



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

*Banking Made Personal*

**ANALYST BRIEFING  
1st Quarter 2014  
6 August 2013**



 **ALLIANCE BANK**



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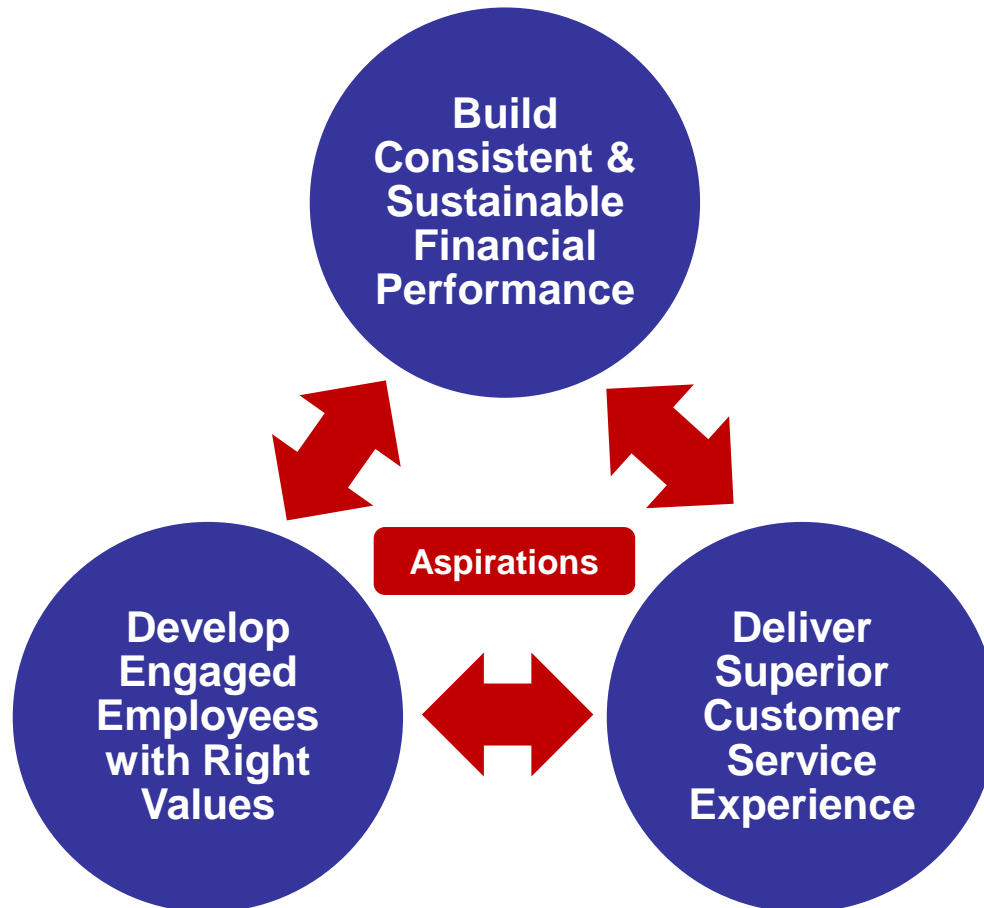
Executive Summary

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Financial Results for 1st Quarter FY2014

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Strategic Focus & Priorities

**We have Built a Strong Franchise in Consumer & SME Banking**

- ❑ Clear niche in Consumer & SME Banking:
  - ✓ Increasing market share in target segments with faster than industry loan growth
  - ✓ Winning market recognition
- ❑ Focused on building sustainable long term revenue growth:
  - ✓ Accelerated non-interest income activities
  - ✓ Sustainable CASA ratio
  - ✓ 1.1% net impaired loans ratio
  - ✓ 14.4% total capital ratio
- ❑ Dividend policy to pay up to 50% of net profits

**1QFY2014: Good Progress Against Our 3-Year Medium Term Targets FY2012 – FY2015**
**Alliance Financial Group**

|                                  |   | FY2011                            | Q1FY14                            |
|----------------------------------|---|-----------------------------------|-----------------------------------|
| <b>Asset Quality</b>             | ... net impaired loans to be better than industry average   | <b>1.9%</b>                       | <b>1.1%</b>                       |
| <b>Non-Interest Income Ratio</b> | ... to increase non-interest income to 30% of total revenue   | <b>20.8%</b>                      | <b>35.4%</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>48.0%</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>12.8%</b>                      | <b>13.5%</b>                      |
| <b>Dividend Policy</b>           | ... pay up to 50% of net profits after tax, subject to regulatory approvals and strong capital ratios   | <b>26.2%</b><br>(Interim 3.3 sen) | <b>≤ 50%</b><br>(Interim 7.5 sen) |

## Sustainable & Consistent Financial Performance: 10.6% NPAT Growth

| Income Statement                                      | Q1FY14<br>RM mil | Q1FY13<br>RM mil | Change (y-o-y) |         |
|---|------------------|------------------|----------------|---------|
|   |                  |                  | RM mil         | %       |
| Net Interest Income                                   | 184.5            | 173.9            | 10.6           | +6.1%   |
| Islamic Banking Income                                | 53.9             | 63.1             | -9.2           | -14.6%  |
| Non-Interest Income                                   | 125.9            | 82.3             | 43.5           | +52.8%  |
| Net Income  | 364.2            | 319.3            | 44.9           | +14.0%  |
| Operating Expenses                                    | 174.9            | 161.1            | 13.8           | +8.5%   |
| Pre-Provision Operating Profit                        | 189.3            | 158.2            | 31.1           | +19.7%  |
| (Allowance)/write-back of losses on loans & financing | (5.4)            | 8.2^             | -13.6          | -165.9% |
| Pre-tax profit  | 183.9            | 166.4            | 17.5           | +10.5%  |
| Net Profit After Taxation                             | 137.8            | 124.6            | 13.2           | +10.6%  |

- +6.1% rise in **net interest income** from 11.9% net loans growth, but interest margins remain under pressure.
- +52.8% growth in **non-interest income**, contributed by:
  - Recurring income from transaction banking, wealth management, brokerage and treasury activities
  - One-off sign-on fee in respect of a bancassurance arrangement amounting to ~RM30 million
- +8.5% increase in **overhead expenses** mainly due to:
  - investments in IT infrastructure and human capital,
  - one-off rationalisation cost of ~RM24.8 million

^ Includes share of results of associates

## Net Loans Growth at 11.9% Y-o-Y, Driven By Consumer Lending

| Balance Sheet                       | Q1FY14<br>RM bil | Q1FY13<br>RM bil | Change |        |
|-------------------------------------|------------------|------------------|--------|--------|
|                                     |                  |                  | RM bil | %      |
| Total Assets                        | 44.1             | 40.1             | 4.0    | +10.1% |
| Treasury Assets~                    | 12.2             | 11.8             | 0.4    | +3.4%  |
| Net Loans                           | 28.4             | 25.3             | 3.0    | +11.9% |
| Customer Deposits                   | 35.7             | 31.6             | 4.1    | +13.0% |
| CASA Deposits                       | 12.8             | 11.3             | 1.5    | +13.6% |
| Shareholders' Funds                 | 4.1              | 3.9              | 0.2    | +6.5%  |
| Net Loans Growth<br>(y-o-y)         | 11.9%            | 14.6%            | -      | -2.7%  |
| Customer Deposits Growth<br>(y-o-y) | 13.0%            | 11.7%            | -      | +1.3%  |

- +11.9% y-o-y **net loans** growth: above industry - targeting profitable Consumer and SME segments.
- +13.0% y-o-y **customer deposits** growth, keeping pace with loans expansion to maintain healthy loans to deposit ratio.
- +13.6% y-o-y growth in **CASA deposits**, contributing to 35.8% of total deposits.

Note:

Treasury assets comprise financial assets (HFT, AFS & HTM), derivative financial assets & placements with Fis

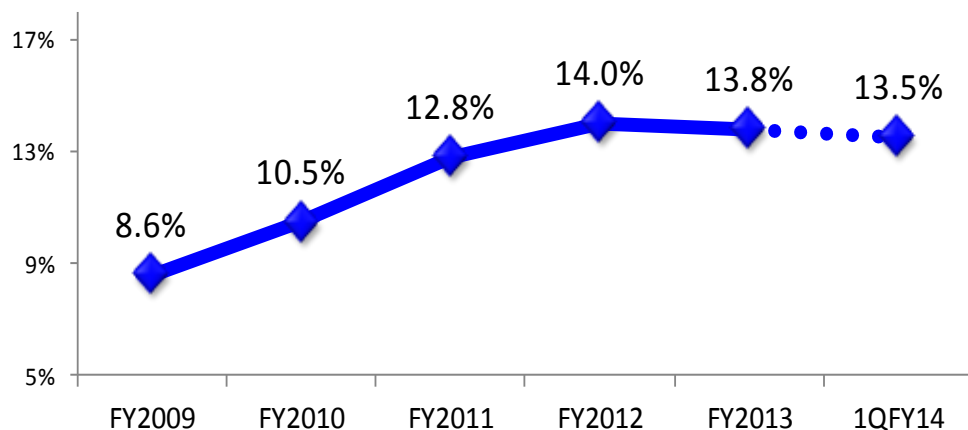
\*Based on MFRS139 restated FY11's net loans

|                   | Financial Ratios                   | Q1FY14  | Q1FY13  | Change |
|-------------------|------------------------------------|---------|---------|--------|
| Shareholder Value | Return on Equity                   | 13.5%   | 13.0%   | +0.5%  |
|                   | Earnings per Share                 | 9.0 sen | 8.2 sen | +9.8%  |
|                   | Interim Dividends per Share        | 7.5 sen | 6.6 sen | +13.6% |
|                   | Net Assets per Share               | RM2.68  | RM2.51  | +0.17  |
| Efficiency        | Non-Interest Income Ratio          | 35.4%   | 27.3%   | +8.1%  |
|                   | Cost to Income Ratio               | 48.0%   | 50.5%   | -2.5%  |
| Asset Quality     | Gross Impaired Loans Ratio         | 1.9%    | 2.4%    | -0.5%  |
|                   | Net Impaired Loans Ratio           | 1.1%    | 1.3%    | -0.2%  |
|                   | Loan Loss Coverage Ratio           | 84.7%   | 86.6%   | -1.9%  |
| Liquidity         | Loans to Deposit Ratio             | 80.7%   | 81.8%   | -1.1%  |
|                   | CASA Ratio                         | 35.8%   | 35.6%   | +0.2%  |
| Capital           | Common Equity Tier 1 Capital Ratio | 10.3%   | -       | -      |
|                   | Tier 1 Capital Ratio               | 11.7%   | 11.6%   | +0.1%  |
|                   | Total Capital Ratio                | 14.4%   | 14.7%   | -0.3%  |

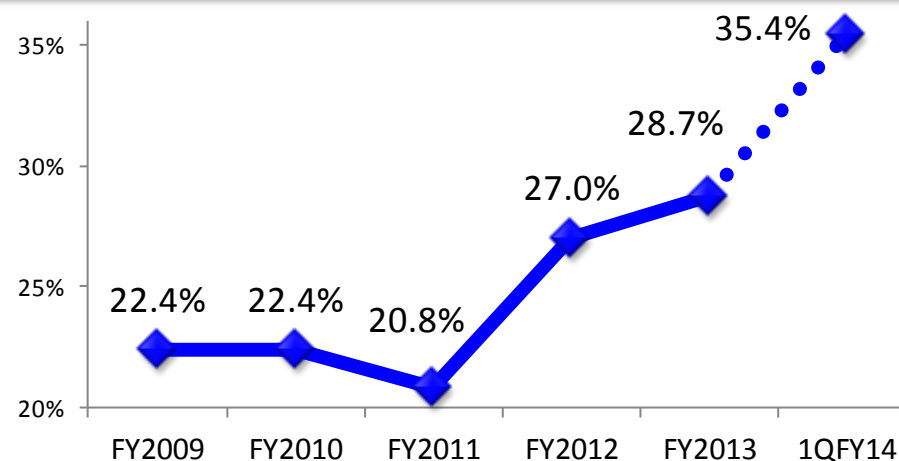
- **Non-interest income** – improving steadily each year with focus on building recurring fee income (*excluding one-off bancassurance fee, ratio ~29%*).
- **Cost to income ratio** – due to continued investments in IT infrastructure and human capital (*excluding one-off rationalisation cost ~45%*).
- 13.6% rise in **interim dividends paid**, maintaining a dividend policy to payout up to 50% of net profits.
- **Asset quality** better than industry average.
- Sustained **CASA ratio** in line with expansion of CASA deposits.
- Strong **capitalisation** under Basel III.

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

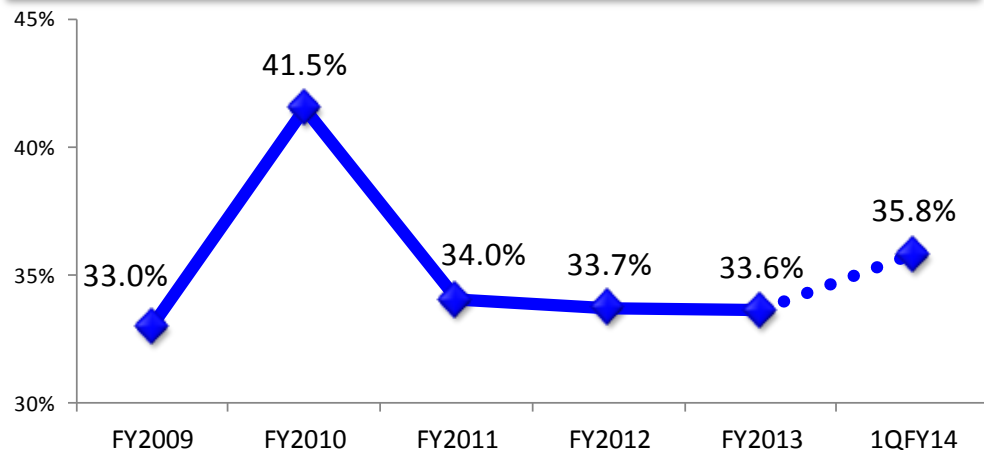
#### Return on Equity



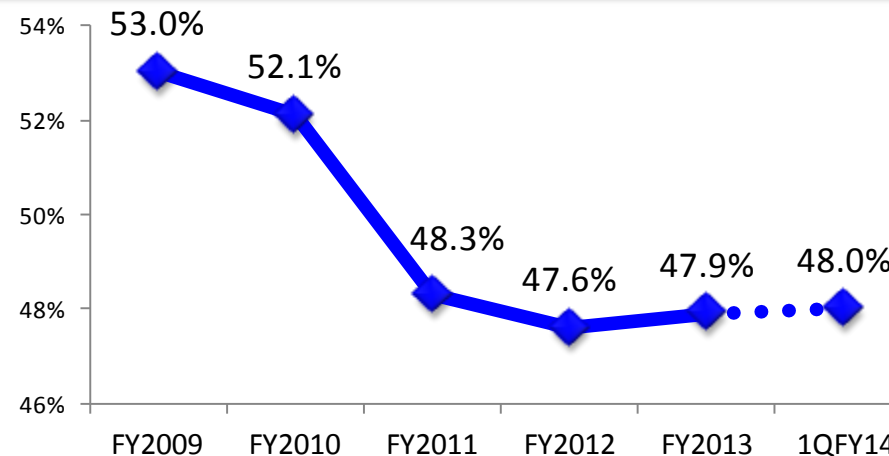
#### Non-Interest Income Ratio



#### CASA Ratio



#### Cost-to-Income Ratio



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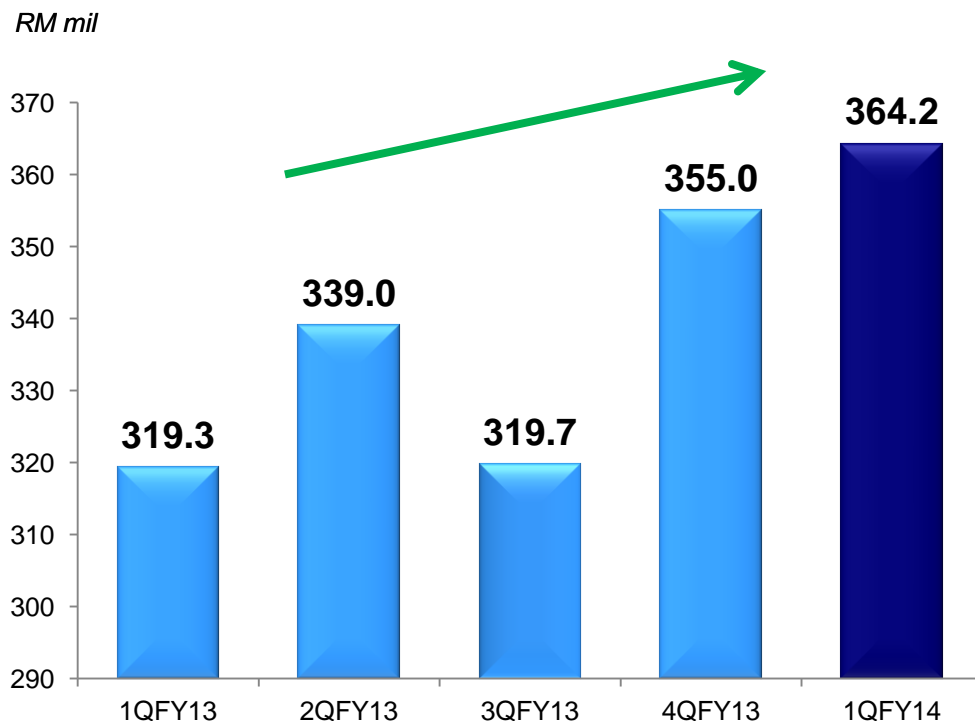
Financial Results for 1st Quarter FY2014

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Strategic Focus & Priorities

## Steady Growth in Net Income Driven by Higher Loans Growth

### Net Income: Quarterly Trend



1QFY14 vs 1QFY13  
+ RM44.9 mil  
+ 14.0%

- Net income growth of RM44.9 million or 14.0% driven by:
  - +RM26.4 million increase in interest income primarily from loans growth; but offset by
  - +RM15.8 million rise in interest expense from expansion in deposits and competition for deposits
- Excluding one-off gains, net income up RM14.8 million or 4.6% from last year.

#### Notes:

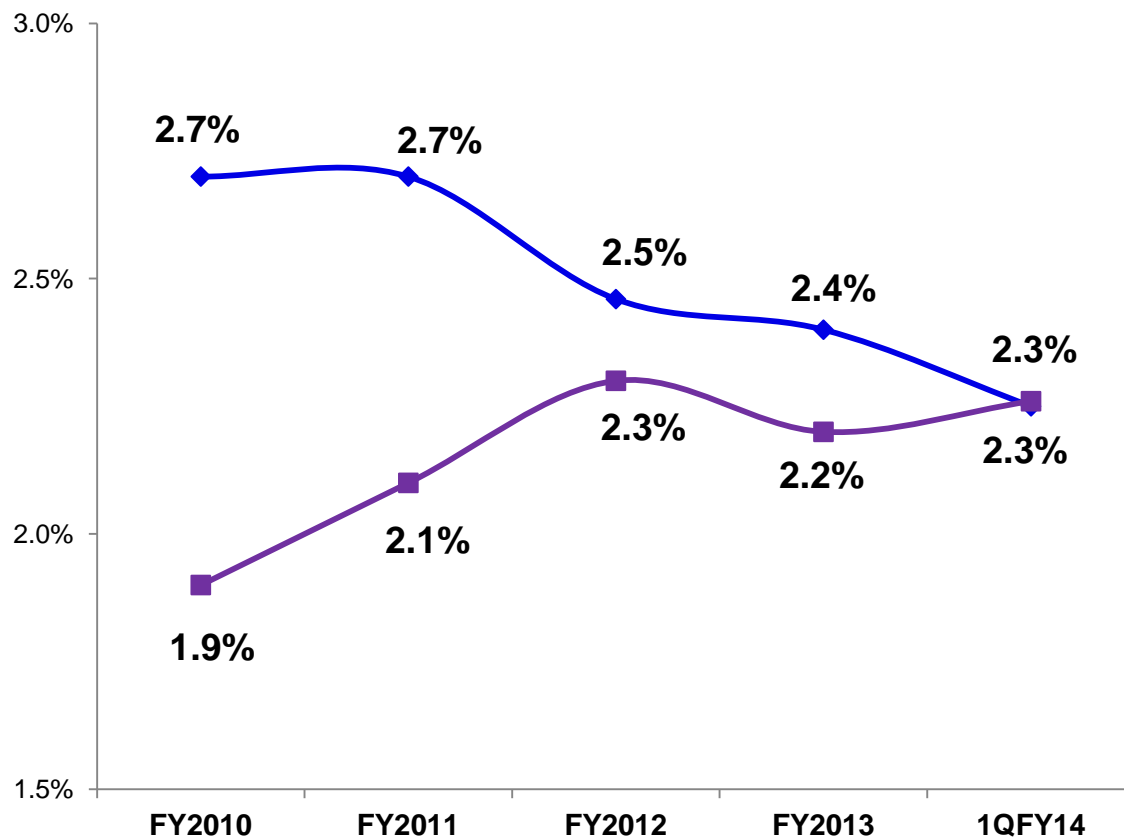
**1<sup>st</sup> Quarter FY2014** – RM30.0 million one-off sign-on fee from new bancassurance agreement

**4<sup>th</sup> Quarter FY2013** – RM23.2 million from sale of 30% shareholding in AIA-AFG Takaful

## Net Interest Margin Continues To Be Under Pressure

**NIM and Cost of Funds Trend**

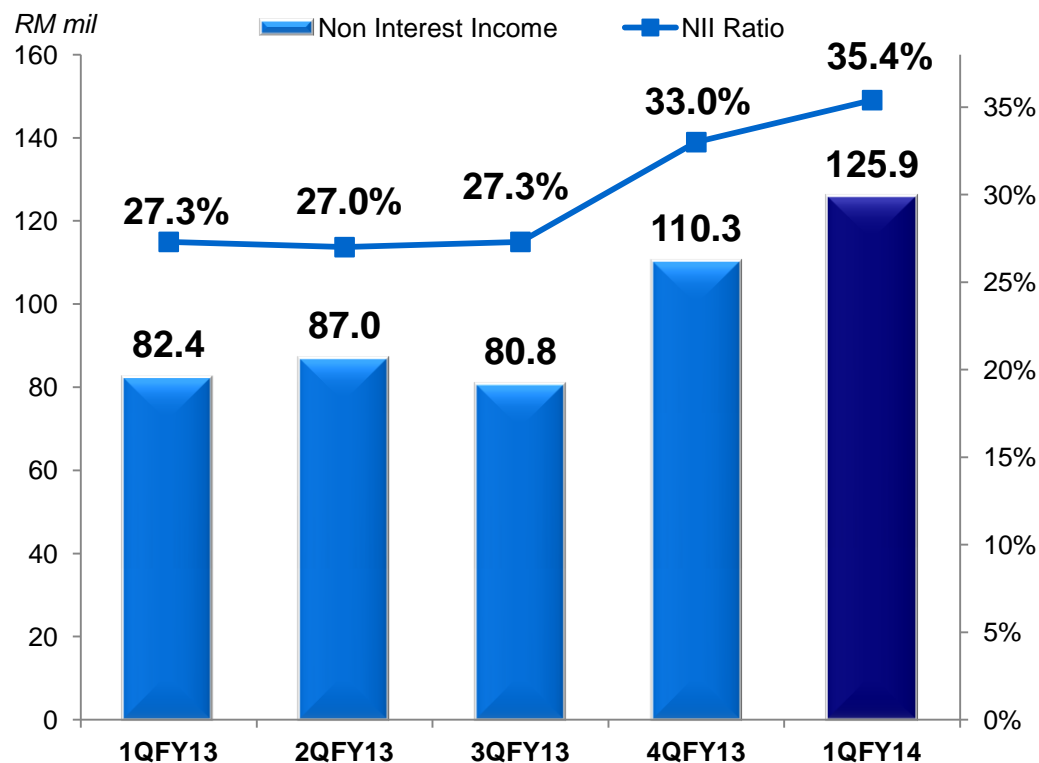
—◆— NIM      —■— COF



- Continuing margin compression due to:
  - Run-off from repayments of higher yielding loans:
    - ✓ Co-op loans continue to run down:
      - RM477.0 million as at June 2013
      - RM699.5 million as at June 2012
      - RM1,023.1 million as at March 2011
    - ✓ Mortgage loan repayments
  - New mortgage loans at lower yield.
  - Housing loans as a % of total Loans:
    - 39.5% as at June 2013
    - 37.4% as at June 2012
  - Intensified competition for fixed deposits
- Margin compression expected to continue.

### Non-Interest Income Gaining Momentum

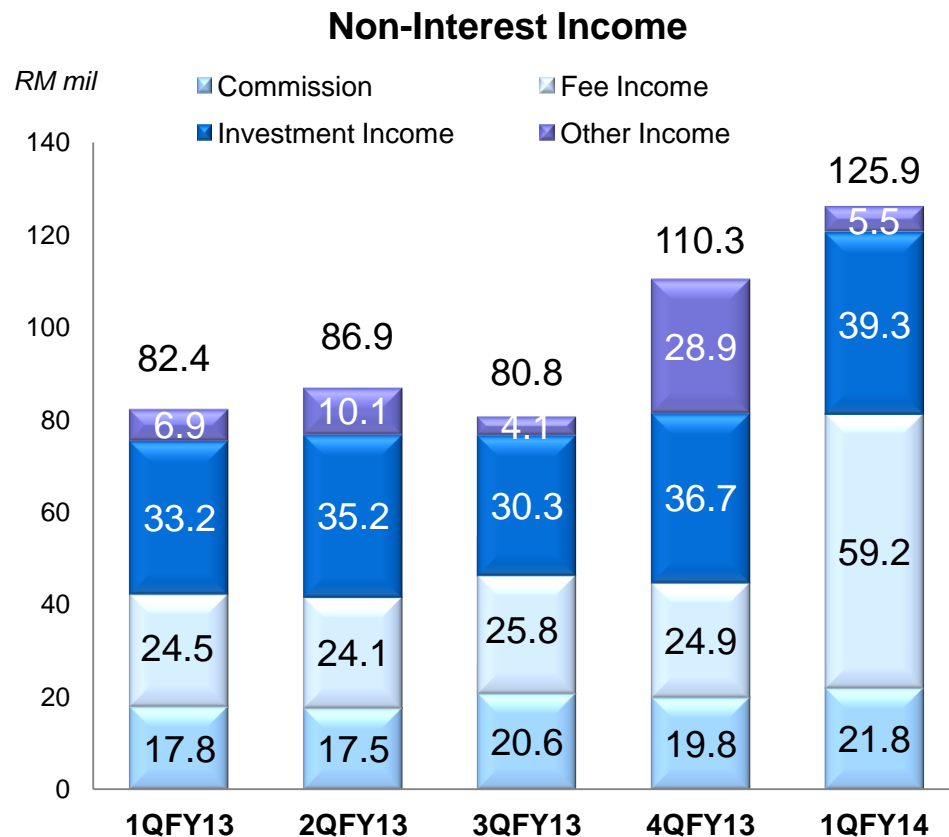
Non-Interest Income Trend



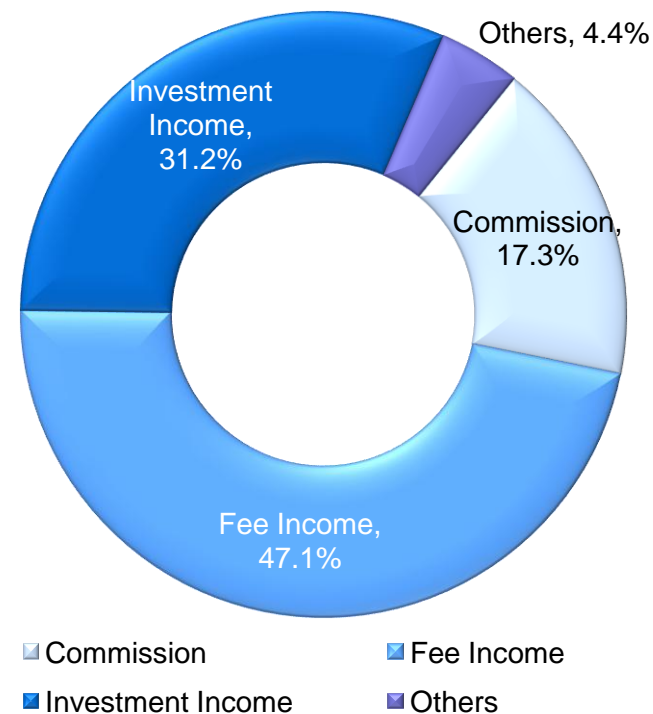
1QFY14 vs 1QFY13  
+ RM43.5m  
+ 52.8%

- ❑ Continuing to build recurring non-interest income from transaction banking, wealth management and treasury activities.
- ❑ +RM43.5 million or 52.8% increase over 1QFY13.
- ❑ Non-interest income up RM13.5 million or 16.4%, excluding one-off non-recurring bancassurance fee.
- ❑ Non-interest income ratio at 29.6%, excluding the one-off fees.
- ❑ Bancassurance arrangement signed with Manulife on 13 June 2013 being operationalised.
- ❑ Some early success in sales of investment-linked insurance products and life policies.

### Recurring Investment and Fee Income



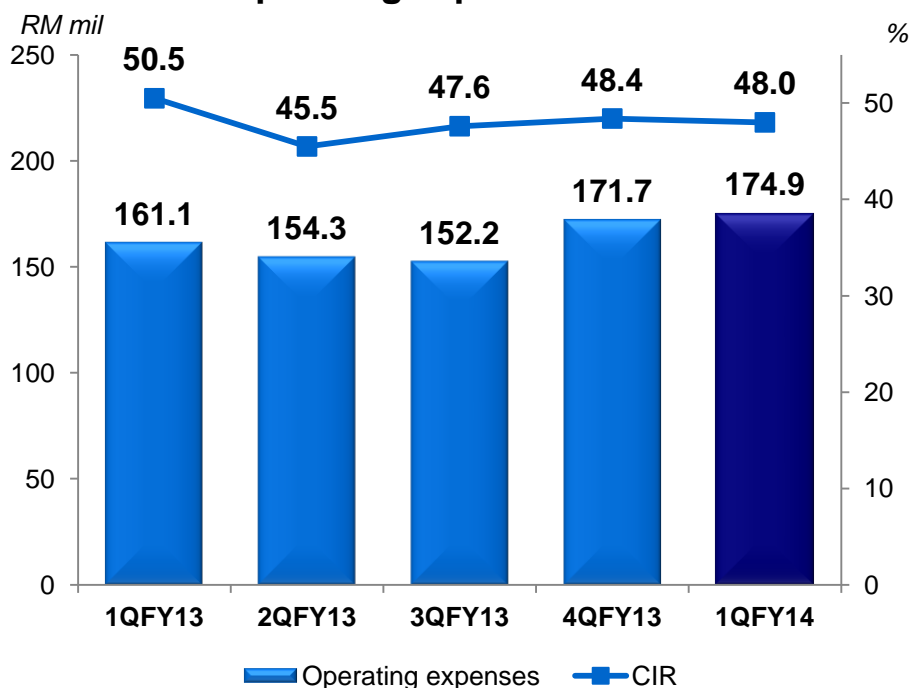
### 1QFY2014 Non-Interest Income Composition



- ❑ Steady growth in fee income, particularly from transaction banking activities.
- ❑ 1QFY2014 sustained investment income from trading in securities.
- ❑ Treasury trading activities focused on Government papers.

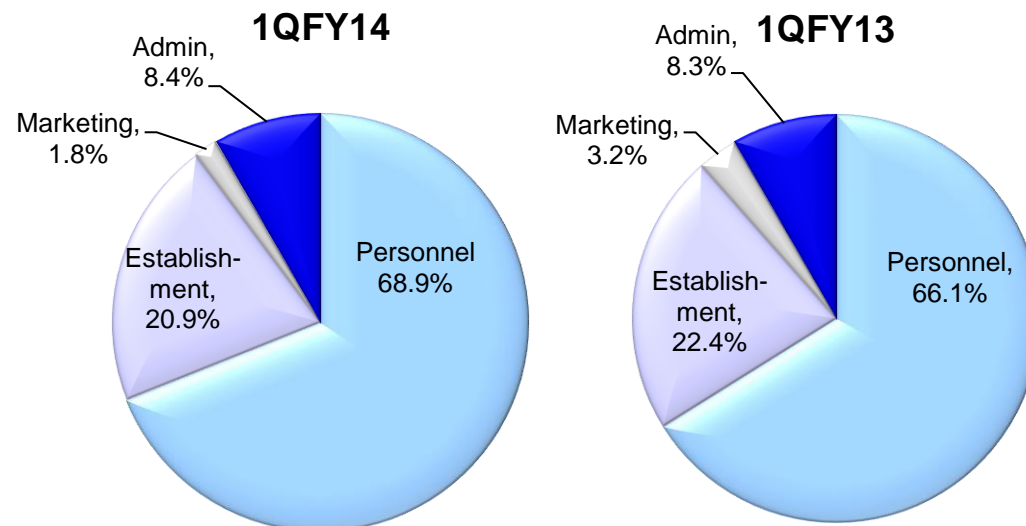
## Cost-to-income Ratio remains stable at 48.0%

### Operating expenses trend



1QFY14 vs 1QFY13  
+ RM13.7 mil  
+ 8.5%

### Composition of operating expenses

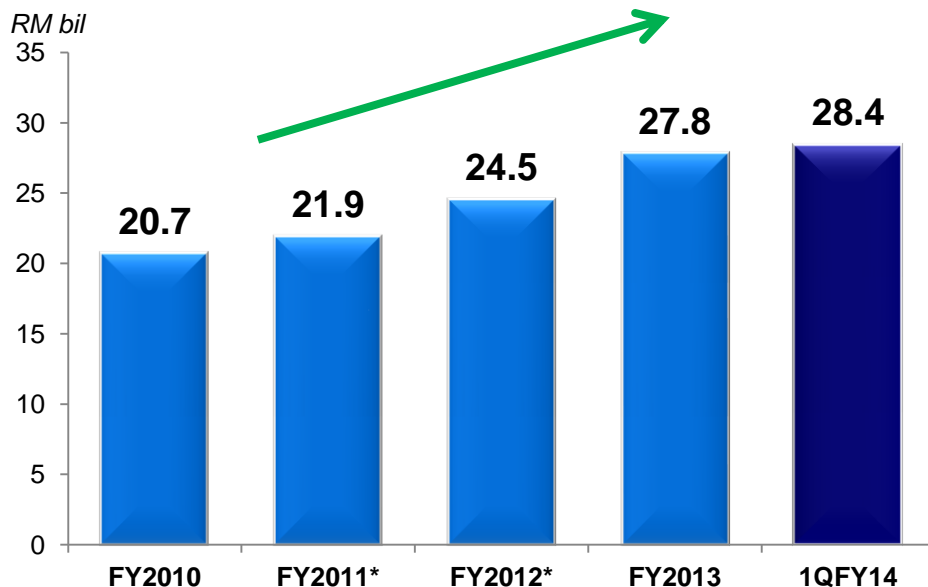


| OPEX Contribution | 1QFY14<br>RM mil | 1QFY13<br>RM mil | Change |       |
|-------------------|------------------|------------------|--------|-------|
|                   |                  |                  | RM     | %     |
| Personnel         | 120.5            | 106.5            | 14.0   | 13.1  |
| Establishment     | 36.5             | 36.1             | 0.4    | 1.2   |
| Marketing         | 3.2              | 5.1              | -1.9   | -36.9 |
| Administration    | 14.6             | 13.4             | 1.2    | 9.2   |

- ❑ Increase in operating expenses as Group continues to invest in IT infrastructure and human capital.
- ❑ Personnel cost remains the main operating cost.
- ❑ Excluding one-off rationalisation expense, personnel cost constitutes approximately 64%.

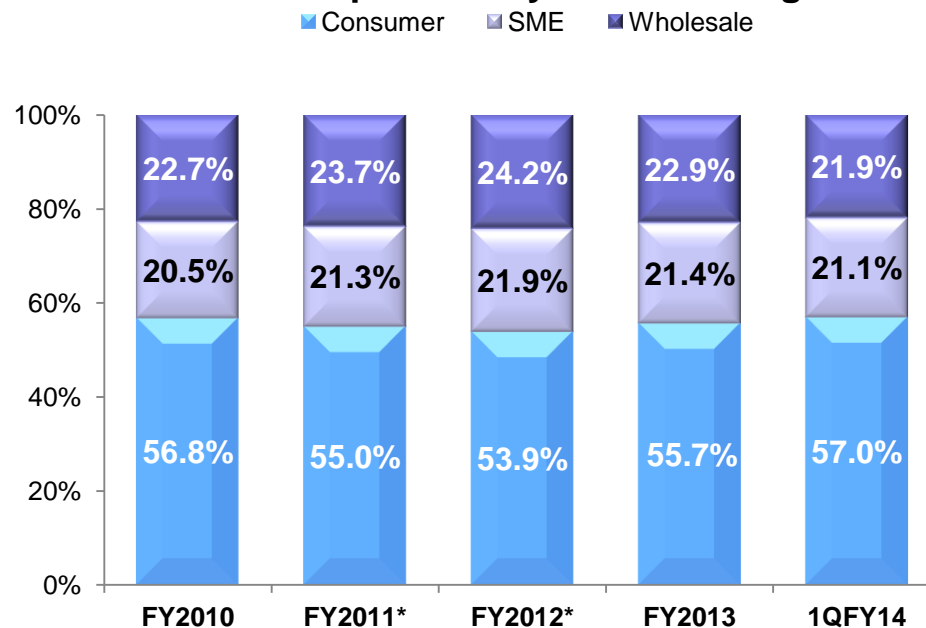
### Net Loans Growth Momentum at 11.9% Y-o-Y, Driven By Consumer Lending

Net loans, Advances and Financing Trend

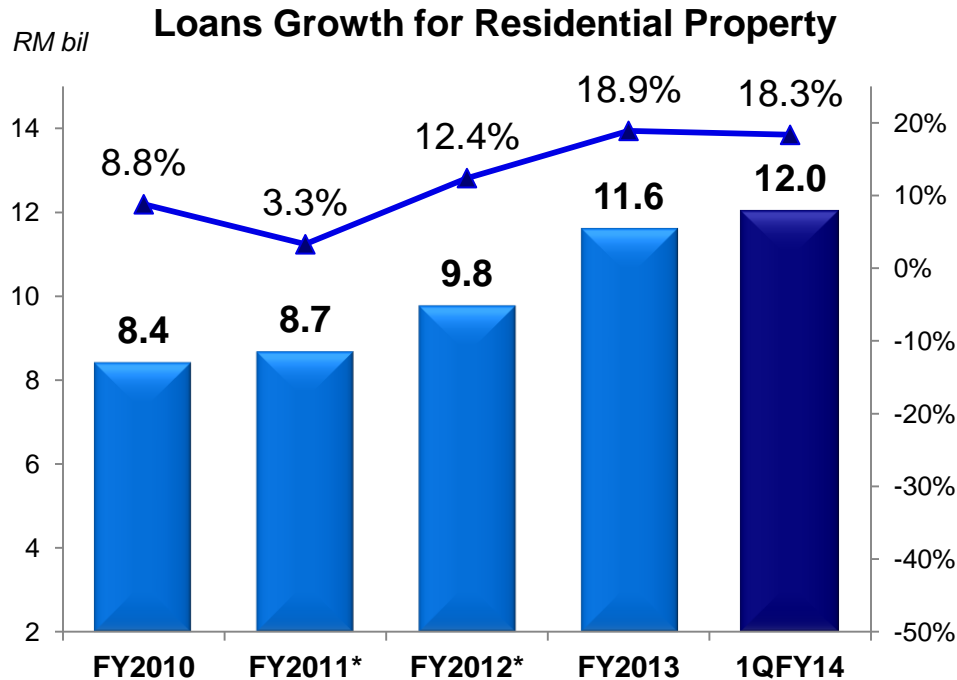


1QFY14 vs 1QFY13  
+ RM 3.0 bil  
+ 11.9%

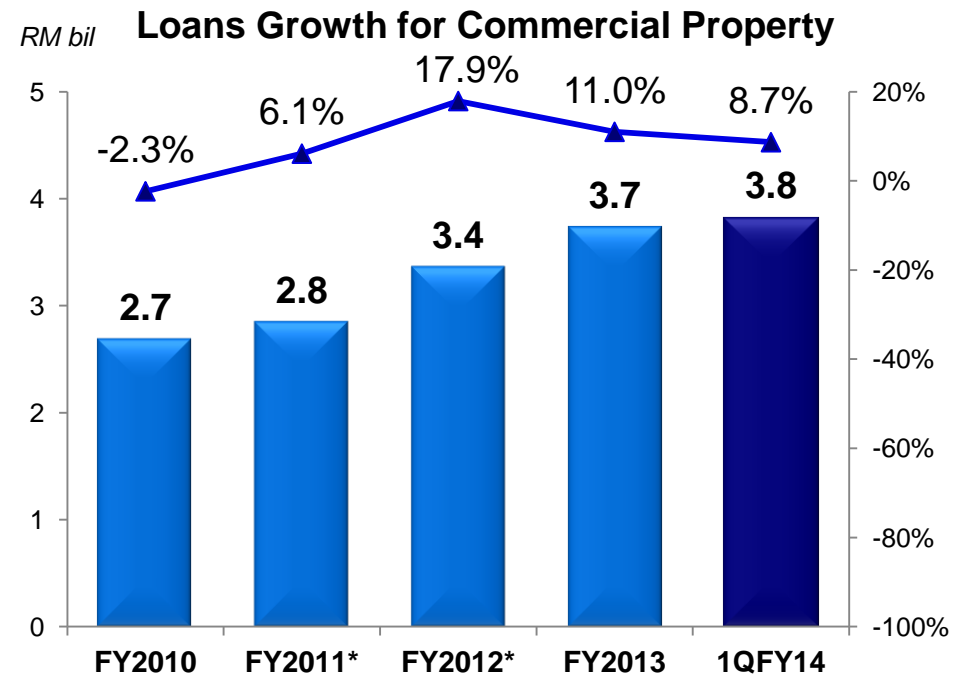
Loans Composition by Business Segments



- ❑ Balanced loans composition with 57.0% Consumer; 21.1% SME and 21.9% for Wholesale Lending.
- ❑ Effective management of interest rate risk: 10.4% of loan book is fixed rate (1QFY2013: 10.3%).

**Residential Properties Expanded 18.3% Y-o-Y, Above Industry Loans Growth**


1QFY14 vs 1QFY13  
+ RM 1.9 bil  
+ 18.3%

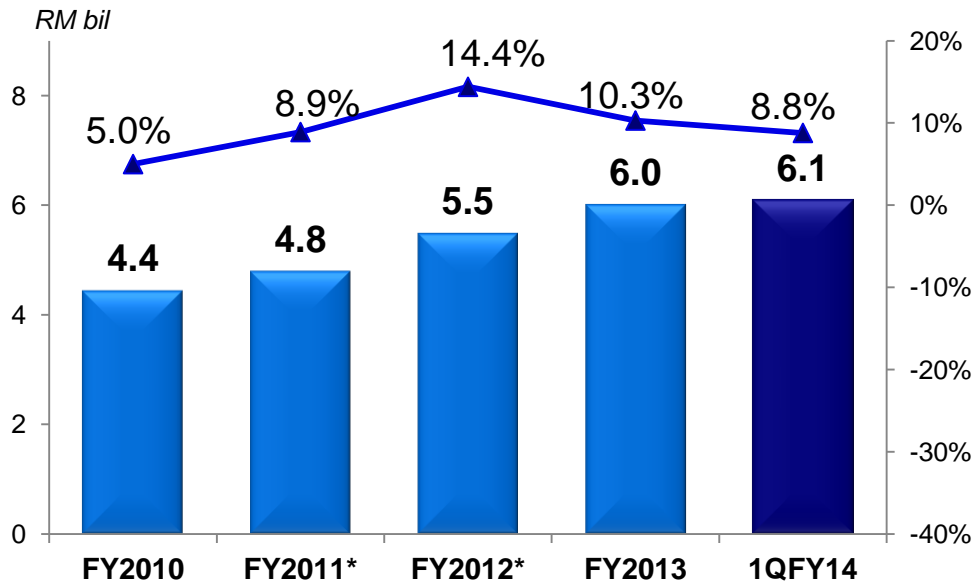


1QFY14 vs 1QFY13  
+ RM 0.3 bil  
+ 8.7%

- ❑ Residential properties: + RM1.9 billion or 18.3% y-o-y growth, higher than the industry growth rate of 12.8%.
- ❑ Commercial properties: + RM0.3 billion or 8.7% y-o-y growth.
- ❑ Focus on high growth areas i.e. Klang Valley, Penang and Johor, with attractive housing loan packages for the right customers.

## Lending for SMEs Expanded 8.8% y-o-y; Resumed growth in Hire Purchase

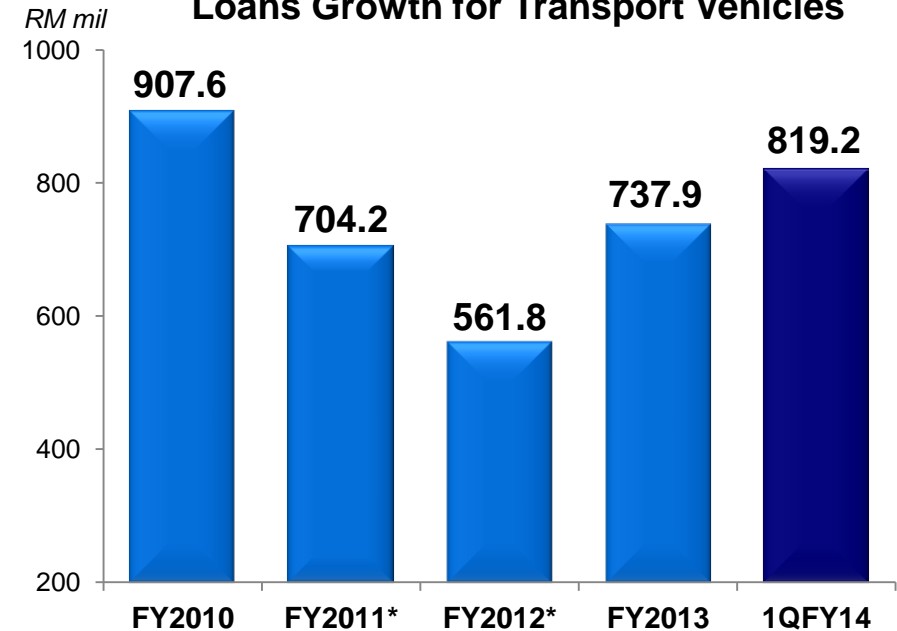
### Loans Growth for SME



1QFY14 vs 1QFY13  
+ RM 0.5 bil  
+ 8.8%

- ❑ SME Lending: + RM 0.5 billion or 8.8% y-o-y loans growth.
- ❑ Lending to accelerate in 2nd Half FY2014, with flow-through impact of ETP Projects.

### Loans Growth for Transport Vehicles



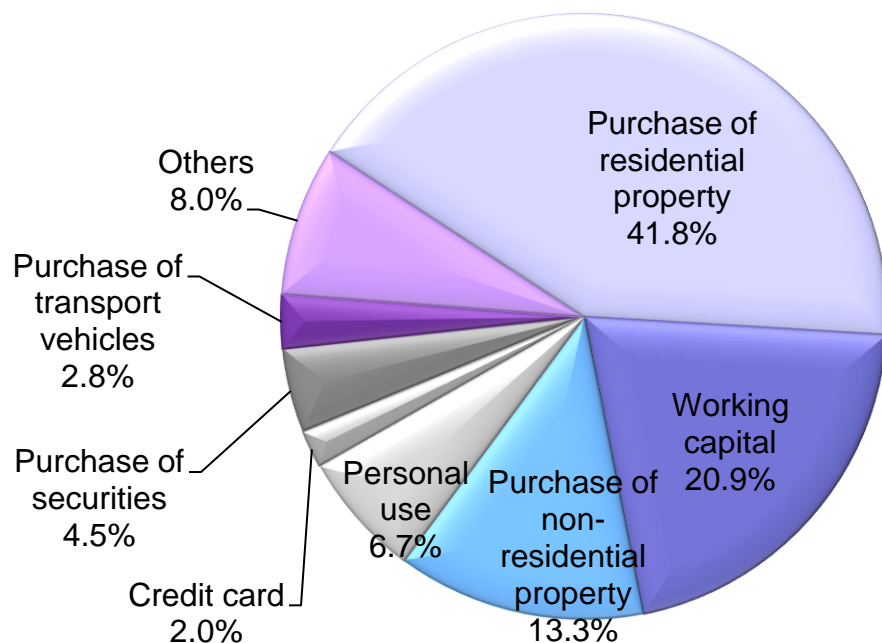
1QFY14 vs 1QFY13  
+ RM 0.3 bil  
+48.1%

- ❑ Re-commenced Hire Purchase financing in April 2012, focusing on new and non-national marques.
- ❑ +RM266.2 million or 48.1% y-o-y growth from low loans base.

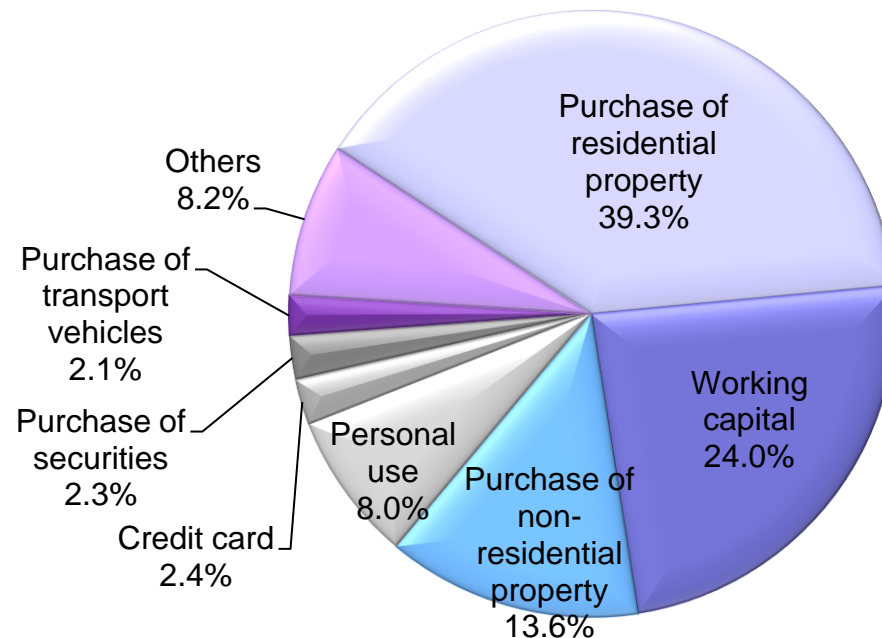
## Well Diversified & Secured Loans Portfolio

### Loans Composition by Economic Purposes

**1QFY2014**

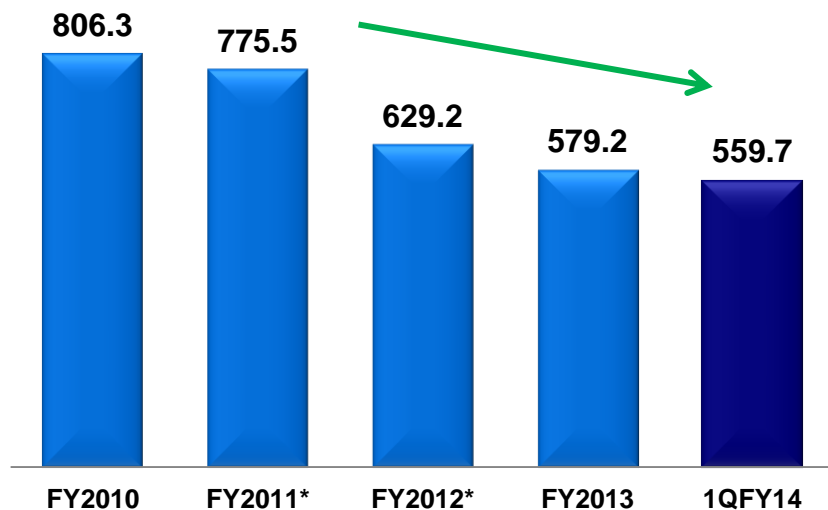


**1QFY2013**

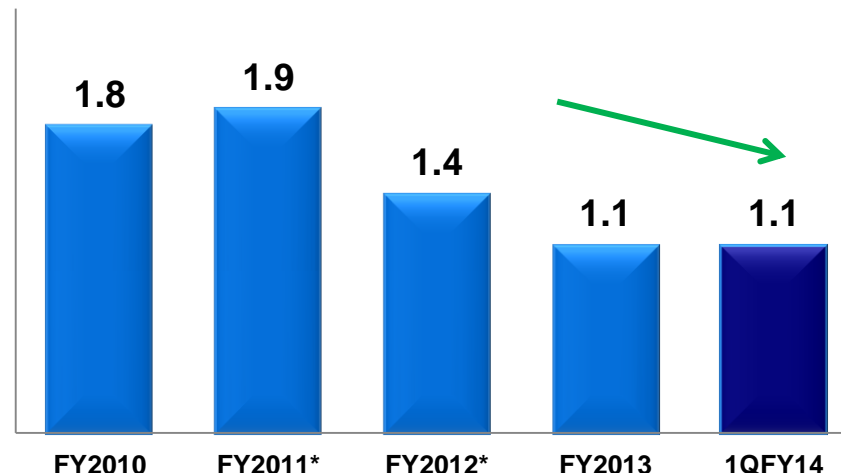


- ❑ Well diversified and collateralised loan book.
- ❑ Residential and non-residential properties account for 55.1% of gross loans portfolio:
  - 41.8% of loans portfolio is for residential properties
  - 13.3% for non-residential properties
- ❑ 20.9% of gross loans are for working capital.

## Continued Improvement In Asset Quality – Net Impaired Loans Ratio at 1.1%

**Gross Impaired Loans**
*RM mil*

**Gross Impaired Loans Ratio**

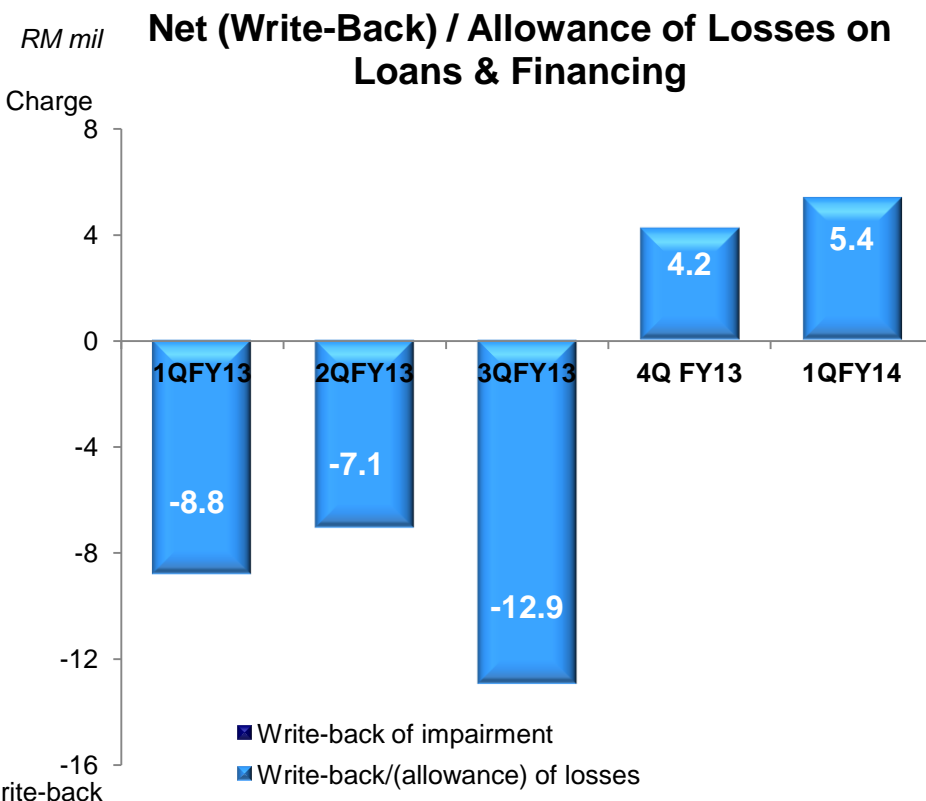
| FY2010 | FY2011 | FY2012 | FY2013 | 1QFY14 |
|--------|--------|--------|--------|--------|
| 3.8%   | 3.5%   | 2.5%   | 2.1%   | 1.9%   |

**Net Impaired Loans**
*(%)*

**Net Impaired Loans Ratio**

| FY2010 | FY2011 | FY2012 | FY2013 | 1QFY14 |
|--------|--------|--------|--------|--------|
| 1.8%   | 1.9%   | 1.4%   | 1.1%   | 1.1%   |

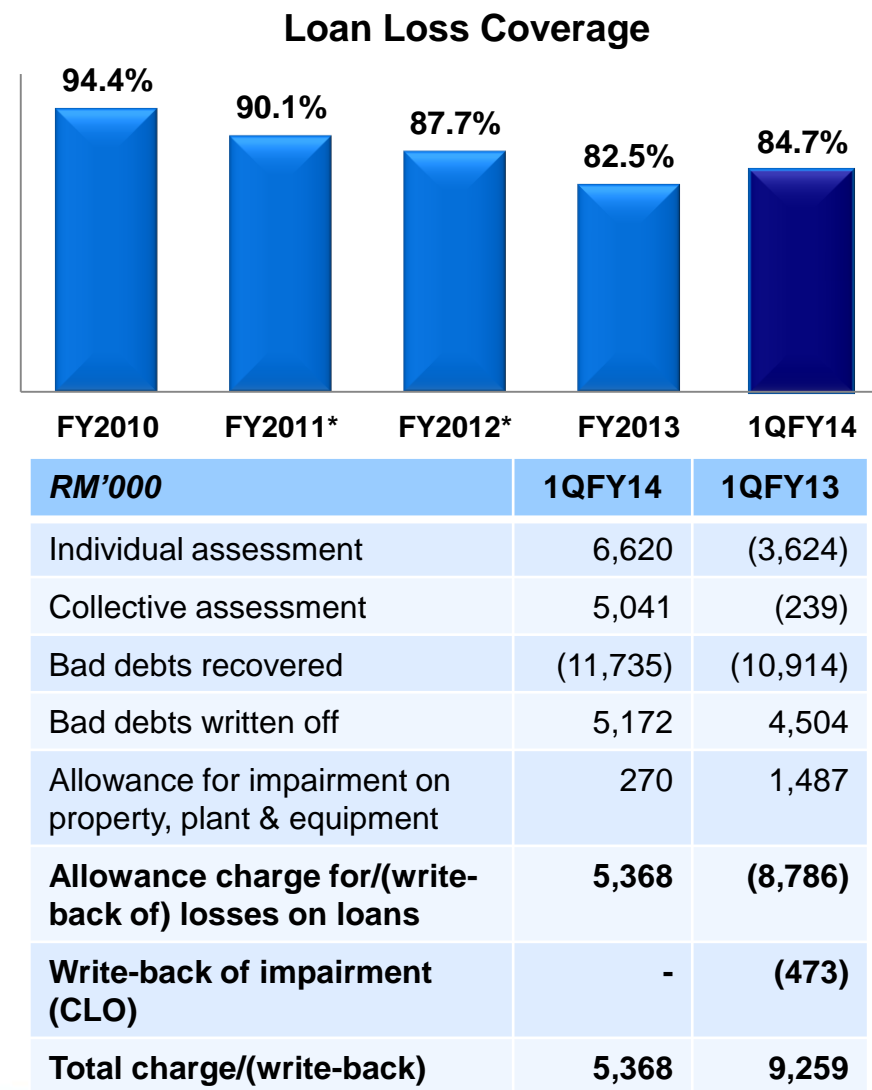
- RM52 million y-o-y net reduction in gross impaired loans, despite 11.5% y-o-y gross loans growth.
- Low net impaired loans ratio of 1.1%.

## Credit charge for Loans & Financing starting to normalise



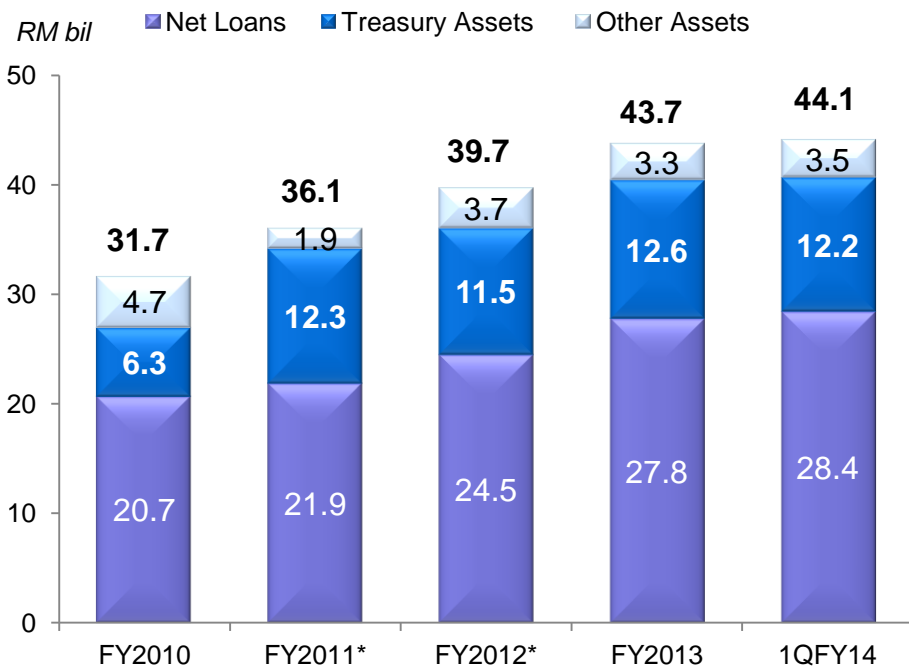
☐ Allowance for loans impairment has normalised.

*Note:*  
 Write-back of CLO provision nil for 1QFY14 and RM0.5mil for 1QFY13  
 \* Restated for MFRS 139



## Effective Utilisation of Balance Sheet: Net Loans Constitute 64.3% of Total Assets

### Total Assets Trend

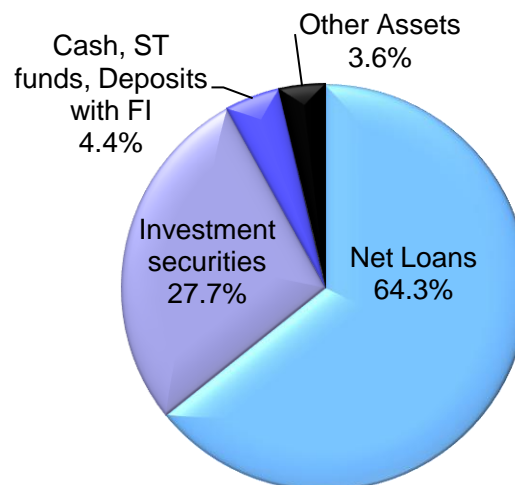


1QFY14 vs 1QFY13  
+ RM4.1 bil  
+ 10.1%

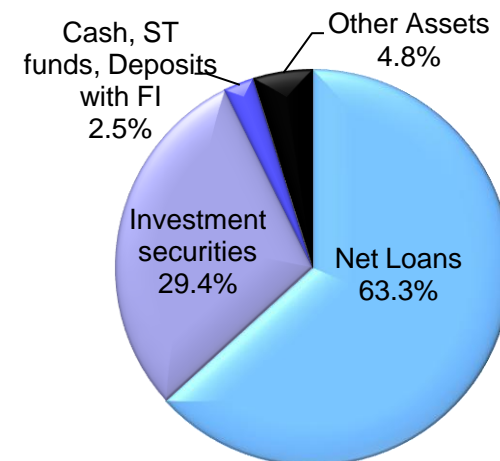
- Total assets expanded by RM4.1 billion or 10.1% y-o-y.

### Composition of Total Assets

#### 1QFY14

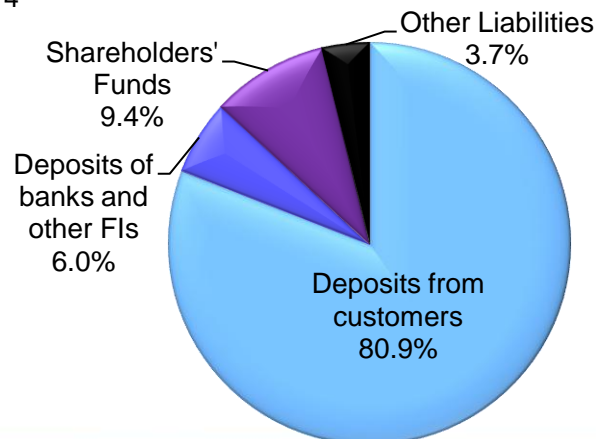


#### 1QFY13

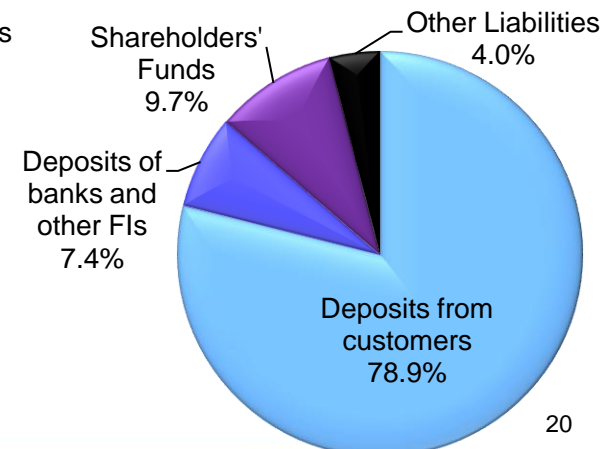


### Composition of Total Liabilities/ Equity

#### 1QFY14

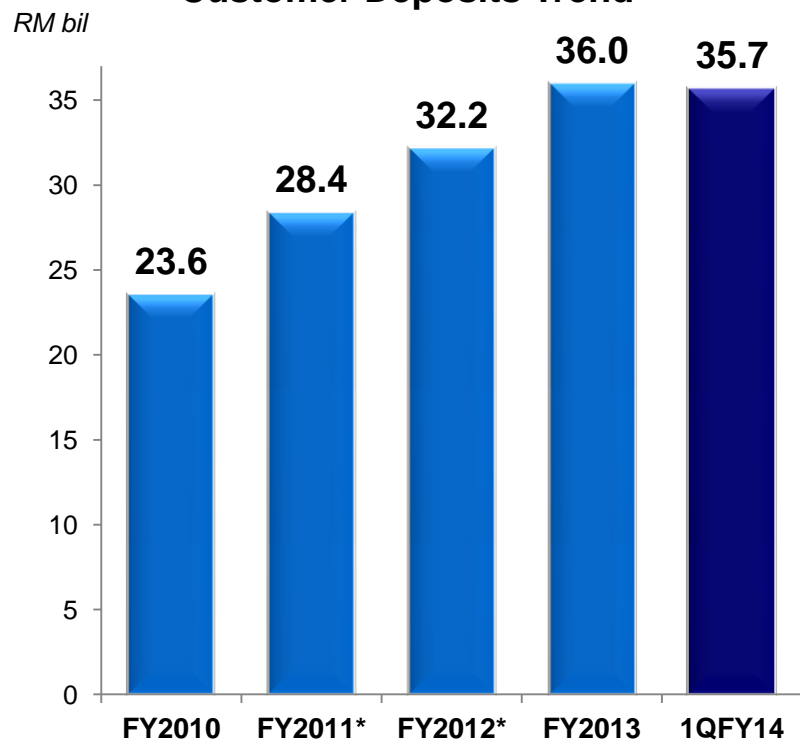


#### 1QFY13



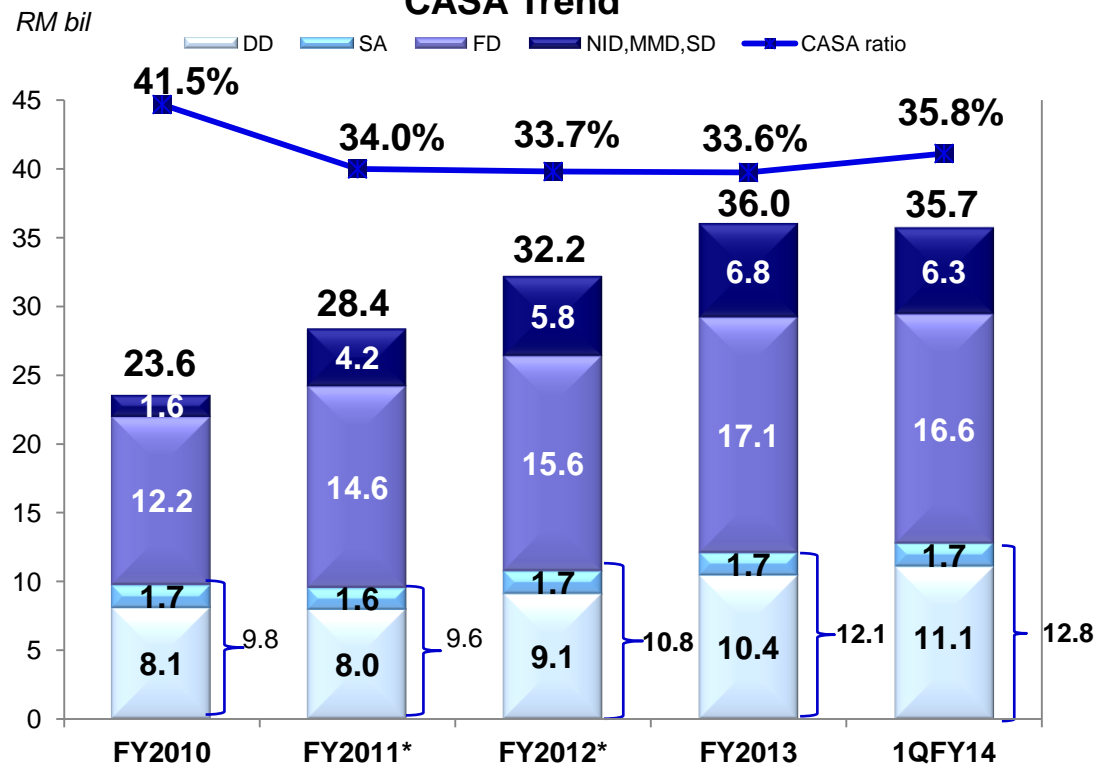
### Steady Y-o-Y Growth in CASA Deposits of 13.6% to RM12.8 billion

#### Customer Deposits Trend



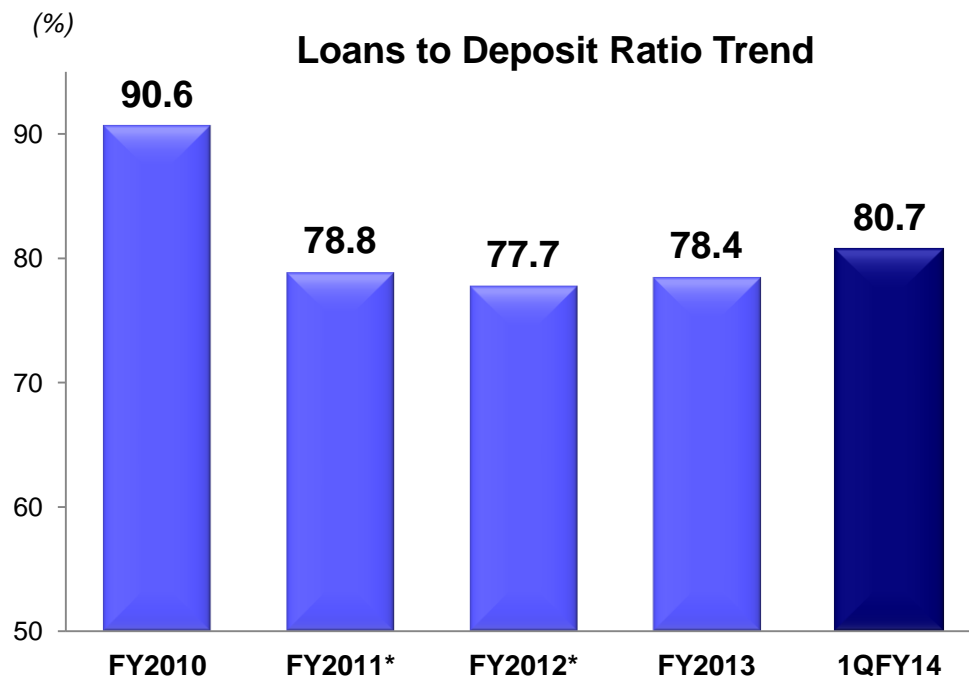
1QFY14 vs 1QFY13  
+ RM4.1 bil  
+ 13.0%

#### CASA Trend



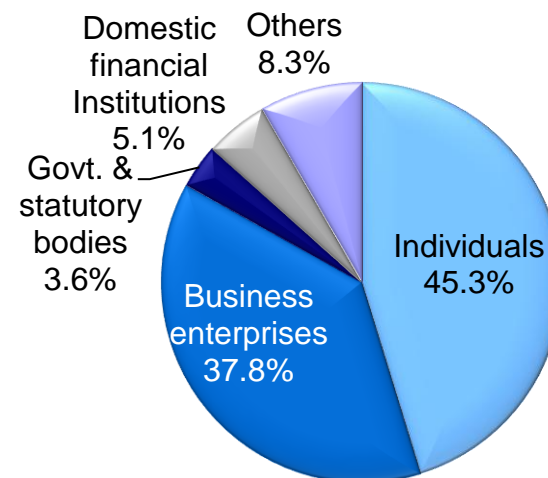
- ❑ Total customer deposits of RM35.7 billion as at 1QFY2014.
- ❑ CASA deposits expanded by RM683 million y-o-y.
- ❑ 35.8% of funding from CASA.

### Strong Liquidity Position with Loans to Deposits Ratio at 80.7%

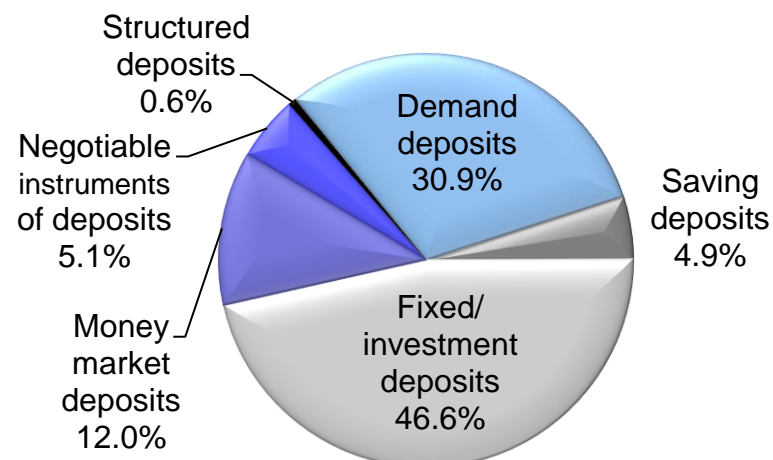


- ❑ Raised Loans to Deposit Ratio to 80.7% as at June 2013.
- ❑ Our overall strategy is to eventually raise Loans to Deposit ratio closer to 85.0%:
  - for more efficient balance sheet management; and
  - to be in line with industry

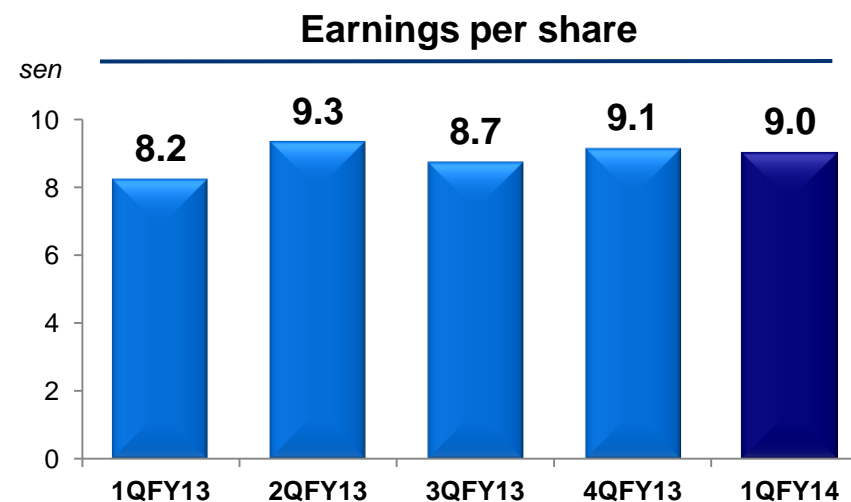
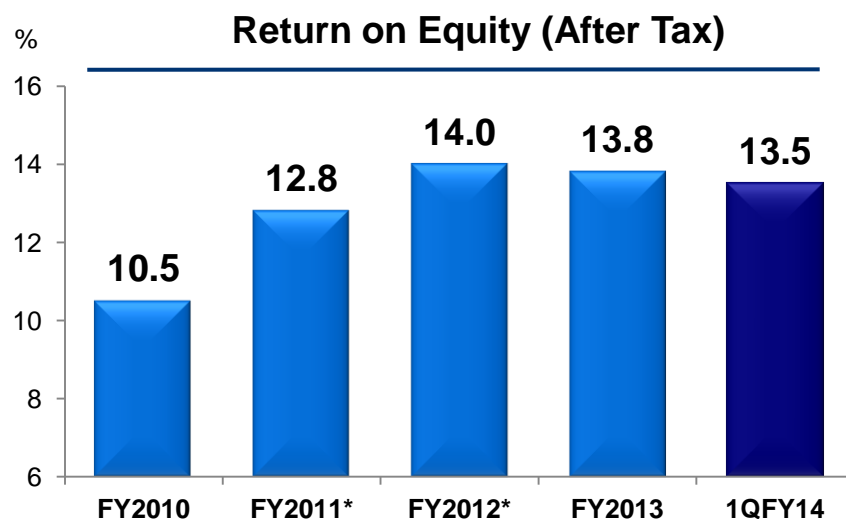
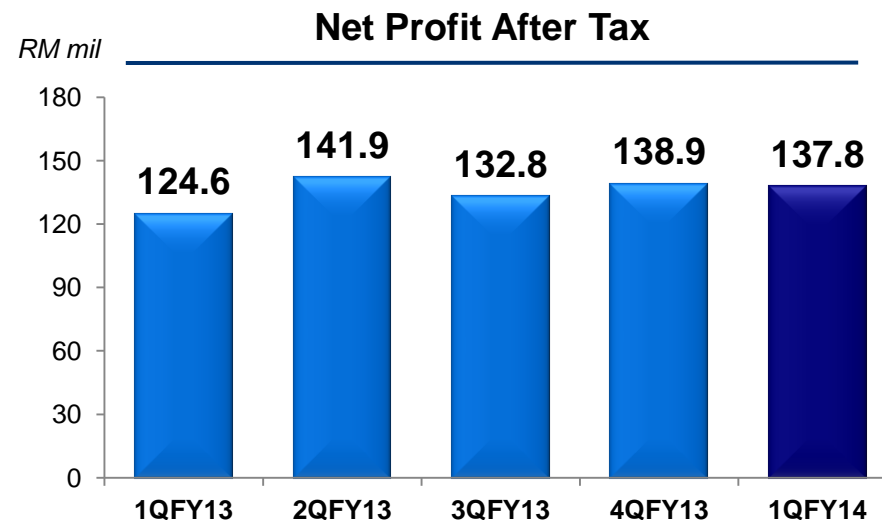
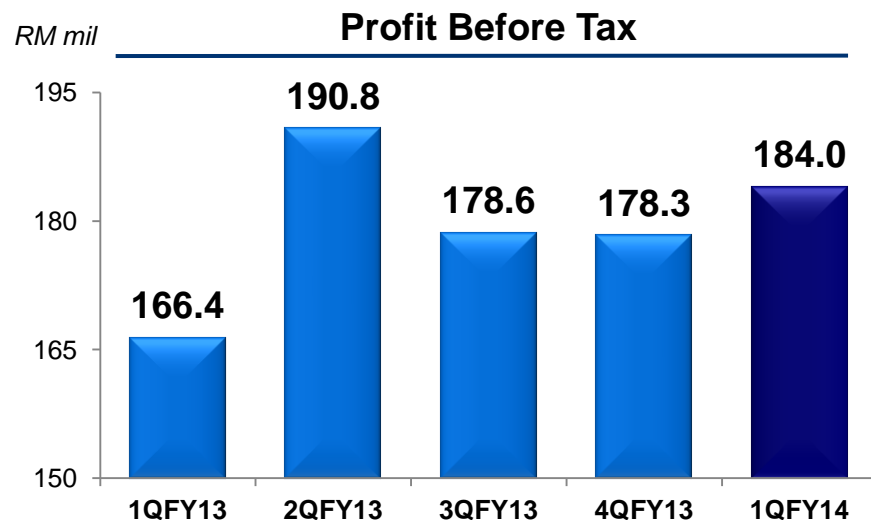
#### Deposits Composition by Customer Type



#### Deposits Composition by Product Type

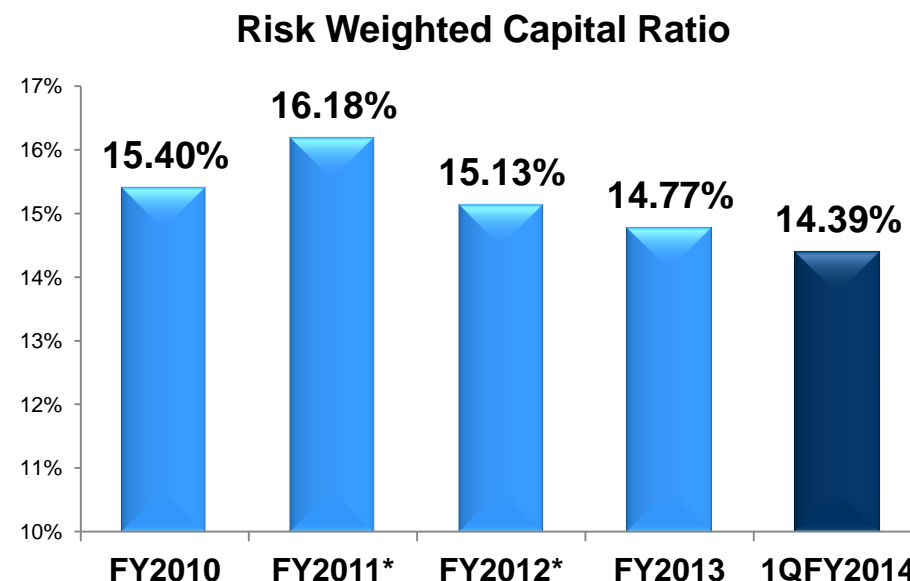


## Return on Equity at 13.5%, with Consistent Growth in Earnings Per Share



**Basel III: Capital Adequacy Ratios by Legal Entities**

| Legal Entities   | CET 1 Capital Ratio | Tier 1 Capital Ratio | Total Capital Ratio |
|--|---------------------|----------------------|---------------------|
| <b>AFG</b>   | <b>10.34%</b>       | <b>11.74%</b>        | <b>14.39%</b>       |
| ABMB   | 11.16%              | 12.54%               | 12.54%              |
| AIS  | 13.04%              | 13.04%               | 13.81%              |
| AIBB   | 81.08%              | 81.08%               | 81.20%              |
| <b>Basel III Minimum regulatory capital adequacy ratio</b> | <b>4.5%</b>         | <b>6.0%</b>          | <b>8.0%</b>         |



- Strong profit generation capacity to fund balance sheet expansion and targeted dividend payouts.
- Continuous enhancement of capital usage by focusing on:
  - Less capital intensive lending activities – Consumer, Mortgage and SME lending
  - Non-interest income and fee based activities – Wealth Management and Transaction Banking
  - Improving asset quality
- Capital adequacy ratios are well above Basel III requirements.

## Contents

1

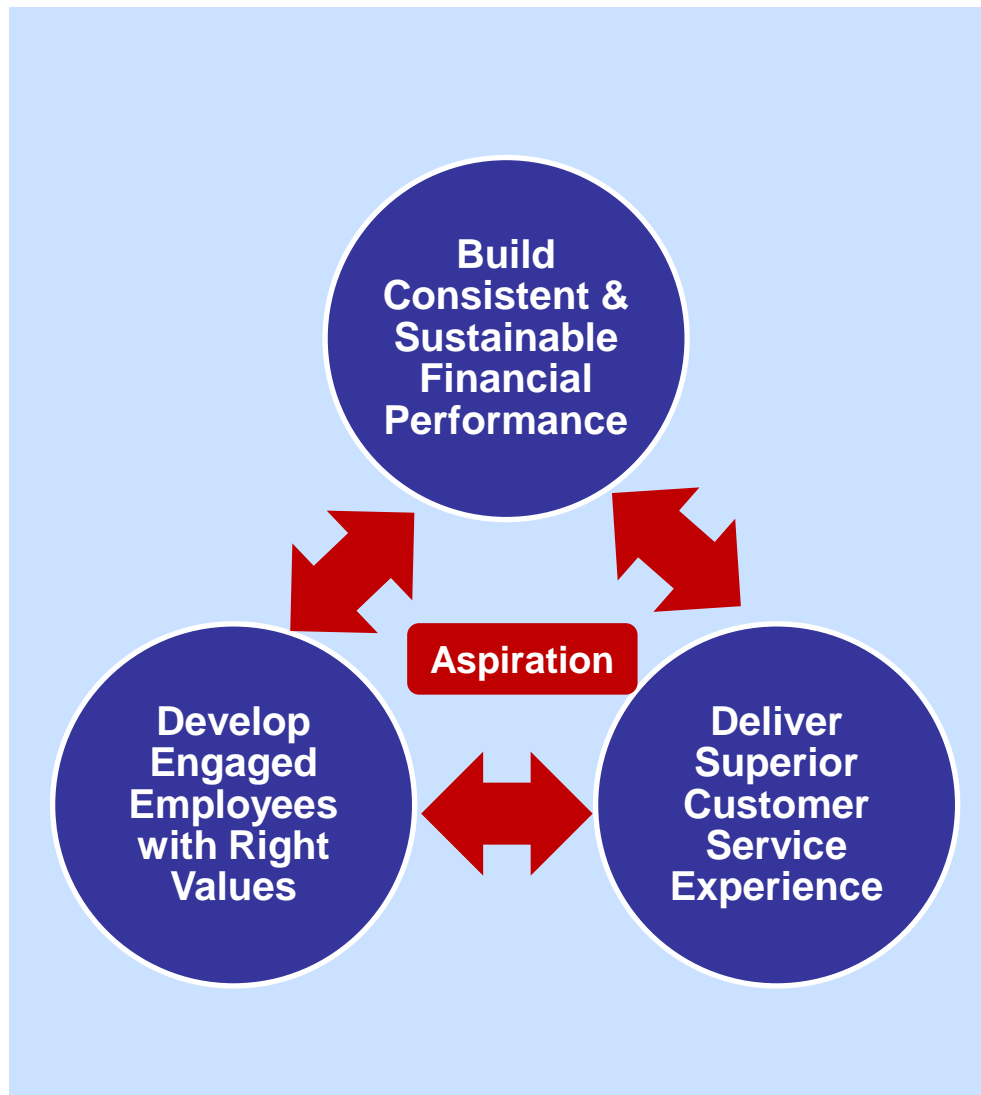
Executive Summary

3

Financial Results for 12 Months FY2013

2

Strategic Focus & Priorities

**Continue To “Deliver Consistent and Sustainable Financial Performance”****Our Priorities**

- Build on strengths and niche in Consumer and Business Banking
- Strengthen customer relationships
- Enhance customer service, productivity and efficiency
- Ensure impactful investments in technology and infrastructure
- Strengthen investment banking and Islamic banking capabilities

***... We will continue to exercise caution & implement vigilant risk management to deliver consistent & sustainable results...***

# THANK YOU

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