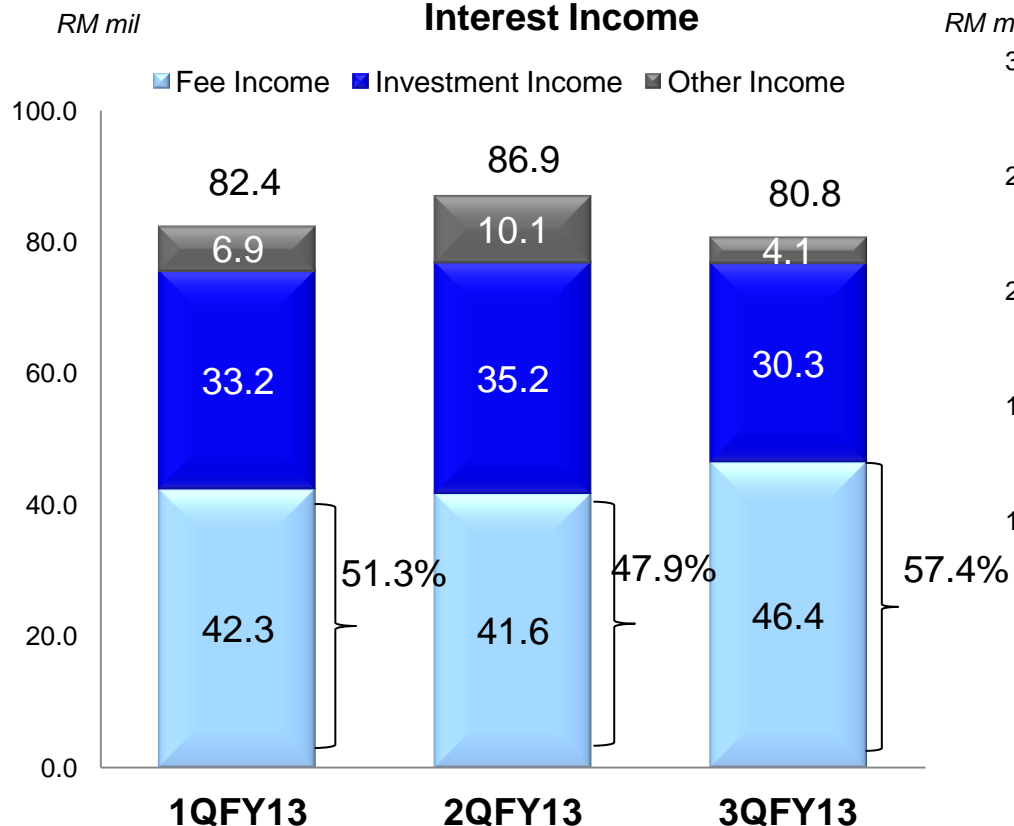
#### Non-Interest Income Trend



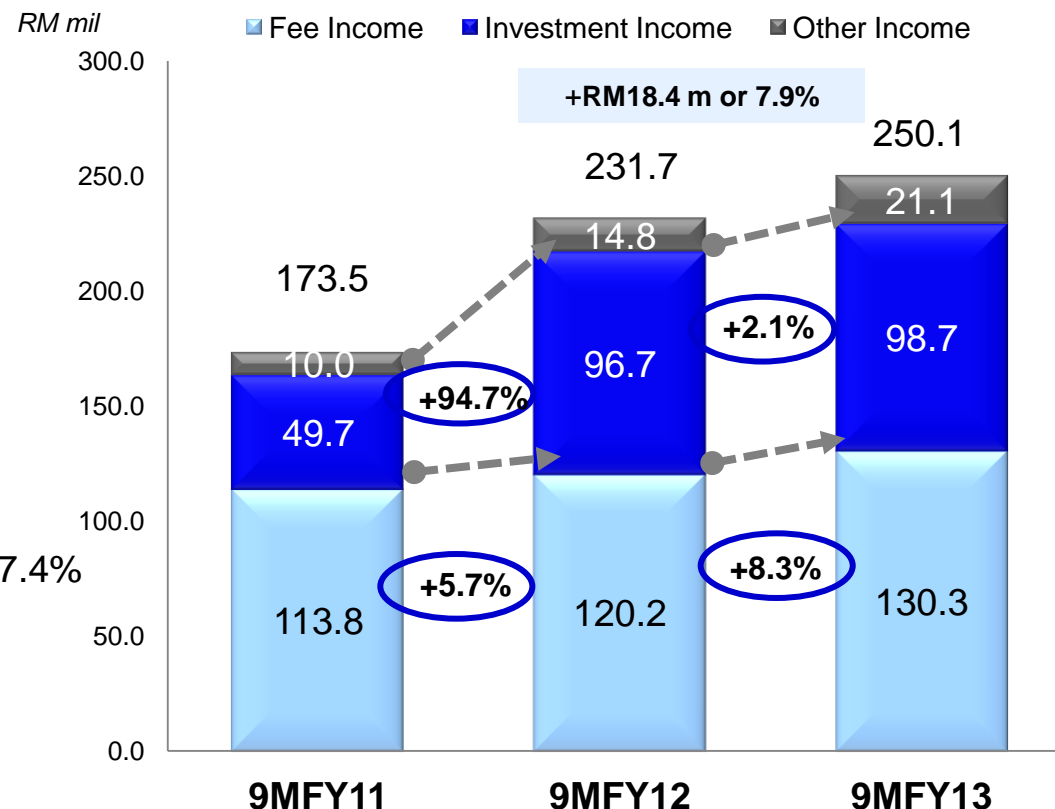
- Continue to build recurring non-interest income from transaction banking, treasury sales, wealth management and trade finance
- YTD non-interest income includes non-recurring RM5.8 million gain on sale of building in 2Q FY2013

## 8.3% Growth in Recurring Fee Income; and track record of sustainable Investment Income

**Composition of Non-Interest Income**



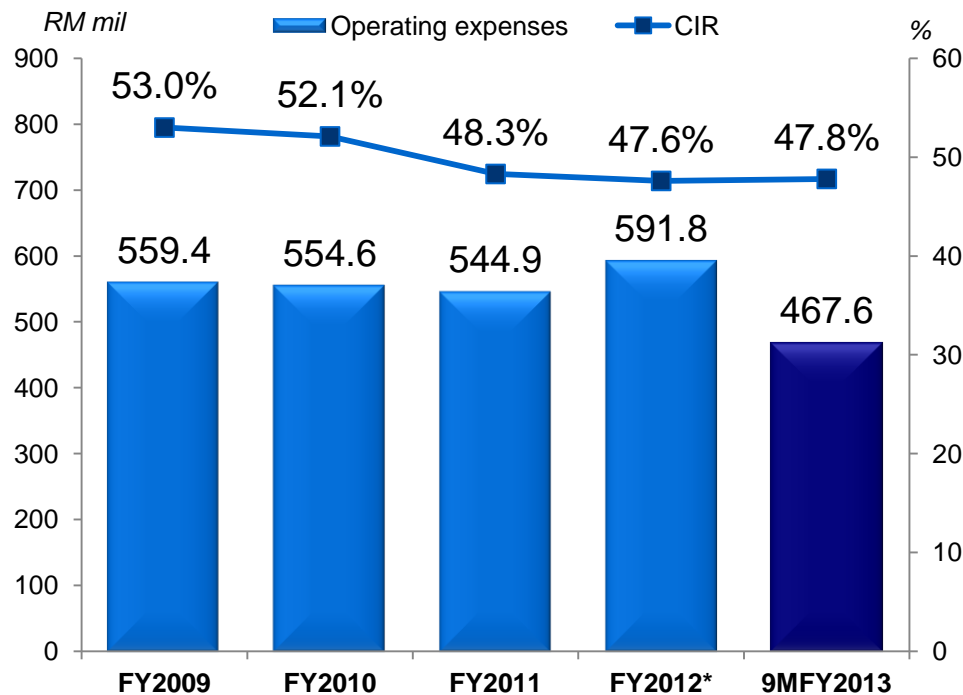
**Y-o-Y Growth**



- ❑ Steady growth in fee income, especially commissions from transaction banking and foreign exchange
- ❑ In FY2013, despite flatter yield curve, sustained investment income from trading in securities

**Cost-to-income remains stable at 47.8%, similar level as FY2012**

## Operating expenses trend



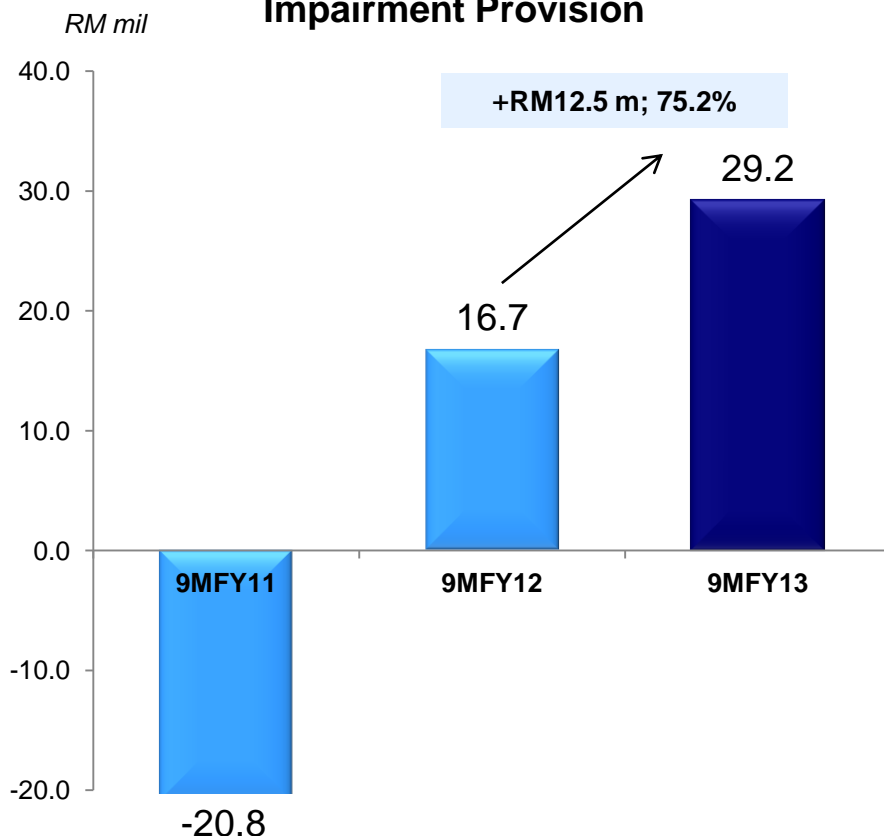
OPEX	3Q FY13 RM mil	3Q FY12 RM mil	Variance	
			RM mil	%
Personnel costs	305.9	277.5	28.4	10.2%
Establishment costs	110.4	107.3	3.1	2.9%
Marketing expenses	13.9	13.5	0.4	3.3%
Administration expenses	37.4	36.9	0.5	1.3%
<b>Total</b>	<b>467.6</b>	<b>435.2</b>	<b>32.4</b>	<b>7.4%</b>

Operating Cost Contribution	3Q FY13	3Q FY12
Personnel	65.4%	63.7%
Establishment	23.6%	24.7%
Marketing	3.0%	3.1%
Administration	8.0%	8.5%

- Increase in operating expenses mainly from business expansion, as Group continues to invest in human capital and IT infrastructure

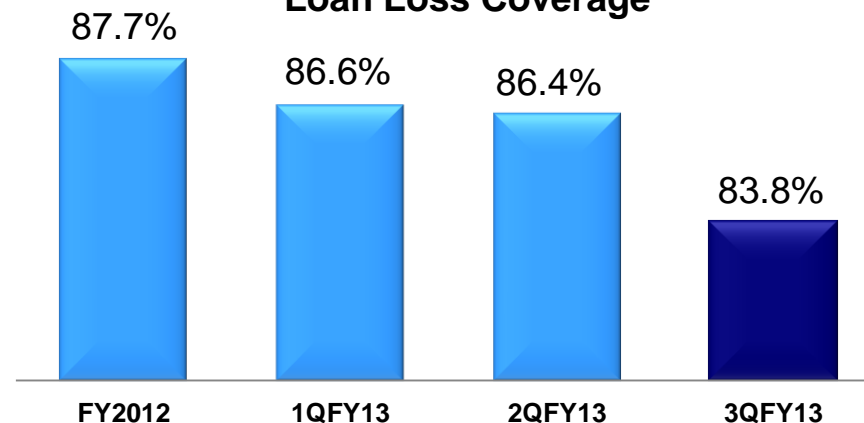
## Net write back in provisions due to recoveries, despite double digit loans growth

### Net Write-back/ (Allowance) of Impairment Provision



Note: CLO recoveries amounted to RM0.5 million as at 9MFY13.

### Loan Loss Coverage

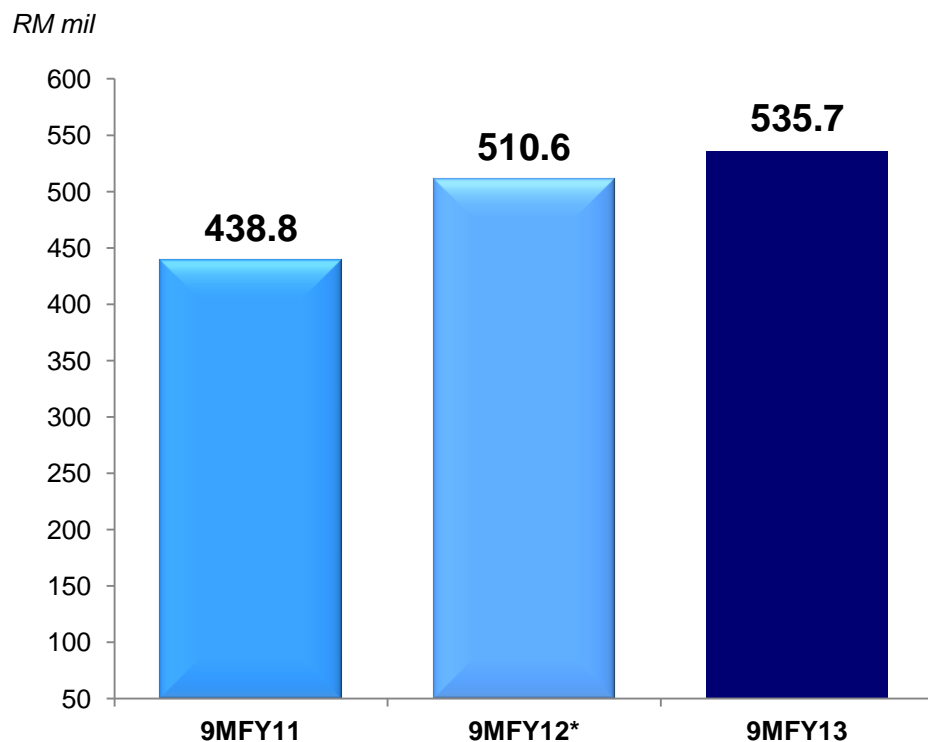


- ☐ Net write back of impairment provisions during quarter due to recoveries, despite setting aside additional collective provisions for loans growth
- ☐ Drop in coverage due to recoveries

RM'000	1Q FY13	2QFY13	3QFY13
Individual assessment	(3,624)	13,121	3,200
Collective assessment	(239)	398	3,354
Bad debts recovered	(10,914)	(28,983)	(25,610)
Bad debts written off	4,504	7,099	4,916
Net other allowances	1,487	1,315	1,239
Total charge / (write back)	(8,786)	(7,050)	(12,901)

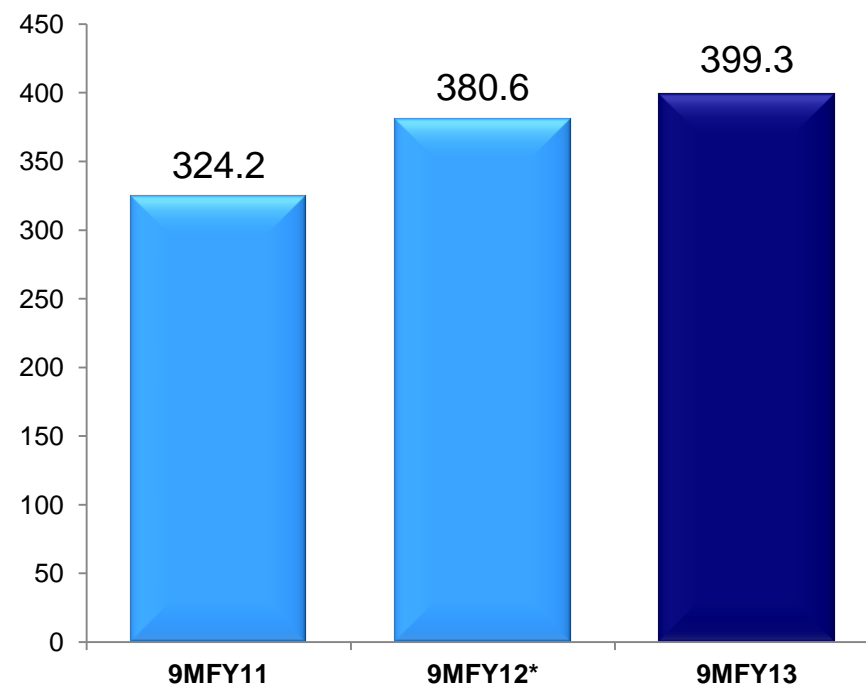
## Consistent Growth in Profit – Net Profit After Tax up RM25.1 million or 4.9% Y-o-Y

### Profit Before Tax



9MFY13 vs 9MFY12  
+ RM25.1mil  
+ 4.9%

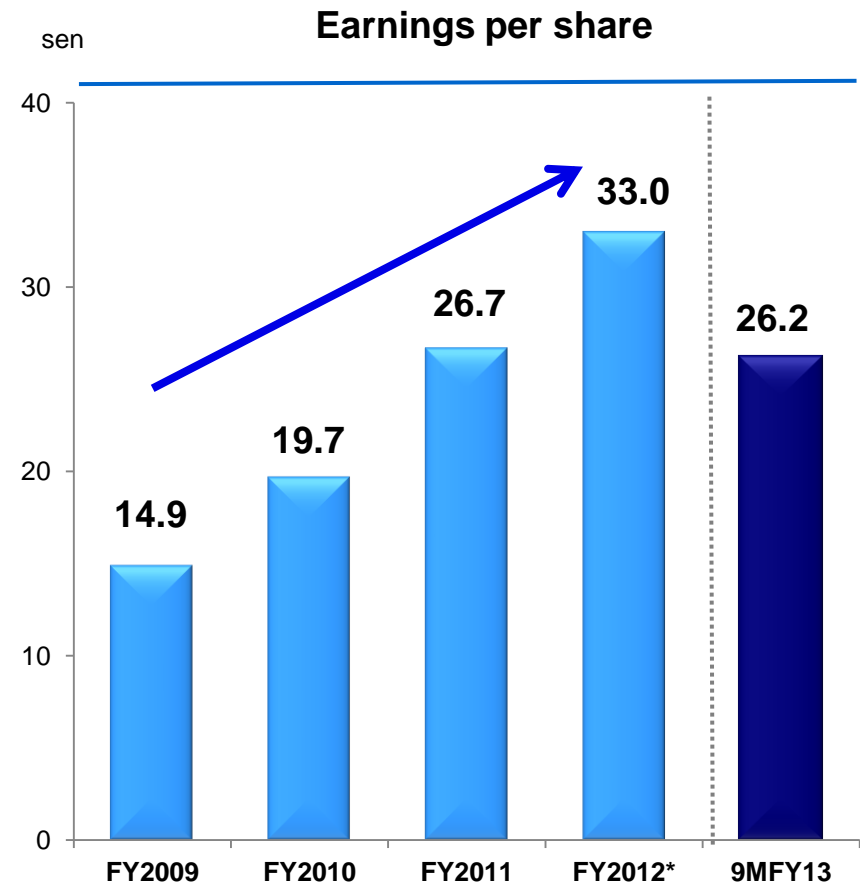
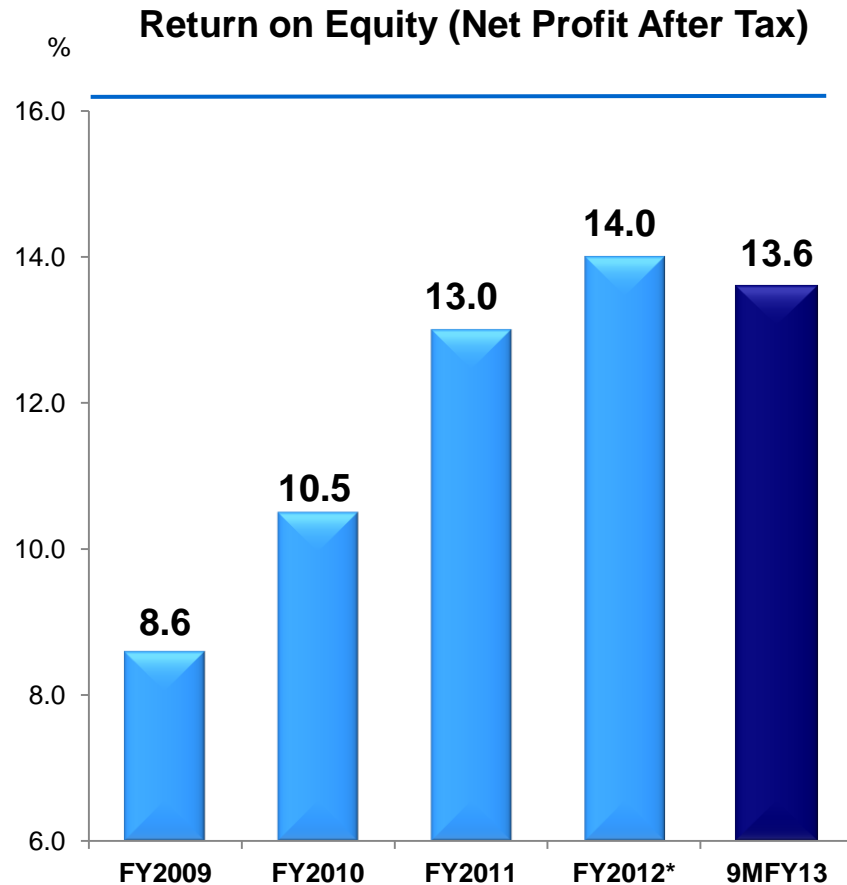
### Net Profit After Tax



9MFY13 vs 9MFY12  
+ RM18.7 mil  
+ 4.9%



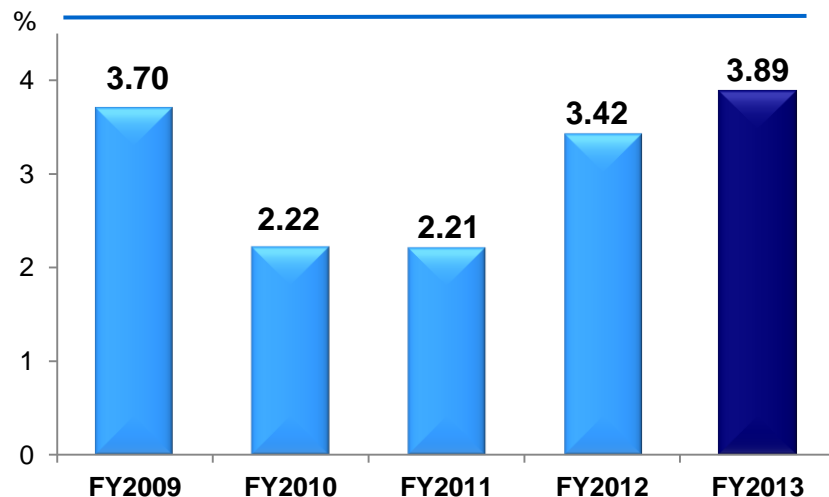
Return on Equity stood at 13.6%, with Earnings per Share registering consistent y-o-y growth



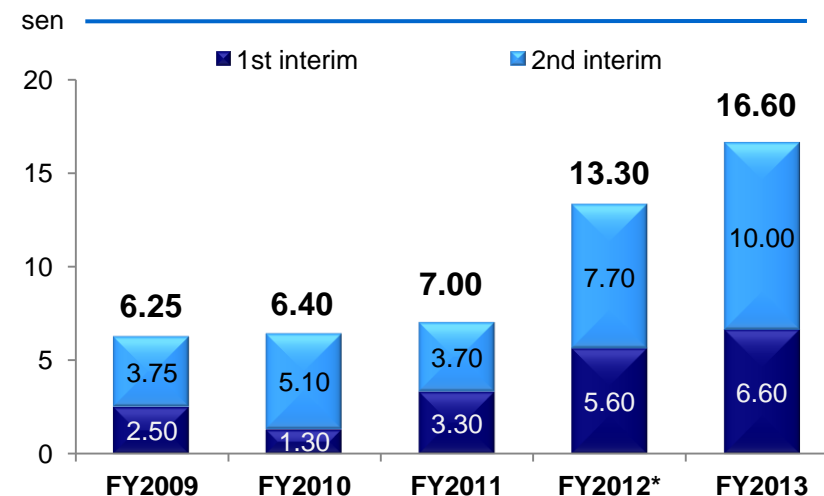
Note : \* Restated for MFRS 139

### Dividend Yield of 3.9% with Payment of 16.6 sen Interim Dividend in FY13

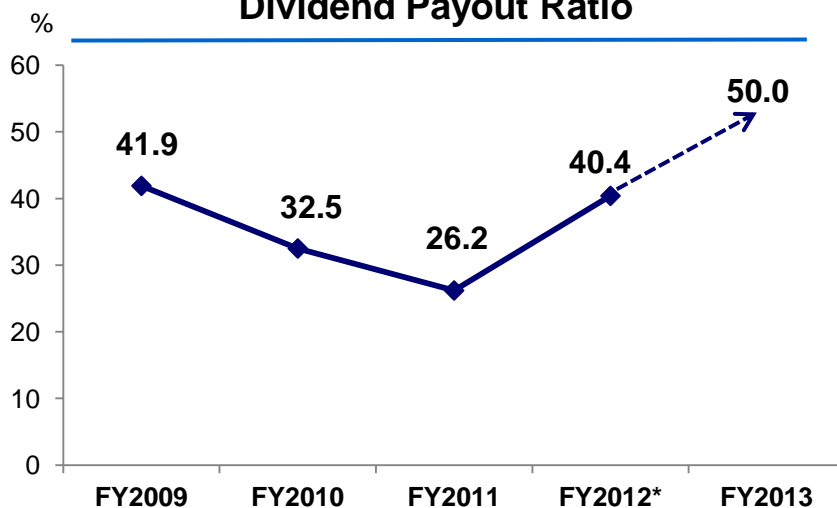
#### Dividend Yield



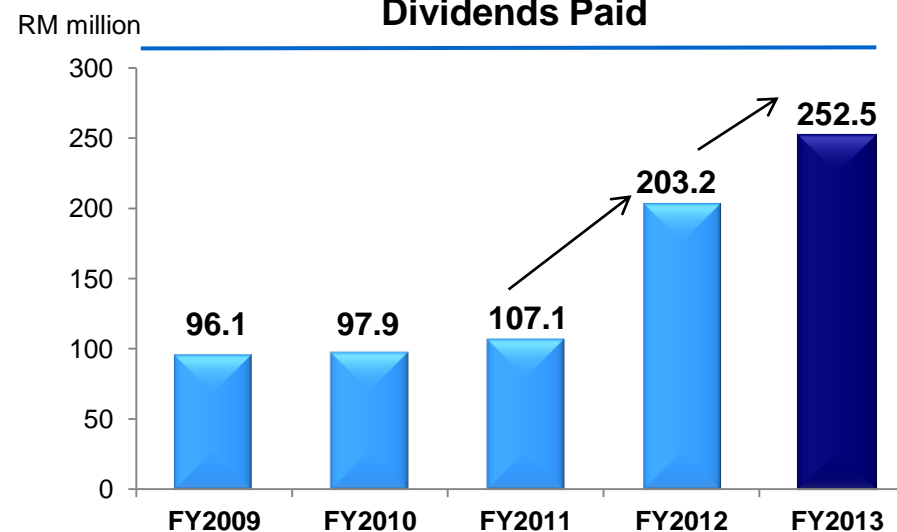
#### Dividend Per Share



#### Dividend Payout Ratio



#### Dividends Paid



Note : \* Restated for MFRS 139

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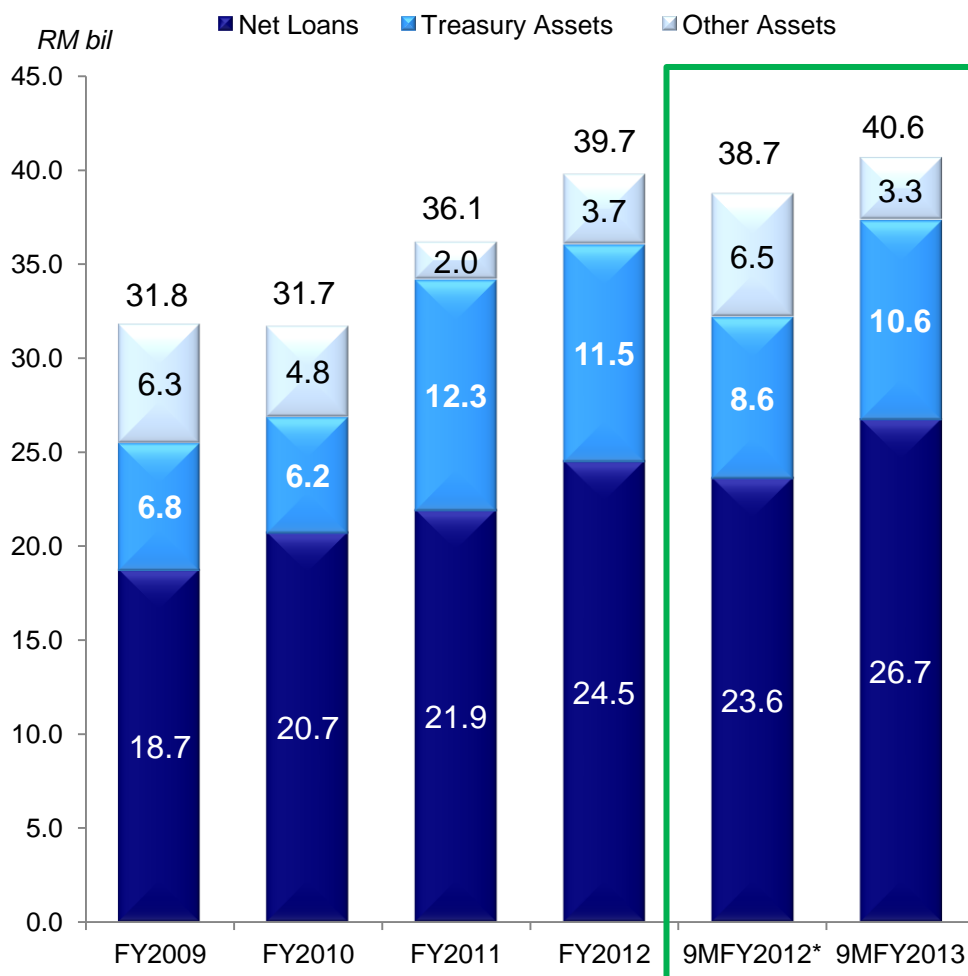
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Financial Results for 9 Months FY2013  
- Balance Sheet

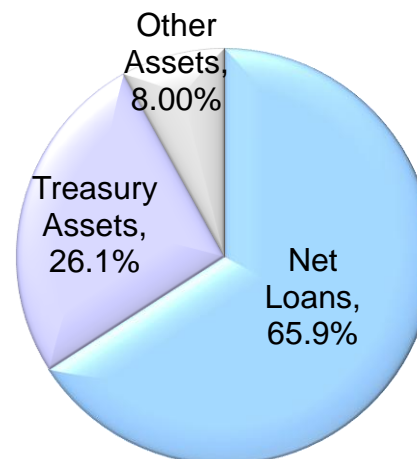
### Effective Utilisation of Balance Sheet: Net loans constitute 65.9% of total assets

#### Total Assets Trend

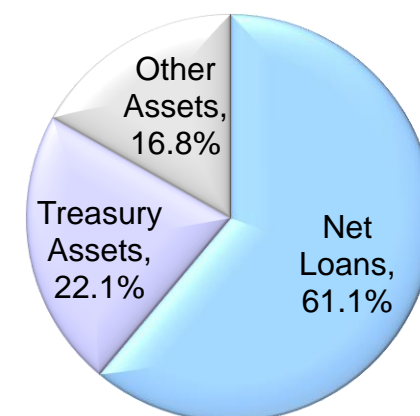


#### Composition of Total Assets

##### 9M FY2013

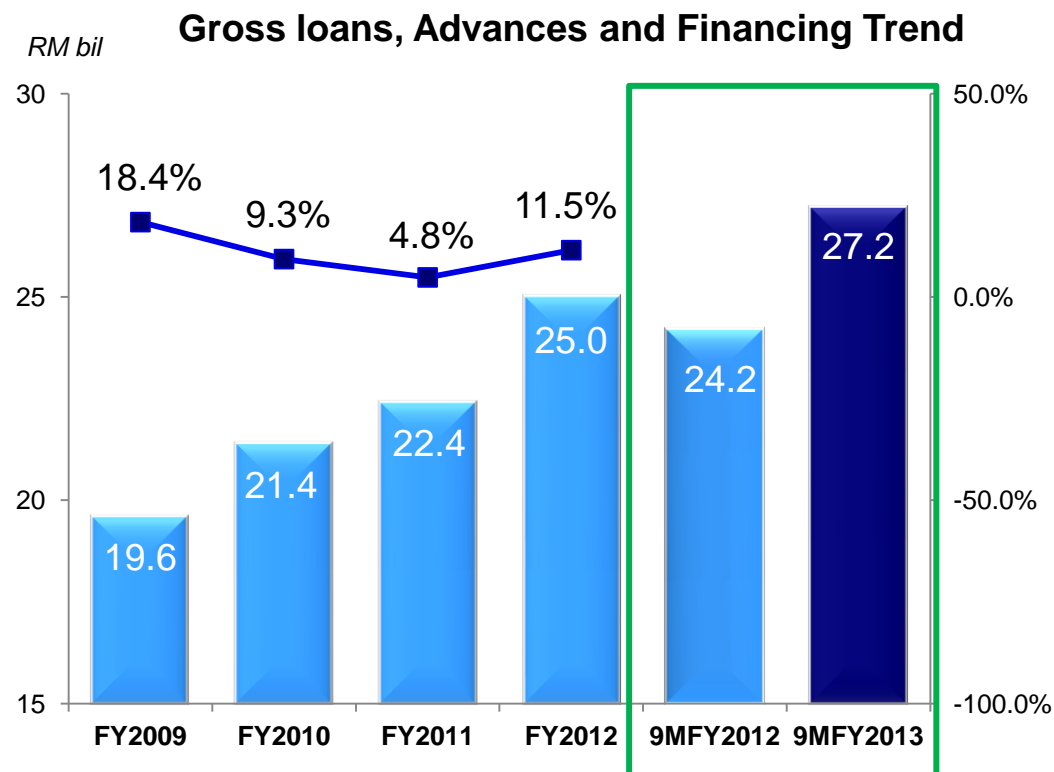


##### 9M FY2012\*



- Total assets expanded by RM1.9 billion or 4.9% Y-o-Y.
- 65.9% in net loans
- 26.1% in treasury assets

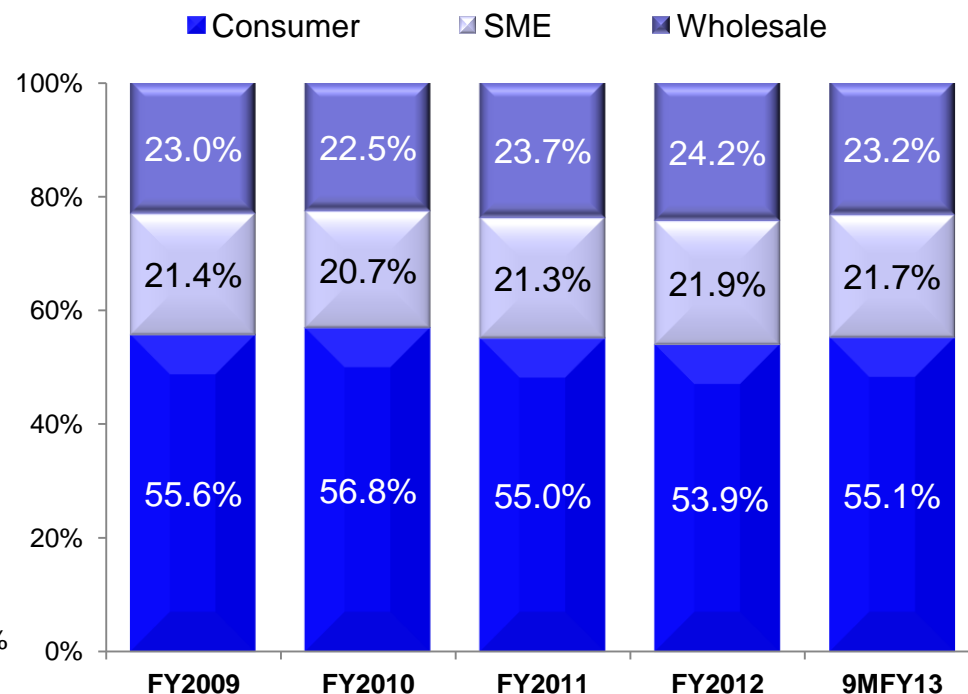
### Gross Loans Growth Accelerated to 12.3% Y-o-Y, Driven By Consumer Lending



**9MFY13 vs 9MFY12**  
**+ RM 3.0 bil**  
**+ 12.3% y-o-y**

**9MFY12 vs 9MFY11**  
**+ RM2.5 bil**  
**+ 11.5% y-o-y**

### Loans Composition by Business Segments

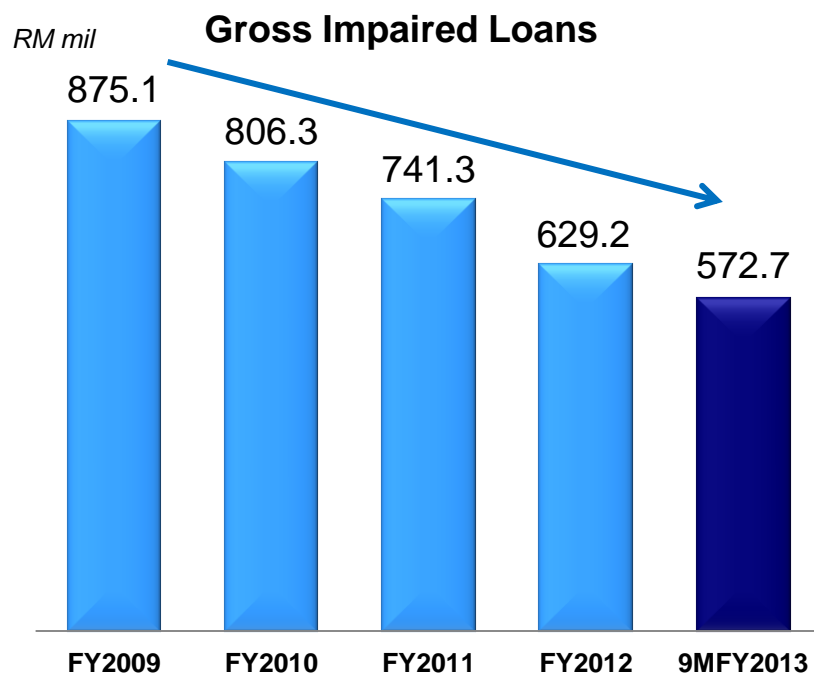


#### Composition of gross loans:

- 55.1% – Consumer
- 21.7% – SME
- 23.2% – Wholesale

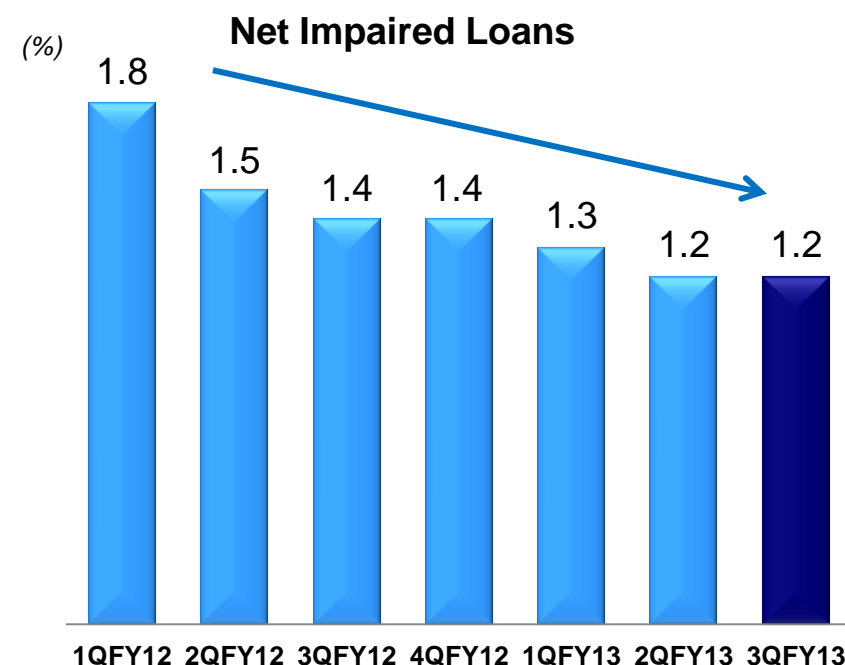
- Minimal exposure to fixed rate lending – 10% of total portfolio

## Continued Improvement In Asset Quality – Net Impaired Loans Ratio Down to 1.2%



### Gross Impaired Loans Ratio

FY2009	FY2010	FY2011	FY2012	9MFY2013
4.5%	3.8%	3.3%	2.5%	2.1%



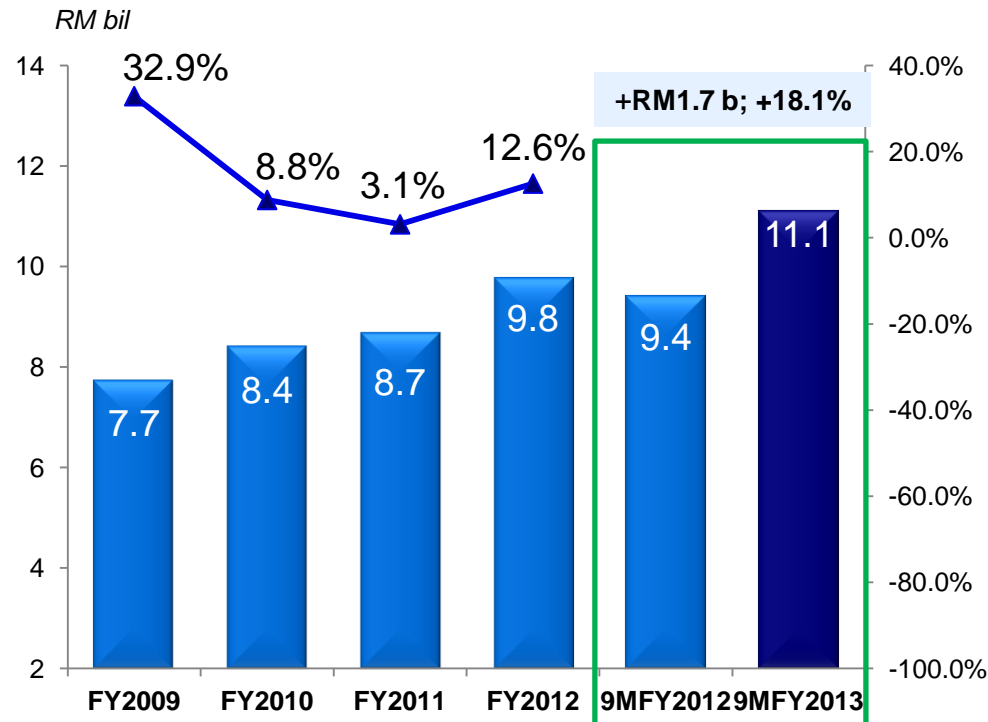
### Net Impaired Loans Ratio

FY2009	FY2010	FY2011	FY2012	9MFY2013
1.8%	1.8%	1.9%	1.4%	1.2%

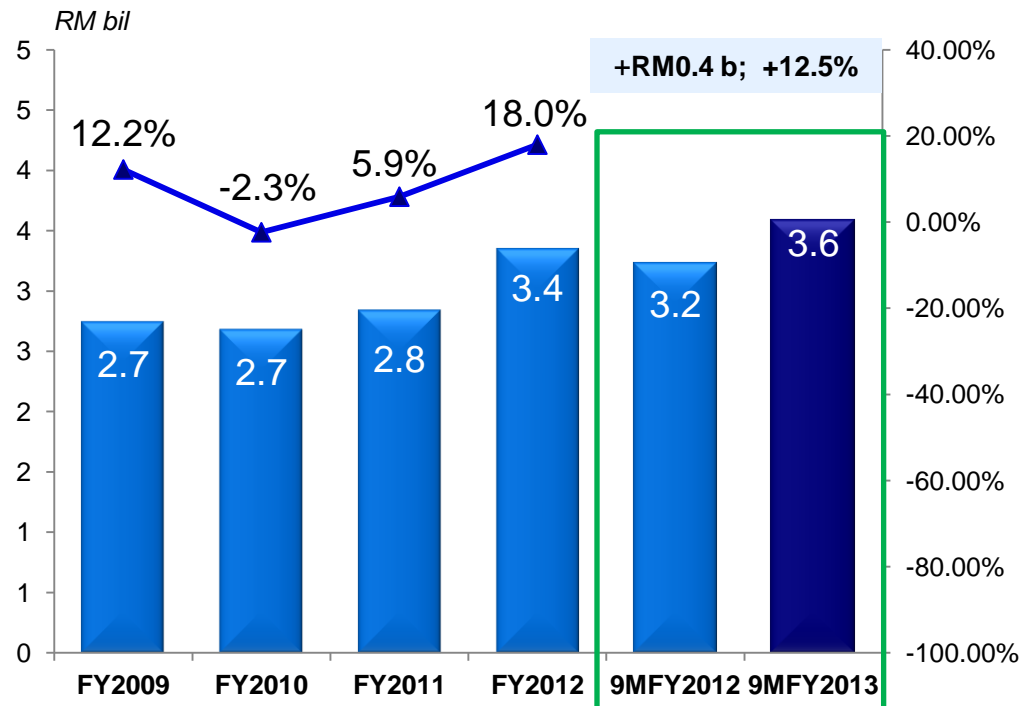
**Despite challenging external environment, further improvement in asset quality with disciplined approach in credit risk management and collection processes**

**Residential Properties expanded 18.1% Y-o-Y, above industry loans growth**

**Loans Growth for Residential Property**



**Loans Growth for Commercial Property**

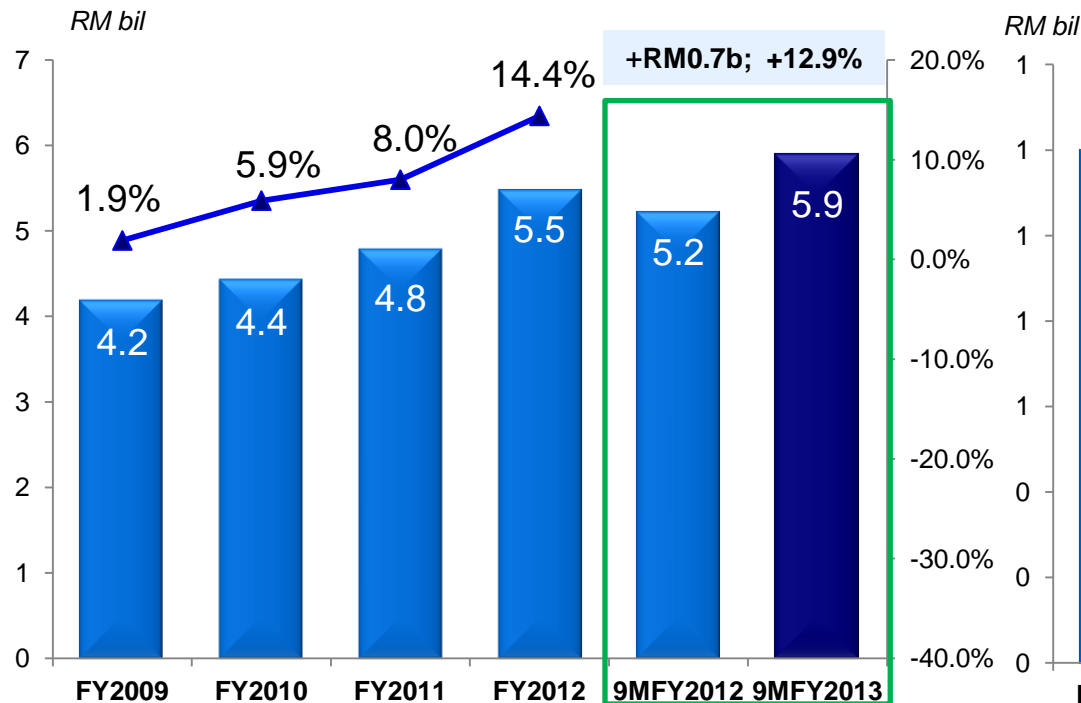


- ❑ Residential properties: + RM 1.7 billion or 18.1% y-o-y growth
- ❑ Commercial properties: + RM 0.4 billion or 12.5% y-o-y growth
- ❑ Focus on high growth areas i.e. Klang Valley, Penang and Johor
- ❑ Attractive loan packages for the right customer – first time house buyer, upgrader, refinancer and investor
- ❑ Strong sales force and marketing network



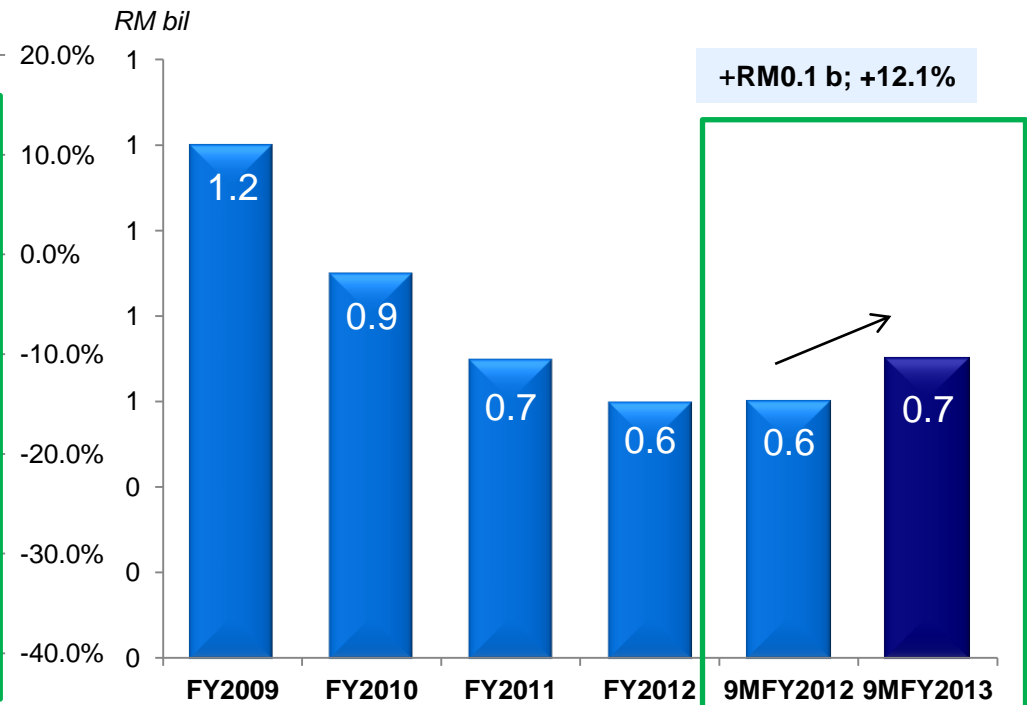
### Lending for SMEs expanded 12.9% Y-o-Y; Revived Hire Purchase Business

#### Loans Growth for SME

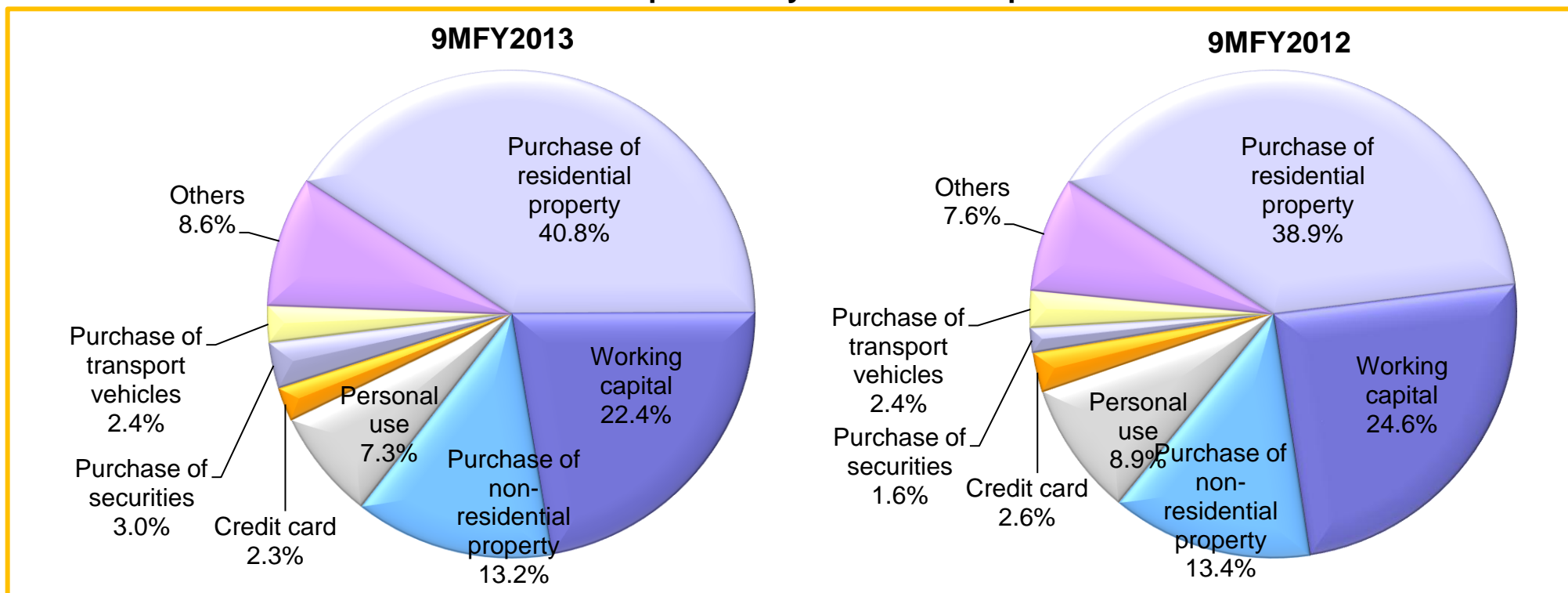


- ❑ SME Lending: + RM 0.7 billion or 12.9% y-o-y loans growth
- ❑ Complete suite of lending and trade finance products that addresses the transactional banking needs of business customers, providing convenience and efficiency
- ❑ Program lending approach to enable quick credit turn around time
- ❑ Proactive risk monitoring to maintain low loss rates

#### Loans Growth for Transport Vehicles



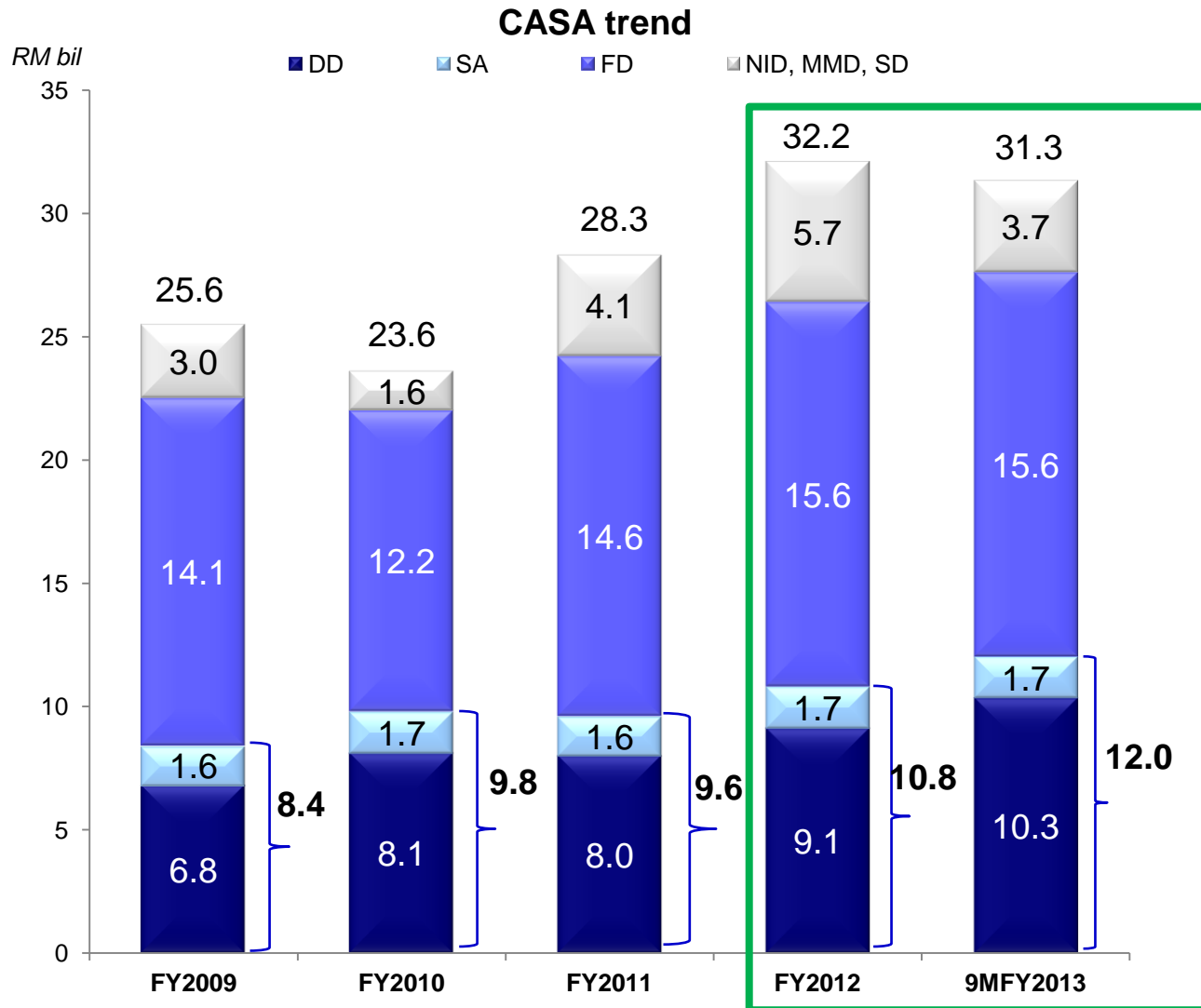
- ❑ Re-commenced hire purchase financing in April 2012
- ❑ Focus on new cars and non-national cars
- ❑ Lending for Transport Vehicles: +RM0.1 billion or 12.1% y-o-y loans growth

**Well Diversified & Secured Loans Portfolio**
**Loans Composition by Economic Purposes**


❑ Risk Management – well diversified and collateralised loan book

- 40.8% of loans portfolio is for residential properties, up from 38.9% as at December 2012
- 13.2% for non-residential properties
- 22.4% for working capital

**Steady growth in CASA deposits to RM12.0 billion, accounts for 38.3% of total deposits**

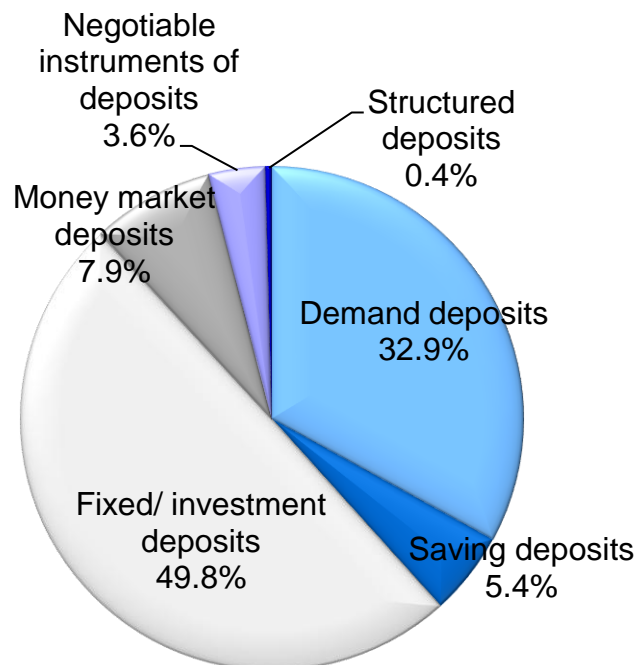


- ❑ Total customer deposits of RM31.3 billion as at December 2012.
- ❑ CASA deposits expanded by RM1.2 billion in the 9 months FY2013.
- ❑ 38.3% of funding from CASA
- ❑ Reduced high cost money market deposits

## Strong Consumer Franchise – Individuals account for 51.1% of Total Deposits

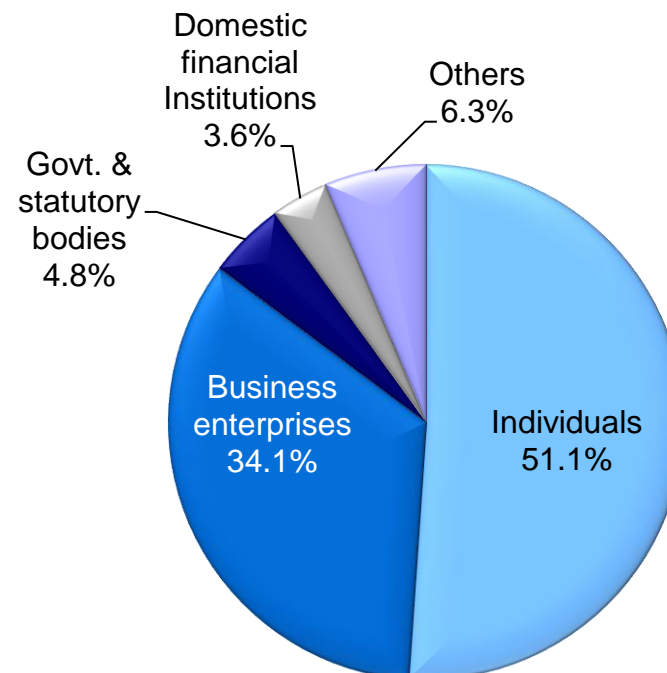
**Composition by Type of Deposits**

**3QFY2013**

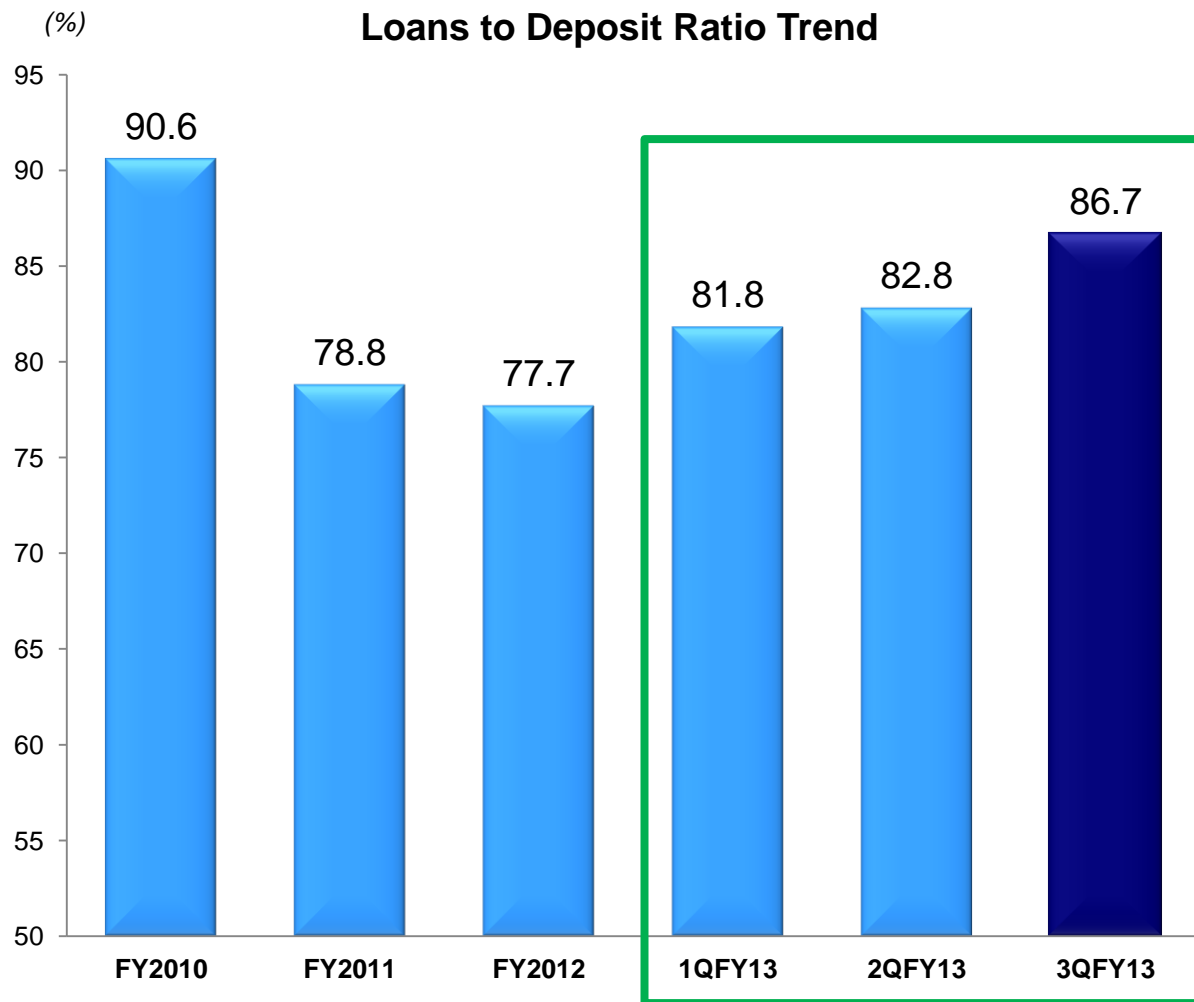


**Composition by Customers**

**3QFY2013**



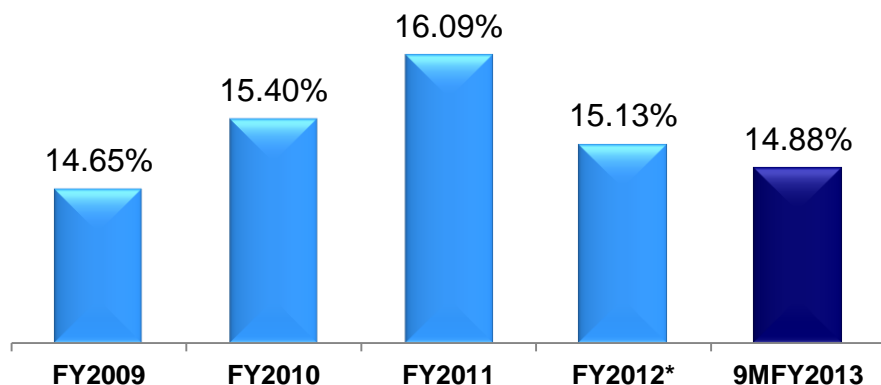
- ❑ 51.1% of total deposits from individuals, reflecting the strong consumer franchise
- ❑ 34.1% of total deposits from business enterprises
- ❑ Fixed/Investment deposits stood at 49.8% as at December 2012
- ❑ Lower money market deposits is in line with the Treasury's strategy in managing overall Funding cost and liquidity

**Loans to Deposits Ratio Raised to 86.7%**

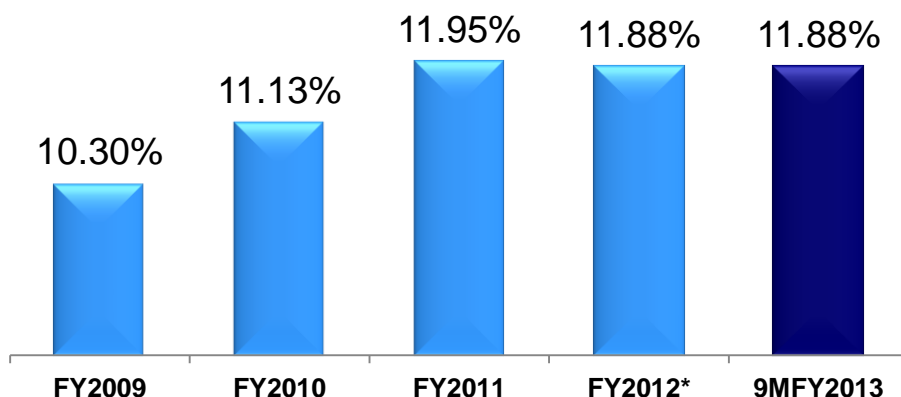
- FY2013 strategy to raise loans to deposits ratio:
  - for more efficient balance sheet management; and
  - to be in line with industry
- Raised Loans to Deposit Ratio to 86.7% as at December 2012

**Healthy RWCR at 14.88%, with Core Capital Ratio at 11.88%, well above Basel II requirements**

**Risk Weighted Capital Ratio**



**Core Capital Ratio**



**Capital Adequacy by Legal Entities**

Legal Entities	Tier One Capital	RWCR
ABMB	13.23%	13.23%
AIS	12.72%	13.57%
AIBB	80.44%	80.67%

Enhancement to capital ratios to be achieved by:

- Strong profit generation by maintaining stable asset quality from Consumer & Business Banking activities
- Focus on less capital intensive fee based and non-interest income activities

### FY2013 Business Plans focus on:

#### Our Aspirations

**To Build  
“Consistent &  
Sustainable Financial  
Performance”**

**To Deliver  
“Superior Customer  
Service Experience”**

**To Develop “Engaged  
Employees with Right  
Values”**

#### How?

**Generate recurring revenue  
from existing/new business,  
within our risk appetite**

**Enhancing cost efficiency &  
productivity**

**Building infrastructure to  
support operational & execution  
capabilities**

**Delivering excellent customer  
service and experience**

**Reinforcing governance and  
compliance oversight**

**Reinforcing the right values &  
inculcating a performance  
culture**

#### Implemented in FY2013

- Re-organised Business Banking for accelerated SME growth
- Re-commenced hire purchase business
- Centralise functions and improve processes via process re-engineering
- Upgraded internet banking platform
- Implemented new integrated MIS and finance infrastructure
- Formulating branch distribution strategy to provide seamless customer service across all customer touch points
- Enhancing risk management framework for ICAAP compliance
- Launched new vision, mission and core values
- Continue to build a strong performance culture, to retain and attract best talent



**The Bank remains strong and well-positioned**

- Systematic execution of strategy
- Build on existing strengths and niche position in Consumer and Business Banking
- Drive growth of non-interest income
  - Transaction Banking
  - Treasury Sales
  - Bancassurance
  - Wealth Management
- Enhance capabilities in risk management
- Ensure impactful investments in IT and infrastructure
- Enhance productivity and efficiency

**Challenges Ahead .....**

- NIMs to remain under pressure
- Challenging external economic environment
- Moderating economic growth
- Regulatory guidelines may impact consumer loans growth

**..... We will continue to exercise caution and vigilant risk management in face of challenges .....**

# THANK YOU

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