



ALLIANCE FINANCIAL  
GROUP BERHAD (6627-X)

*Banking Made Personal*

# ANALYST BRIEFING

9M FY2014

13 February 2014

THE BEST SME BANK  
IN ASIA PACIFIC



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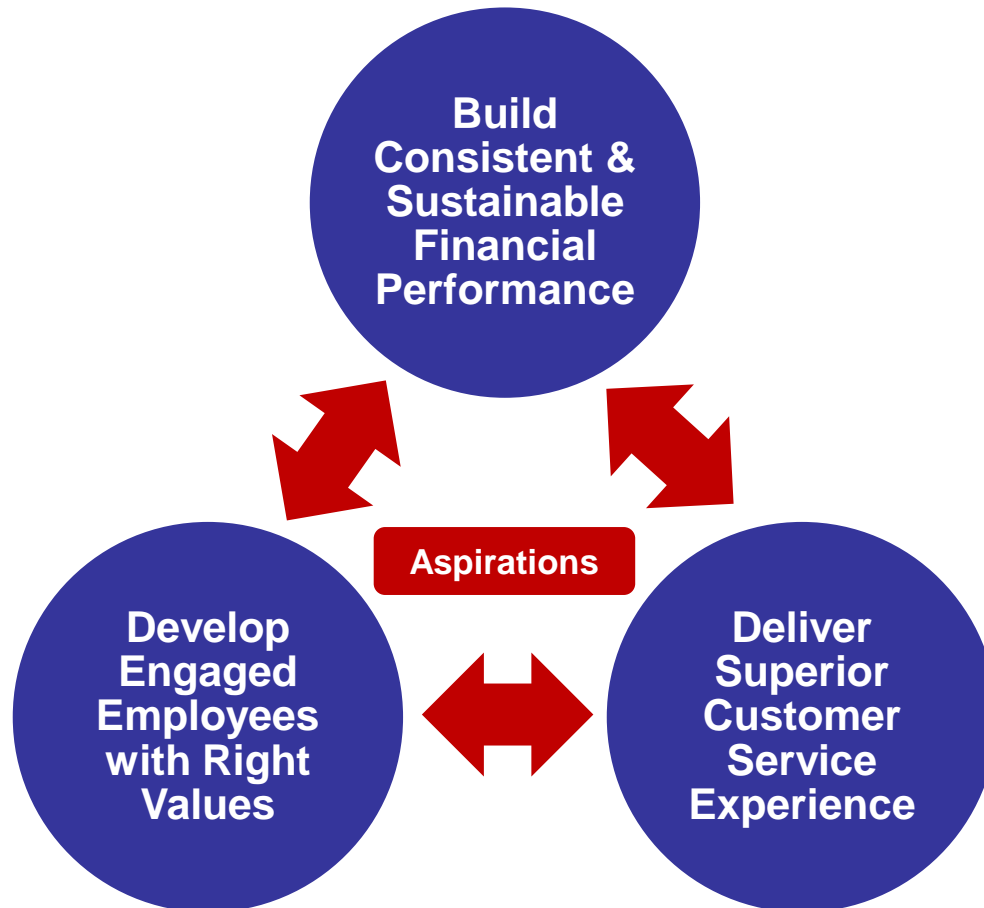
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Financial Results for 9MFY2014

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

- ❑ Clear niche in Consumer & SME Banking:
  - ✓ Increasing market share in target segments with year-on-year net loans growth of 13.2%, faster than industry
  - ✓ Winning market recognition
- ❑ Focused on building sustainable long term revenue growth:
  - ✓ Accelerated non-interest income activities
  - ✓ Sustainable CASA ratio at 35.2%
  - ✓ 0.8% net impaired loans ratio
  - ✓ 14.4% total capital ratio
- ❑ Dividend policy to pay up to 50% of net profits

**9MFY14: Good Progress Against Our 3-Year Medium Term Targets FY2012 – FY2015**
**Alliance Financial Group**

		<b>FY2011</b>	<b>9MFY14</b>
<b>Asset Quality</b>	... net impaired loans to be better than industry average	<b>1.9%</b>	<b>0.8%</b>
<b>Non-Interest Income Ratio</b>	... to increase non-interest income to 30% of total revenue	<b>20.8%</b>	<b>28.0%</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>45.9%</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>13.4%</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> (Interim 3.3 sen)	<b>~ 50%</b> (Interim 19.0 sen)

## Sustainable & Consistent Financial Performance: 6.7% Operating Profit Growth

Income Statement	9MFY14 RM mil	9MFY13 RM mil	Change (y-o-y)	
			RM mil	%
Net Interest Income	577.6	543.0	34.6	6.4
Islamic Banking Income	158.4	184.9	-26.5	-14.4
Non-Interest Income	271.6	250.1	21.5	8.6
Net Income	1,007.6	978.0	29.6	3.0
Operating Expenses	462.9	467.6	-4.7	-1.0
Pre-Provision Operating Profit	544.7	510.4	34.3	6.7
(Allowance for)/ Write-back of losses on loans & financing and other losses	-3.1	29.2	-32.2	> -100
Pre-tax profit	541.6	535.7^	5.9	1.1
Net Profit After Taxation	405.5	399.3	6.2	1.6

- +6.4% rise in **net interest income** from 13.2% net loans growth, but interest margins remain under pressure.
- +8.6% growth in **non-interest income**, contributed by:
  - Recurring income from transaction banking, wealth management and brokerage activities.
  - One-off sign-on fee from bancassurance arrangement amounting to RM30 million.
  - However, investment income from Financial Markets registered RM25.8 million y-o-y drop due to steepening of the yield curves.
- -1.0% decrease marginally in **overhead expenses**, despite one-off staff rationalisation cost of ~RM22.3 million incurred in June quarter.
- Provision charge of RM3.1 million due to strong loans growth, as compared to net write-back of RM29.2 million last year.

^FY2013 includes share of results of associate – loss of RM3.9 million from AIA-AFG Takaful, which was disposed in FY2013

## Net Loans Growth at 13.2% Y-o-Y, Driven By Consumer Lending

Balance Sheet	9MFY14 RM bil	9MFY13 RM bil	Change	
			RM bil	%
Total Assets	46.3	40.6	5.7	14.3
Treasury Assets	12.6	10.6	2.0	18.8
Net Loans	30.3	26.7	3.6	13.2
Customer Deposits	36.7	31.3	5.4	17.1
CASA Deposits	12.9	12.0	0.9	7.5
Shareholders' Funds	4.0	4.1	-0.1	-2.4
Net Loans Growth (y-o-y)	13.2%	12.9%	-	0.3%
Customer Deposits Growth (y-o-y)	17.1%	2.2%	-	14.9%

- +13.2% y-o-y **net loans** growth: above industry - targeting profitable Consumer and SME segments.
- +17.1% y-o-y **customer deposits** growth, keeping pace with loans expansion to maintain healthy loans to deposit ratio.
- +7.5% y-o-y growth in **CASA deposits**, contributing to 35.2% of total deposits.

Note:

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



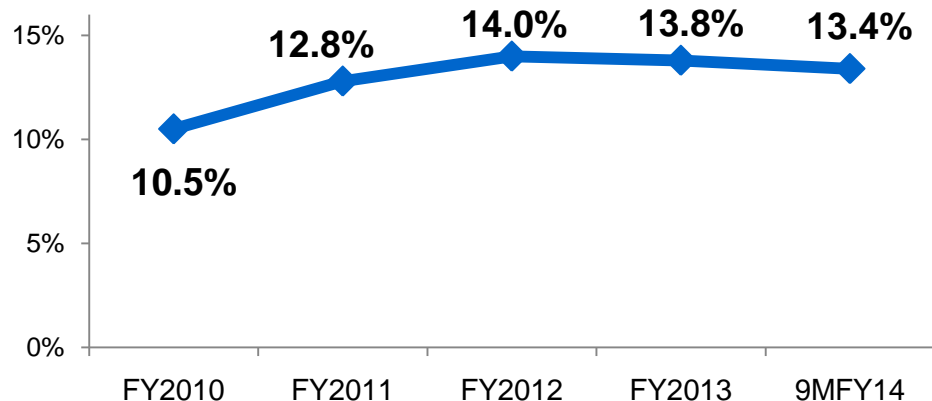
	Financial Ratios	9MFY14	9MFY13	Change
Shareholder Value	Return on Equity	13.4%	13.6%	-0.2%
	Return on Assets	1.2%	1.3%	-0.1%
	Earnings per Share	26.7 sen	26.2 sen	+1.9%
	Interim Dividends per Share	19.0 sen	16.6 sen	+14.5%
	Net Assets per Share	RM2.60	RM2.62	-RM0.02
Efficiency	Non-Interest Income Ratio	28.0%	27.2%	+0.8%
	Cost-to-Income Ratio	45.9%	47.8%	-1.9%
Asset Quality	Gross Impaired Loans Ratio	1.5%	2.1%	-0.6%
	Net Impaired Loans Ratio	0.8%	1.2%	-0.4%
	Loan Loss Coverage Ratio	91.2%	83.8%	+7.4%
Liquidity	Loans to Deposit Ratio	83.6%	86.7%	-3.1%
	CASA Ratio	35.2%	38.3%	-3.1%
Capital	Common Equity Tier 1 Capital Ratio	10.44%	-	n/a
	Tier 1 Capital Ratio	11.81%	11.88%	-0.07%
	Total Capital Ratio	14.38%	14.88%	-0.50%

- **Non-interest income** – improving steadily each year with focus on building recurring fee income.
- **Cost-to-income ratio** – continued improvement due to effective cost management.
- **Loan Loss Coverage** – improved to 91.2% due to higher recoveries of impaired loans.
- **Loans to deposits ratio** – maintaining strong liquidity position with acceleration of deposit growth.
- **CASA ratio** – sustained at 35.2% despite 17.1% overall deposits growth.
- **Interim dividends declared of 19.0 sen YTD:**
  - ✓ 1st interim dividend of 7.5 sen
  - ✓ 2nd interim dividend of 11.5 sen
- Strong **capitalisation** under Basel III.

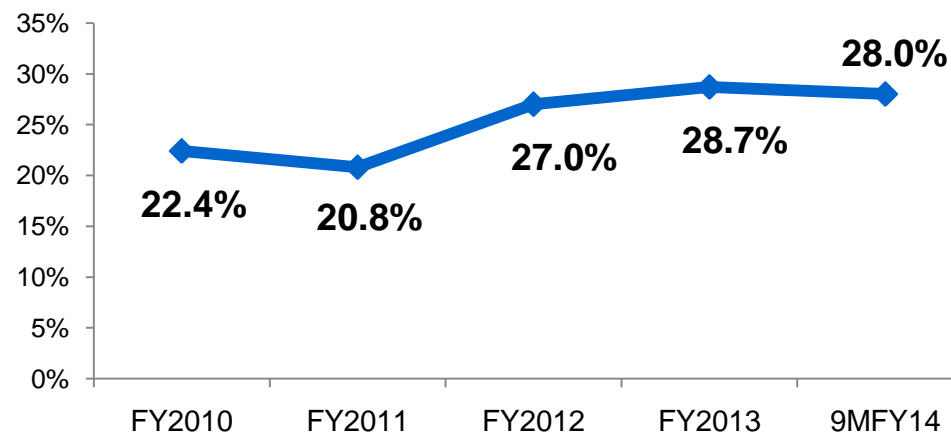


### Sustained Financial Performance, with Key Metrics in the Right Direction

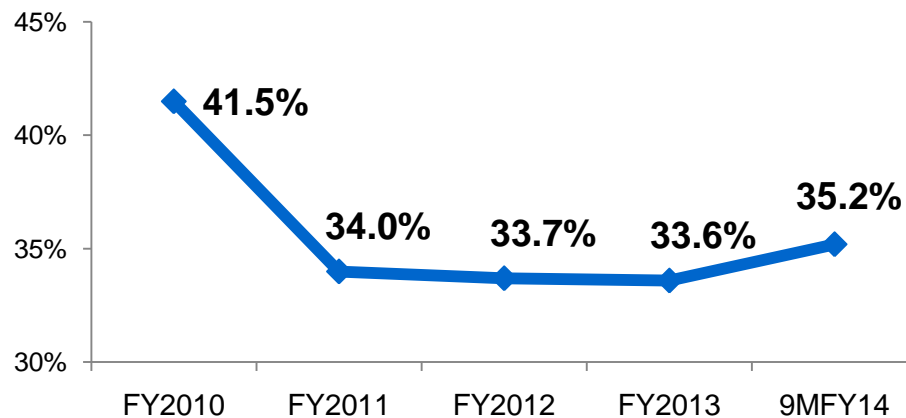
#### Return on Equity



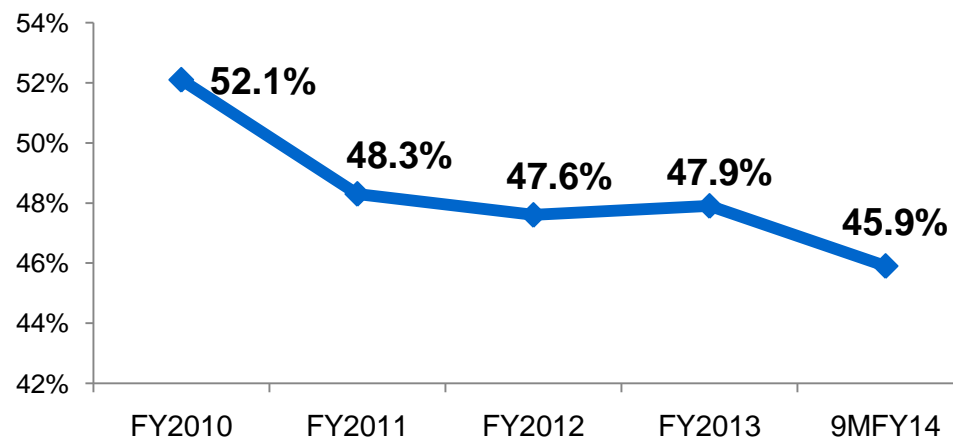
#### Non-Interest Income Ratio



#### CASA Ratio



#### Cost-to-Income Ratio



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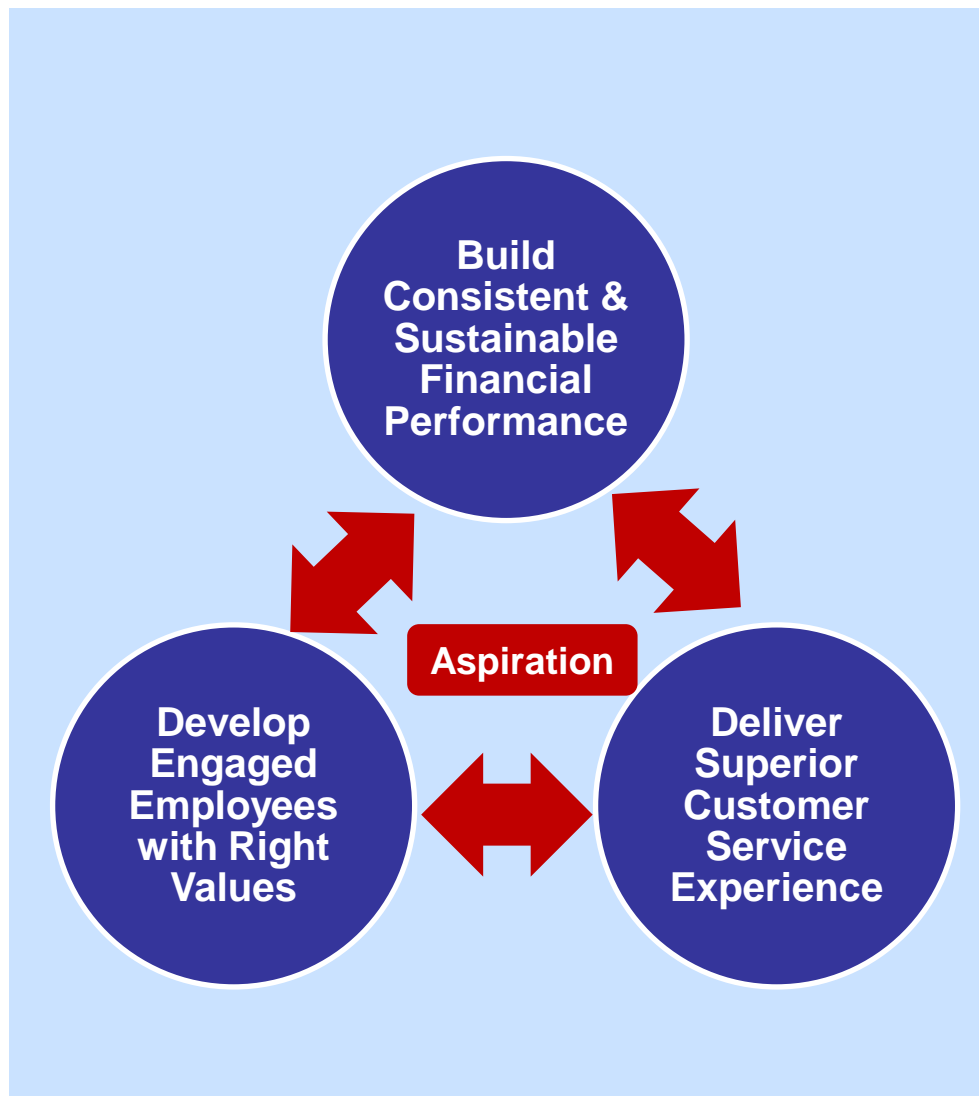
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Financial Results for 9MFY2014

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

- Build on strengths and niche in Consumer and Business Banking
- Enhance existing branch network and leverage on alternate channels
- Enhance customer service through streamlining of processes and raising staff productivity
- Improve efficiency in resource utilisation, ensuring 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...***

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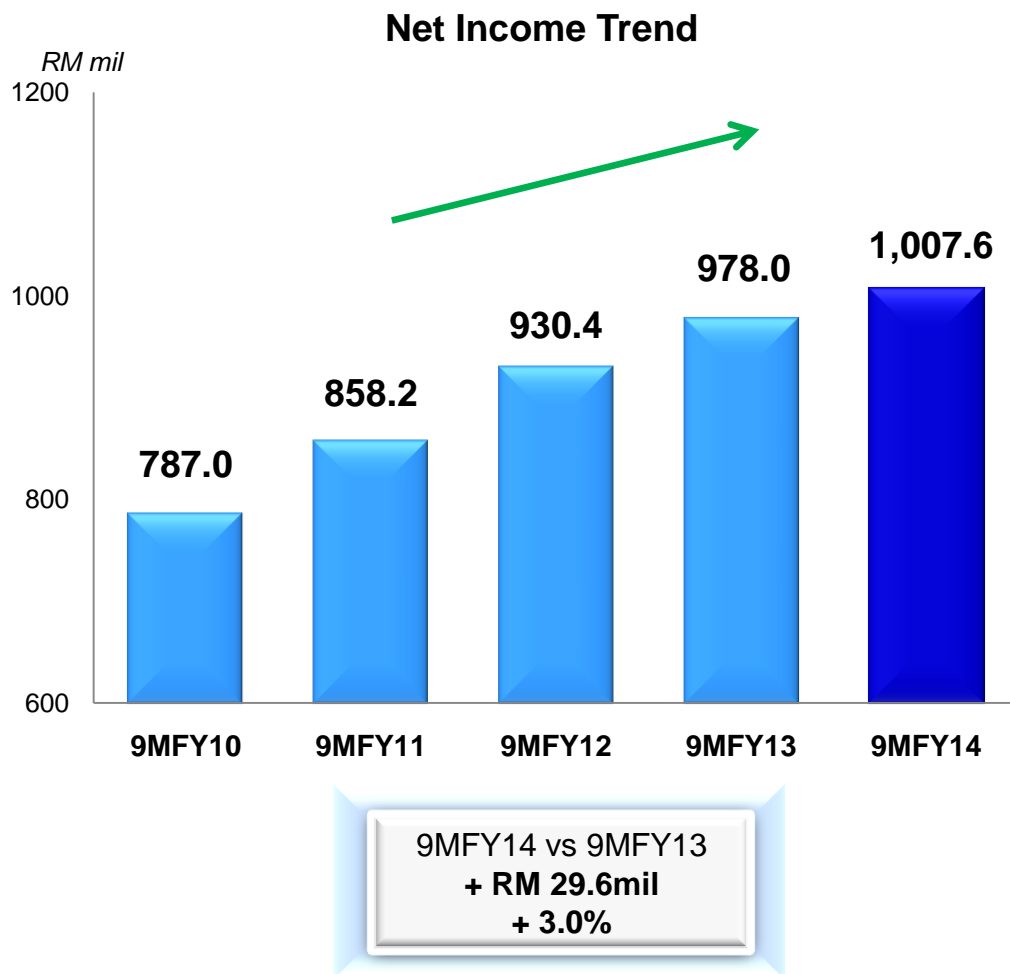
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Financial Results for 9MFY2014

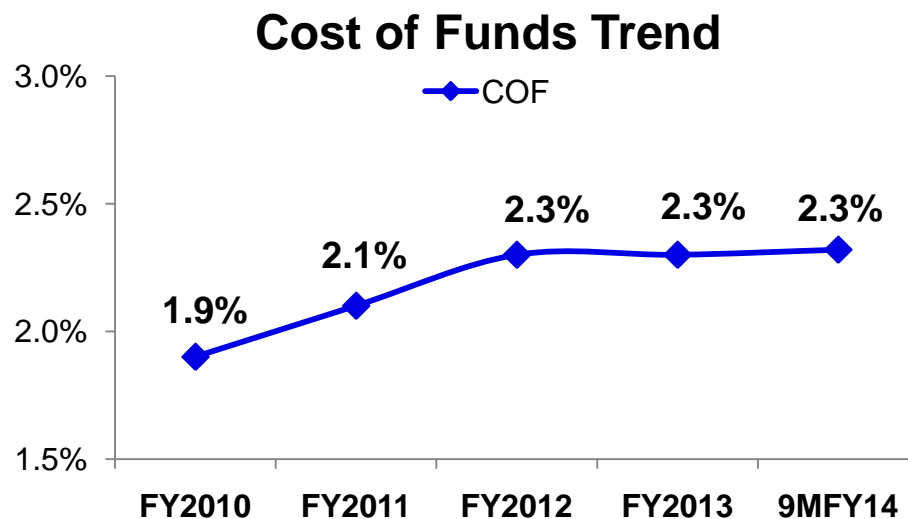
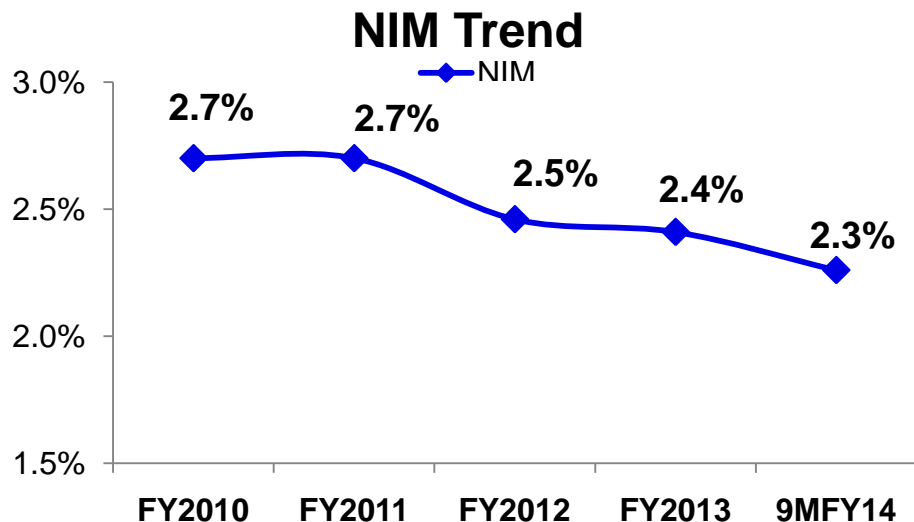
### Steady Growth in Net Income Driven by Higher Loans Growth



□ **Net income** for 9MFY14 grew RM29.6 million or 3.0% year-on-year (y-o-y), driven by:

- **Net interest income** growth of RM34.6 million or 6.4% y-o-y
  - +RM114.4 million increase in interest income primarily from loans growth; but offset by
  - +RM79.8 million rise in interest expense from 17.1% y-o-y expansion in deposits and stiffer competition for deposits.
- **Net income from Islamic Banking** contracted by RM26.5 million or 14.4% mainly due to the run-off of high-yield Co-op personal financing.
- **Non-interest income** grew by RM21.5 million or 8.6% due to expansion of recurring fee income activities, but offset by lower investment income from Financial Markets.

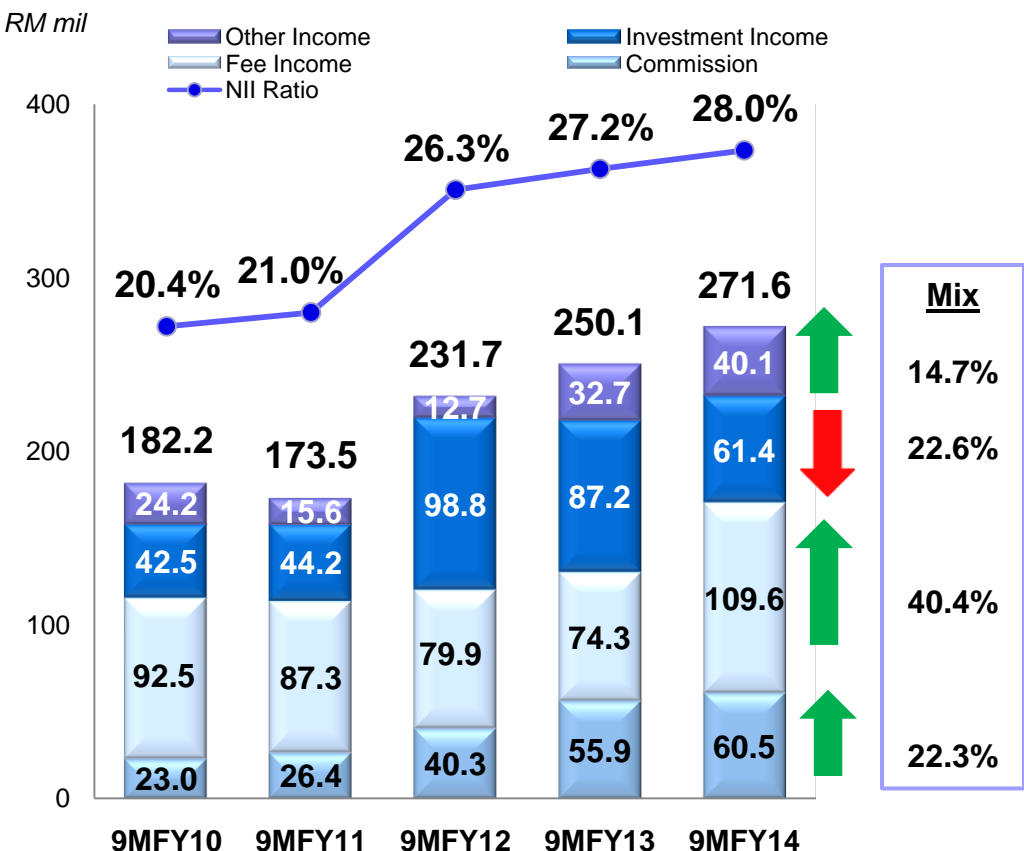
## Net Interest Margin Continues To Be Under Pressure



- ❑ **Net Interest Margin (NIM)** was 2.26% for 9MFY14, down 15 bps since Mar 2013
- ❑ Continuing margin compression due to:
  - Run-off from repayments of higher yielding loans:
    - ✓ Co-op loans continue to run down:
      - RM442.0 million as at Dec 2013
      - RM565.0 million as at Dec 2012
      - RM1,023.1 million as at Mar 2011
    - ✓ New mortgage loans are at lower yield
  - Housing loans as a % of total Loans:
    - 41.9% as at Dec 2013
    - 40.8% as at Dec 2012
    - 37.1% as at Mar 2011
  - Intensified competition for fixed deposits
- ❑ **Cost of Funds (COF)** has stabilised at 2.3%, as interest cost has been supported by sustained CASA deposits.
- ❑ However, margin compression expected to continue due to intensified competition for lending activities.

### Non-Interest Income Gaining Momentum

#### Non-Interest Income



9MFY14 vs 9MFY13  
+ RM21.5m  
+ 8.6%

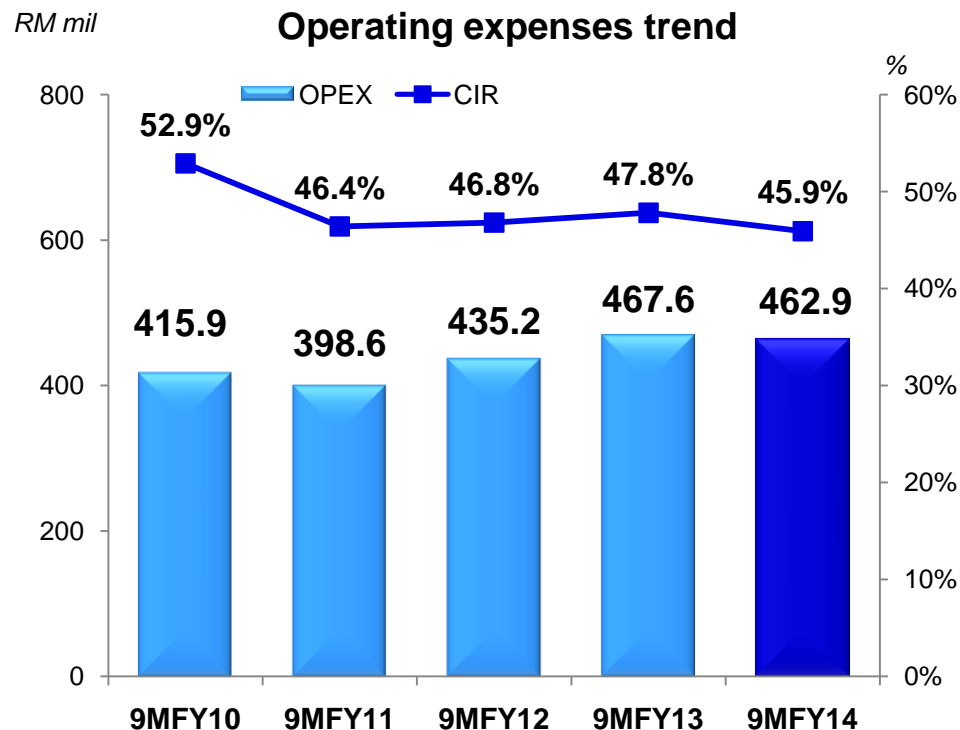
□ **Non-interest income (NII)** in 9MFY14 increased by RM21.5 million or 8.6%, mainly contributed by:

- **Recurring income** from transaction banking, wealth management, treasury and brokerage activities
  - Commission income increased by RM4.6 million
  - Brokerage income increased by RM4.2 million
  - Forex gain increased by RM12.9 million
- One-off sign-on fee income in respect of a **bancassurance** arrangement of RM30 million.

offset by:

- Lower **investment income** by RM25.8 million compared to 9MFY13 due to steepening of yield curves:
  - Lower gain from sale of Available-For-Sale investments

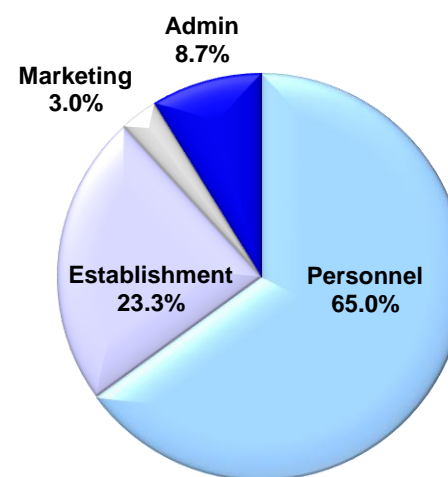
## Cost-to-income Ratio improved to 45.9%



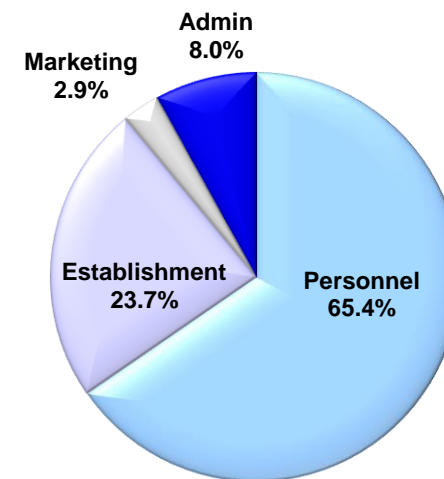
9MFY14 vs 9MFY13  
- RM4.7 mil  
- 1.0%

## Composition of operating expenses

### 9MFY14



### 9MFY13

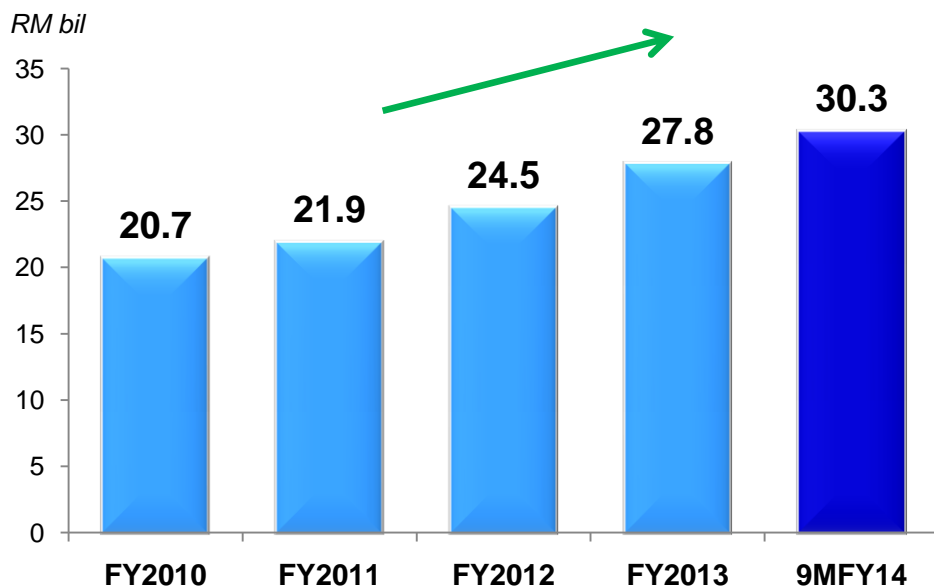


OPEX Contribution	9MFY14 RM mil	9MFY13 RM mil	Change	
			RM	%
Personnel	300.7	305.9	-5.2	-1.7
Establishment	107.9	110.4	-2.5	-2.3
Marketing	14.0	13.8	0.2	1.4
Administration	40.3	37.5	2.8	7.5

- Operating expenses reduced, contributed by effective cost management as the Group continues to invest in IT infrastructure as well.
- Personnel cost remains the main operating cost. Excluding one-off staff rationalisation expense of RM22.3 million incurred in 1st Quarter, personnel cost constitutes approximately 63% of total OPEX.

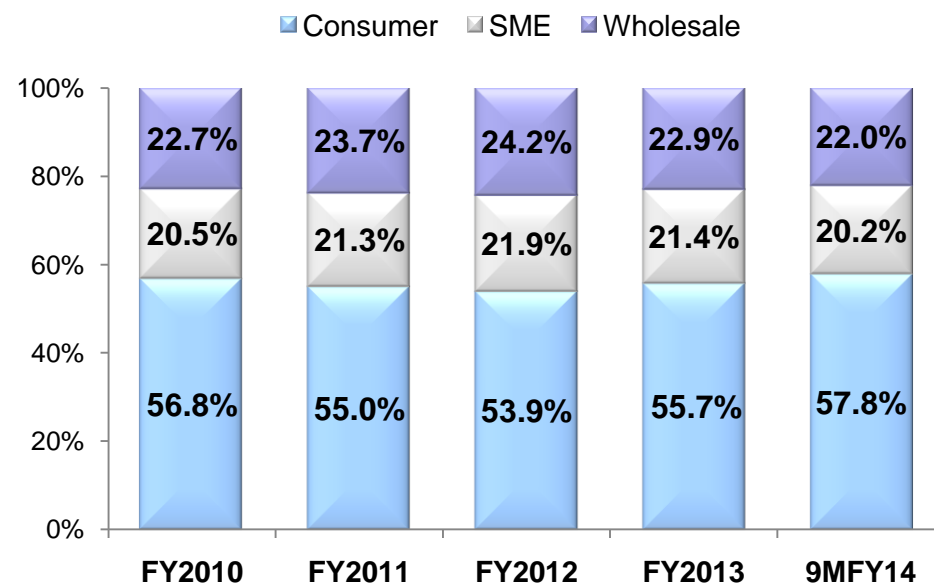
### Net Loans Growth Momentum at 13.2% Y-o-Y, Driven By Consumer Lending

Net loans, Advances and Financing Trend



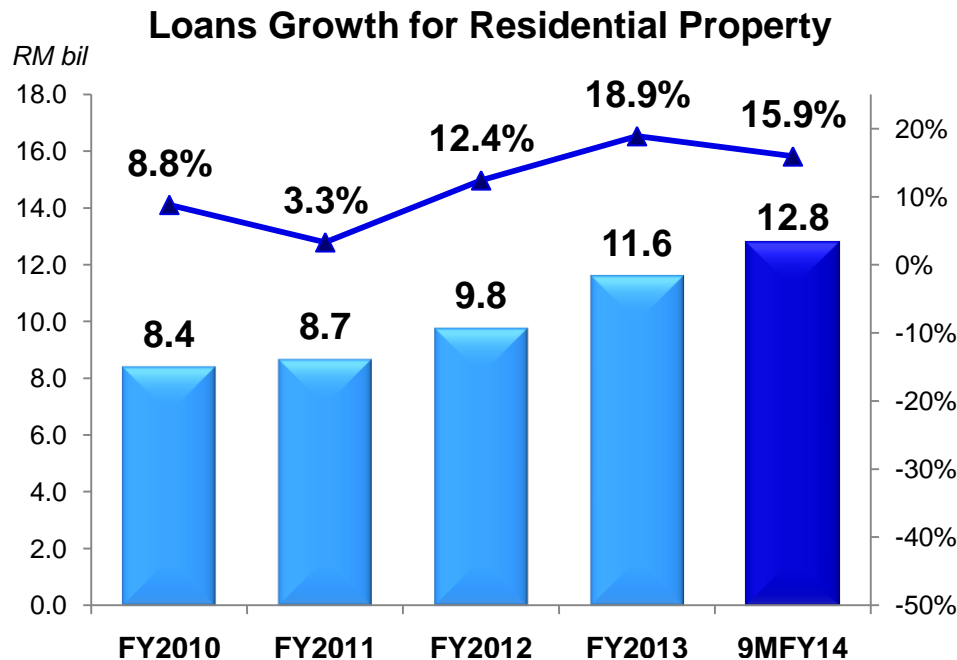
9MFY14 vs 9MFY13  
+ RM3.6 bil  
+ 13.2%

Loans Composition by Business Segments

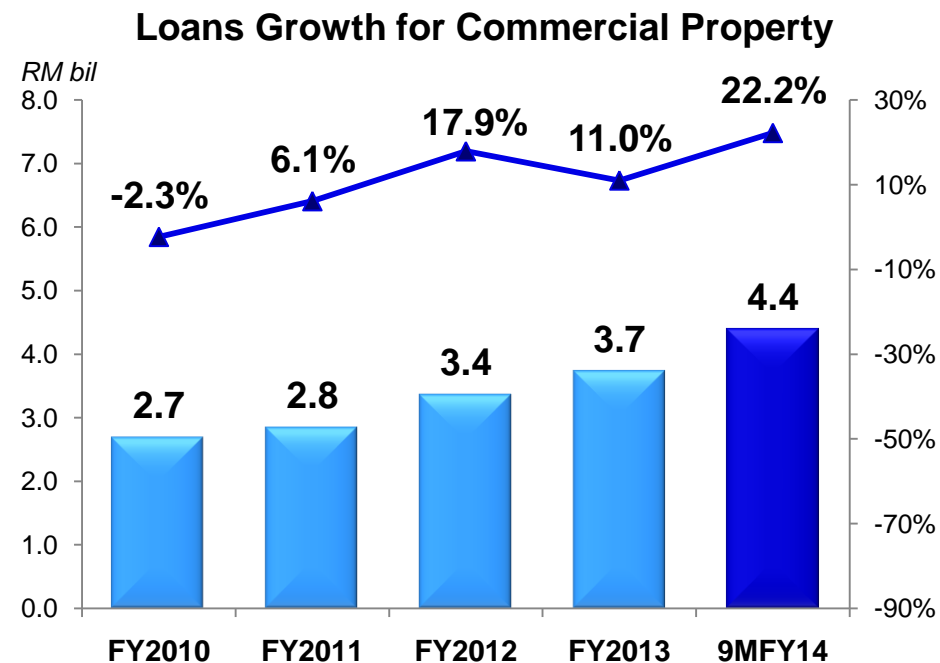


- ❑ **Net loans growth** of 13.2%, higher than industry loans growth
- ❑ Balanced loans composition with 57.8% Consumer; 20.2% SME and 22.0% for Wholesale Lending
- ❑ Effective management of interest rate risk: 10.7% of loan book is fixed rate (9MFY13: 9.6%)

## Maintained Double-digit Growth Y-o-Y for Residential & Commercial Properties



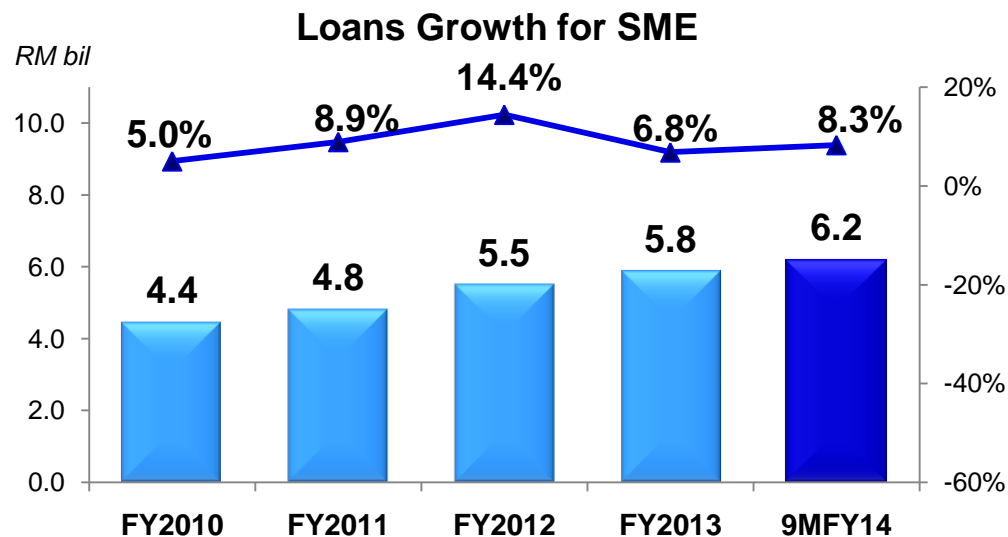
9MFY14 vs 9MFY13  
+ RM1.8 bil  
+ 15.9%



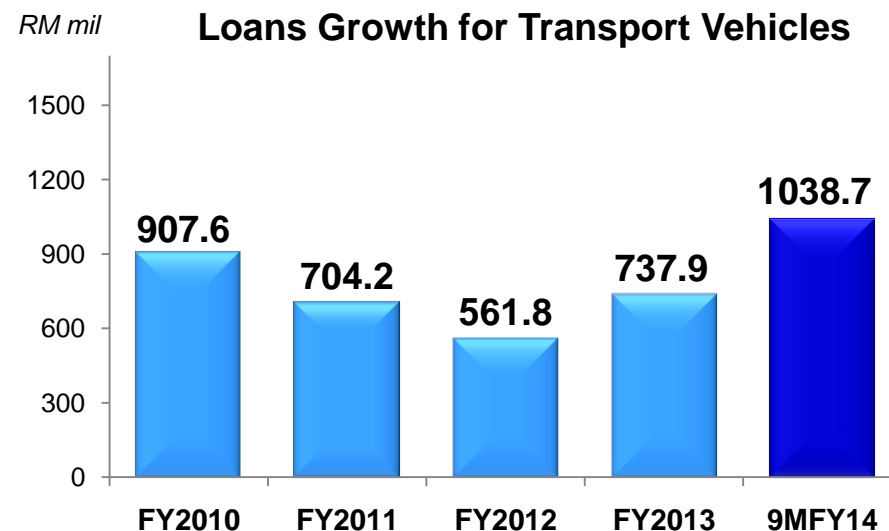
9MFY14 vs 9MFY13  
+ RM0.8 bil  
+ 22.2%

- ❑ Residential properties: + RM1.8 billion or 15.9% y-o-y growth, higher than industry growth rate of 12.9%
- ❑ Commercial properties: + RM0.8 billion or 22.2% y-o-y growth
- ❑ Focus on high growth areas i.e. Klang Valley, Penang and Johor, with attractive housing loan packages for the right customer segments, and business premises financing for SMEs

## Lending for SMEs 8.3% Y-o-Y; Resumed Growth in Hire Purchase



9MFY14 vs 9MFY13  
+ RM0.5 bil  
+ 8.3%



9MFY14 vs 9MFY13  
+ RM0.4 bil  
+57%

- ❑ SME Lending: + RM 0.5 billion or 8.3% y-o-y loans growth, with flow-through impact of ETP Projects.
- ❑ Corporate loans – major loan repayment in December 2013 affected y-o-y growth.

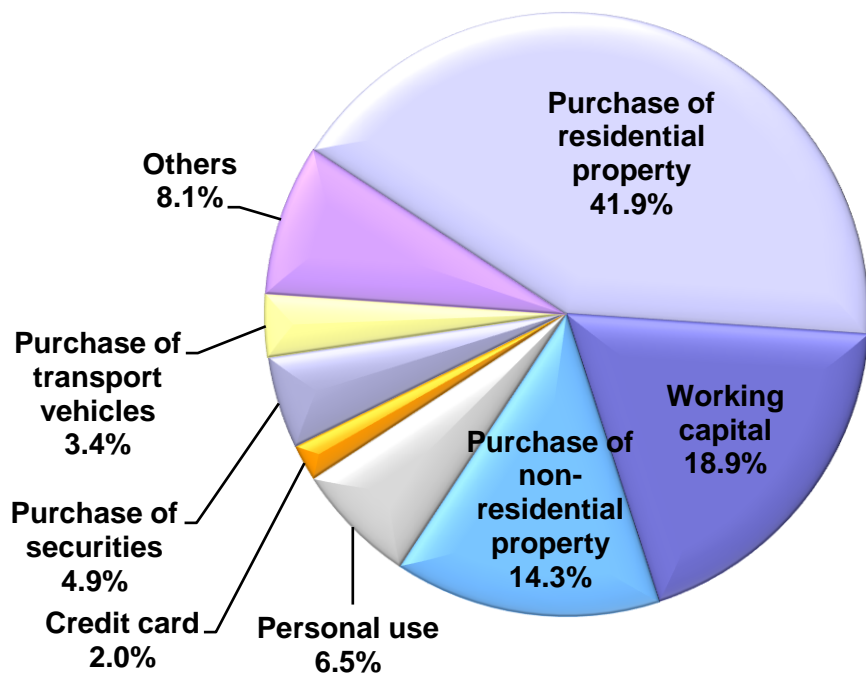
- ❑ Re-commenced Hire Purchase financing in April 2012, focusing on new and non-national marques.
- ❑ +RM377 million y-o-y growth with continued expansion of panel of car dealers and distributors.

(RM'mil)	9MFY13	9MFY14	Y-o-Y Growth
SME	5,707	6,179	8.3%
Corporate & Commercial	5,135	5,221	1.7%

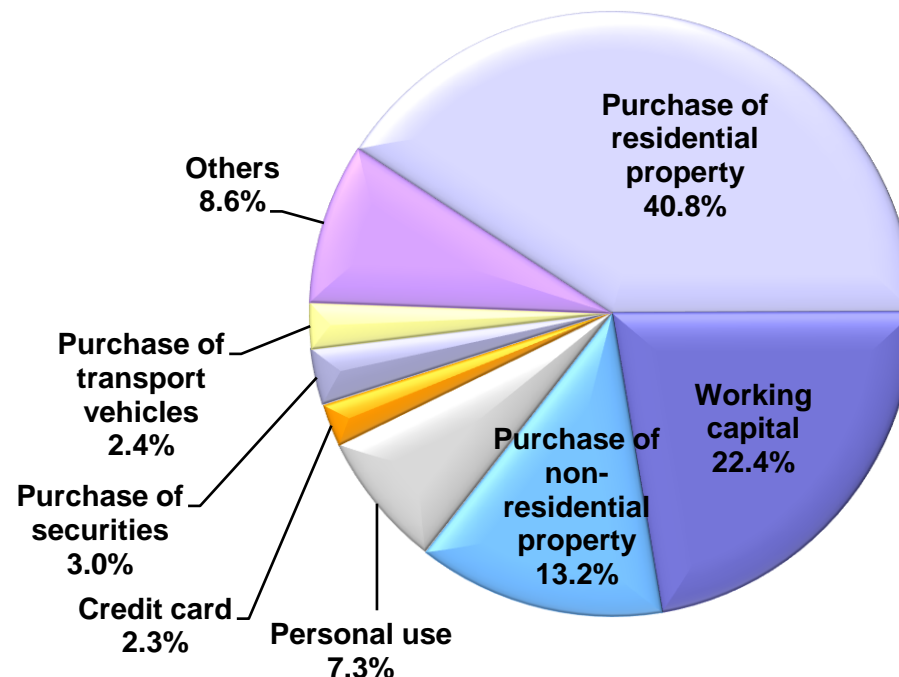
## Well Diversified & Secured Loans Portfolio

### Loans Composition by Economic Purposes

9MFY14

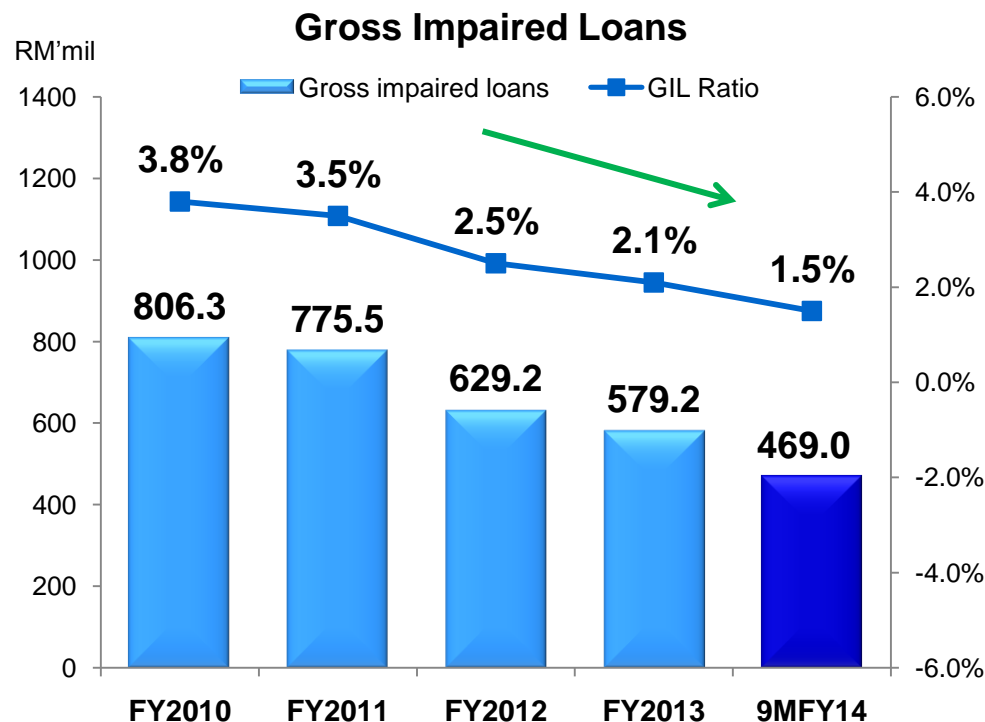


9MFY13



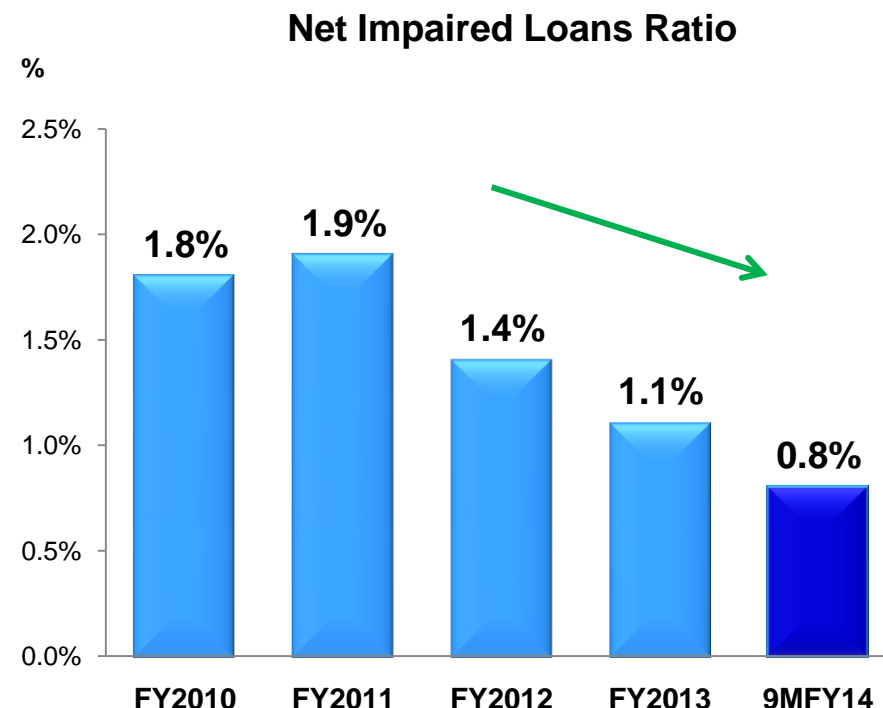
- ❑ Risk Management – well diversified and collateralised loan book.
- ❑ Residential and non-residential properties account for 56.2% of gross loans portfolio:
  - 41.9% of loans portfolio is for residential properties, up from 40.8% as at 9MFY13
  - 14.3% for non-residential properties
- ❑ 18.9% of gross loans are for working capital compared to 22.4% in 9MFY13.

### Continued Improvement In Asset Quality – Net Impaired Loans Ratio at 0.8%



9MFY14 vs 9MFY13  
**GIL: - RM103.7 mil**  
**-18.1%**

9MFY14 vs 9MFY13  
**GIL Ratio:- 0.6%**  
*(from 2.1% Dec 2012)*

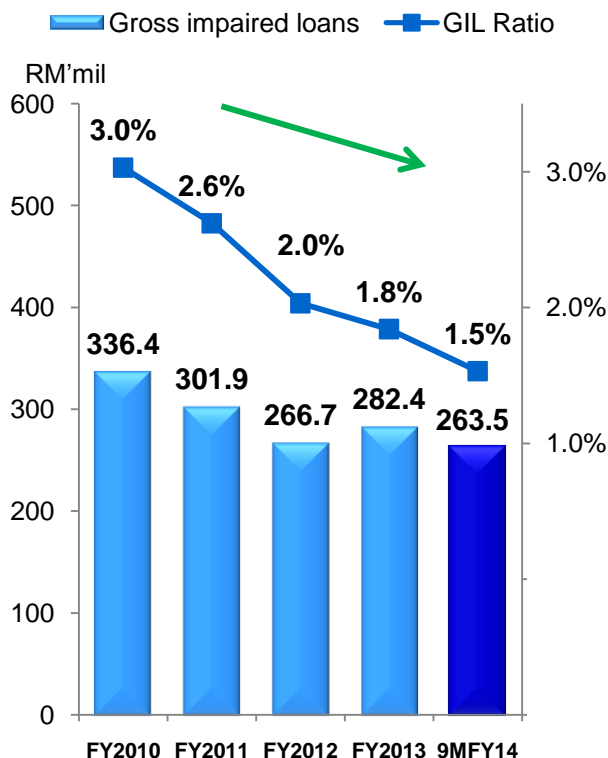


9MFY14 vs 9MFY13  
**NIL Ratio:-0.4%**  
*(from 1.2% Dec 2012)*

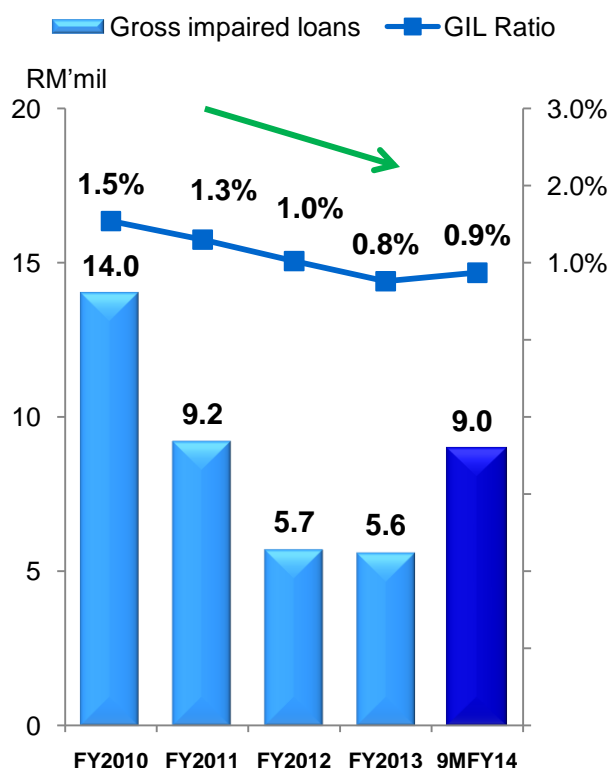
- ❑ Net reduction in gross impaired loans of RM103.7 million y-o-y, despite a 12.8% y-o-y gross loans growth
- ❑ Continue to refine credit origination processes, credit scoring models and intensify collection efforts

## Continued Improvement in Asset Quality for Mortgages, Hire Purchase and SME segment

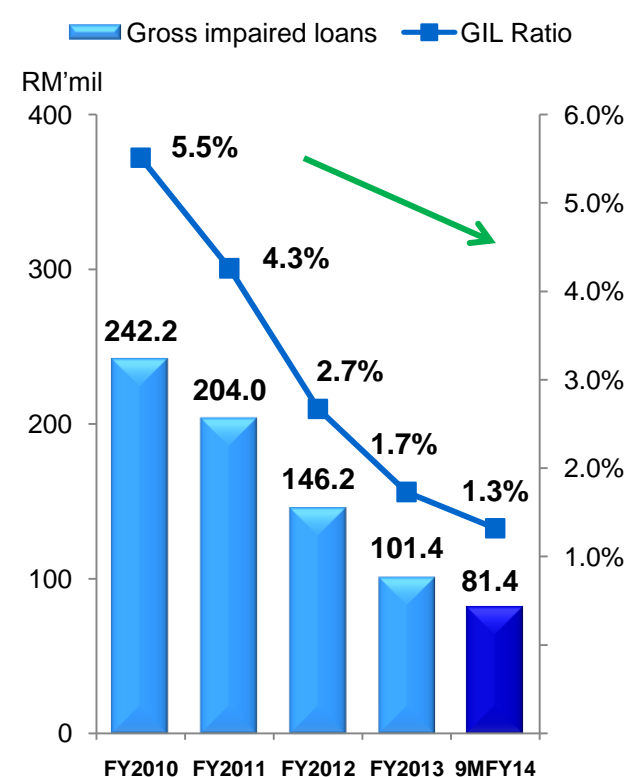
### Purchase of Residential and non-residential Property



### Purchase of Transport Vehicles



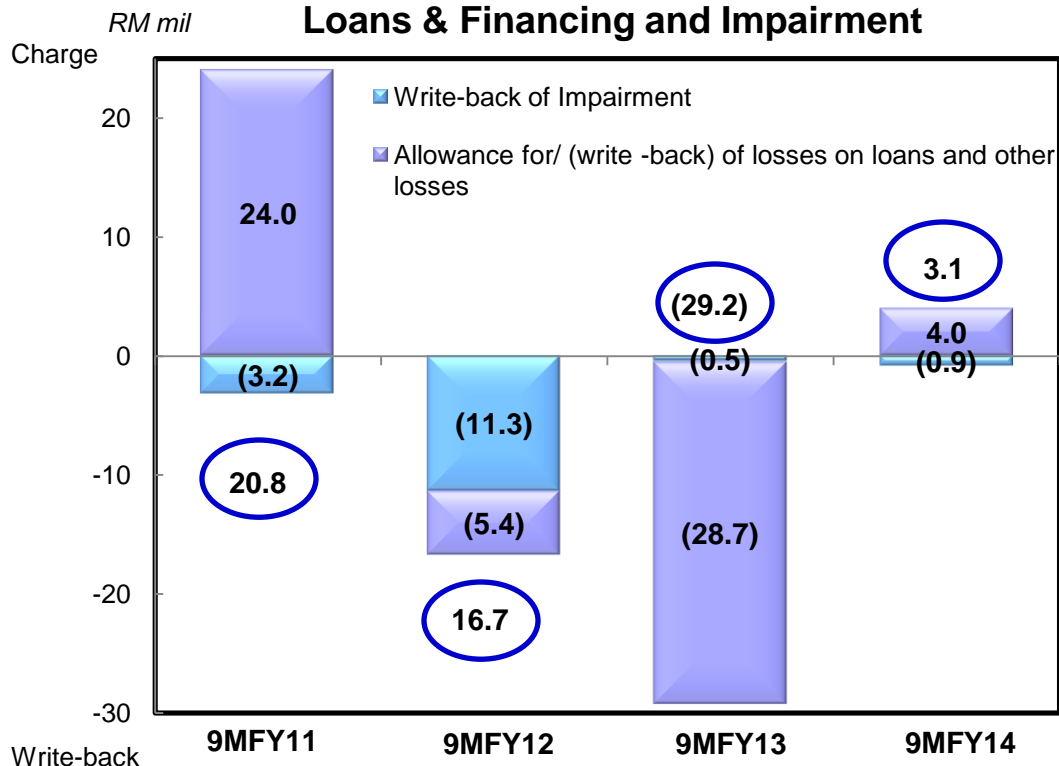
### SME



- ❑ The asset quality continued to improve, with the gross impaired loans ratio for the purchase of residential & non-residential property declined to 1.5%. However, transport vehicles slightly increased to 0.9%.
- ❑ Gross impaired loan ratio for SME segment further improved to 1.3%.

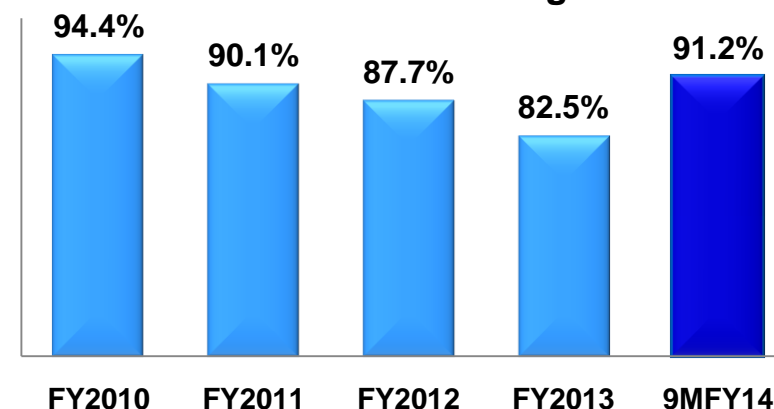
## Credit Charge at ~ 1.3 bps

### Net (Write-back) / Allowance of losses on Loans & Financing and Impairment



- ❑ Allowance in 9MFY14 is mainly due to higher collective assessment from loans growth and lower bad debts recovery.
- ❑ For 9MFY14, credit cost was ~1.3bps.
- ❑ CLO recoveries of RM0.9million for 9MFY14 as compared to RM0.5million in 9MFY13.

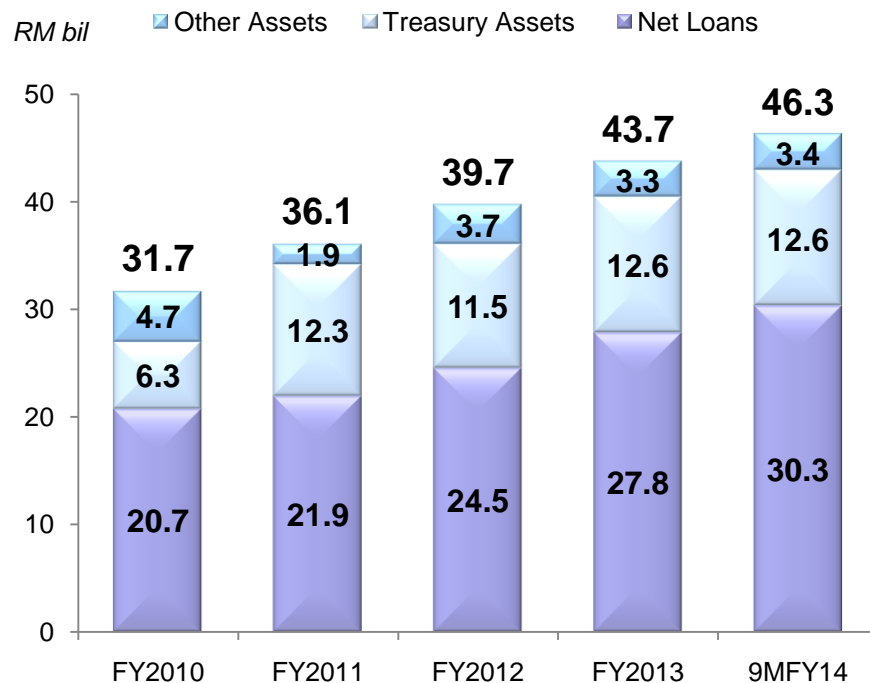
### Loan Loss Coverage



RM'000	9MFY14	9MFY13
Individual assessment	5,140	12,697
Collective assessment	15,132	3,513
Bad debts recovered	(37,769)	(65,507)
Bad debts written off	19,201	16,519
Write-back of commitments /contingencies	-	(196)
Allowance for other assets	2,248	4,237
<b>Allowance for/(Write-back) of losses on loans and other losses</b>	<b>3,952</b>	<b>(28,737)</b>
<b>Write-back of impairment (CLO)</b>	<b>(902)</b>	<b>(473)</b>
<b>Total allowance/ (write-back)</b>	<b>3,050</b>	<b>(29,210)</b>

## Effective Utilisation of Balance Sheet: Net Loans Constitute 65.3% of Total Assets

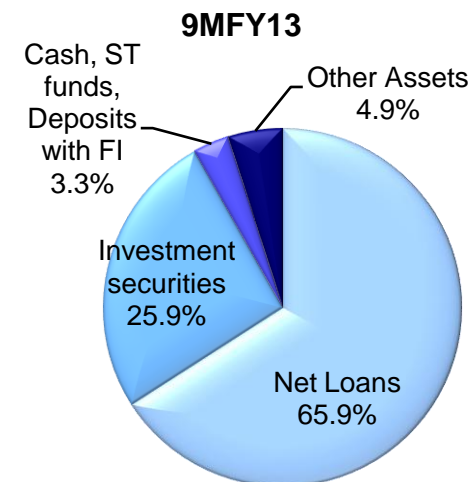
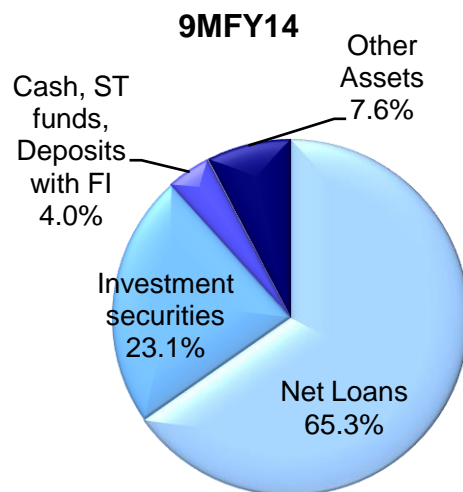
### Total Assets Trend



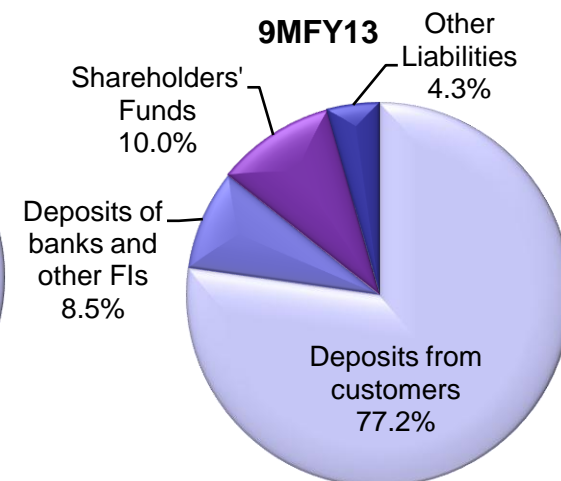
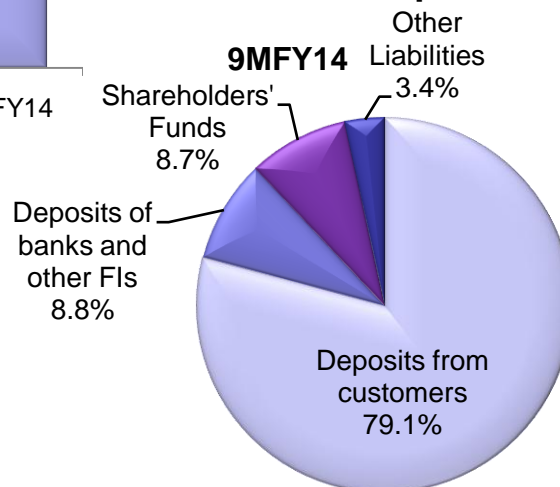
9MFY14 vs 9MFY13  
+ RM5.7bil  
+ 14.3%

- Total assets expanded by RM5.7 billion or 14.3% y-o-y to RM46.3 billion.

### Composition of Total Assets

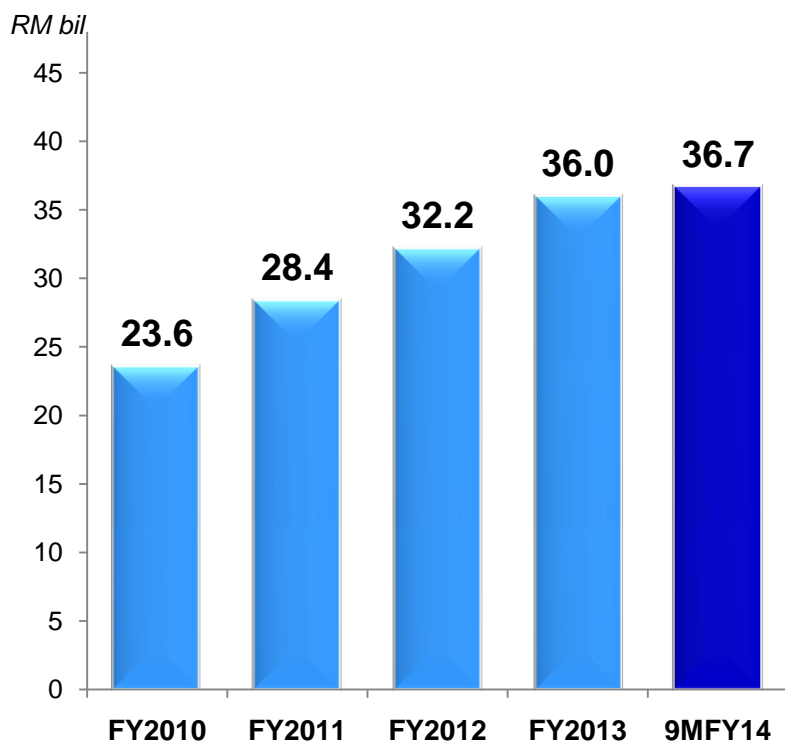


### Composition of Total Liabilities/Equity



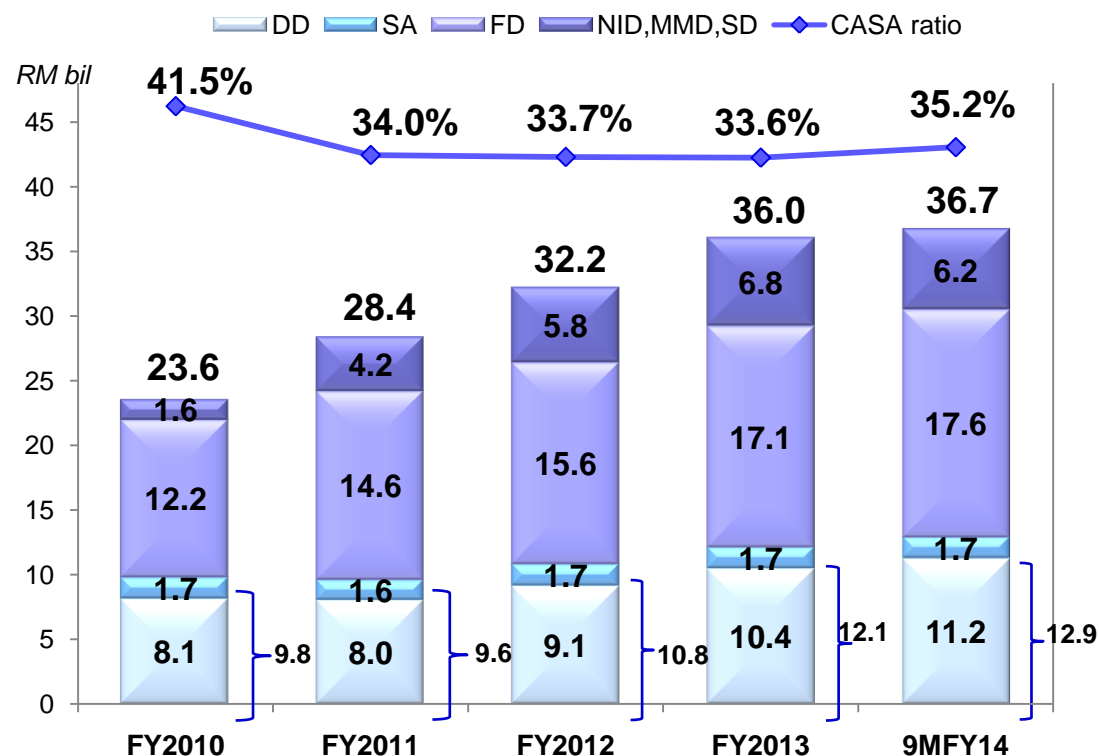
### Robust Y-o-Y Deposit Growth of 17.1%, With CASA Deposits Up 7.5% to RM12.9 billion

#### Customer Deposits Trend



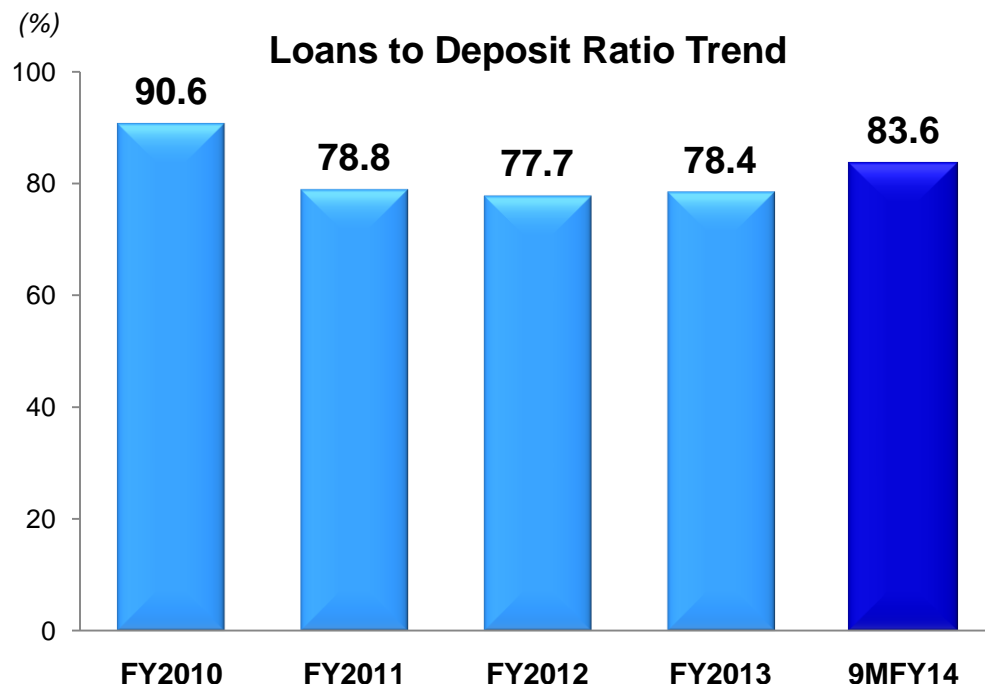
9MFY14 vs 9MFY13  
+ RM5.4 bil  
+ 17.1%

#### CASA Trend



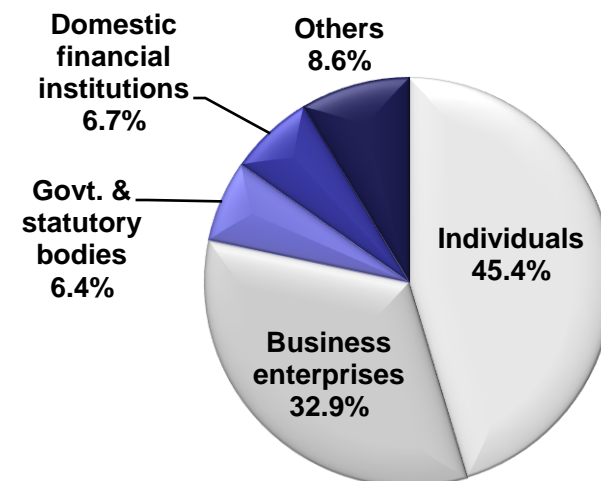
- ❑ Total customer deposits of RM36.7 billion as at 9MFY14, up 17.1% from the same period last year.
- ❑ CASA deposits expanded by RM0.9 billion or 7.5% y-o-y to RM12.9 billion in 9MFY14.

### Strong Liquidity Position with Loans to Deposits Ratio at 83.6%

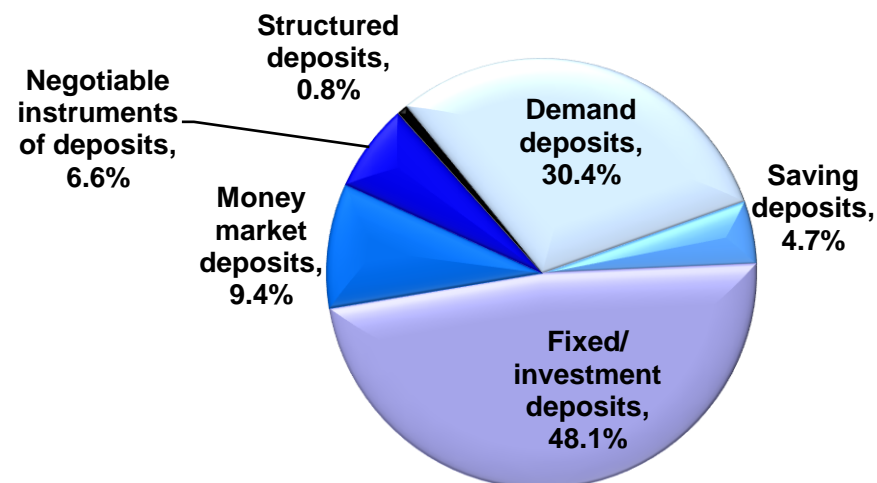


- ❑ Loans to Deposit Ratio of 83.6% as at December 2013.
- ❑ Our overall strategy is to eventually raise Loans to Deposit ratio closer to 85.0%:
  - for more efficient balance sheet management; and
  - to be in line with industry

### Deposits Composition by Customer Type

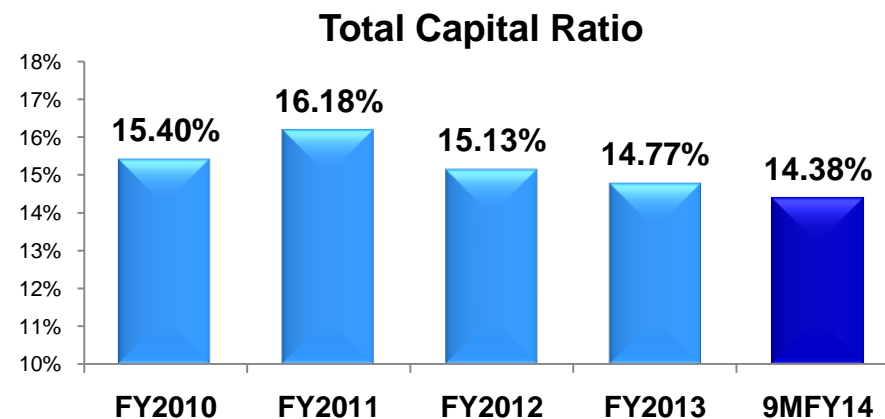


### Deposits Composition by Product Type



**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>10.44%</b>	<b>11.81%</b>	<b>14.38%</b>
ABMB	11.15%	12.48%	12.48%
AIS	13.19%	13.19%	13.89%
AIBB	96.37%	96.37%	96.40%
<b>Basel III Minimum regulatory capital adequacy ratio ^</b>	<b>4.5%</b>	<b>6.0%</b>	<b>8.0%</b>

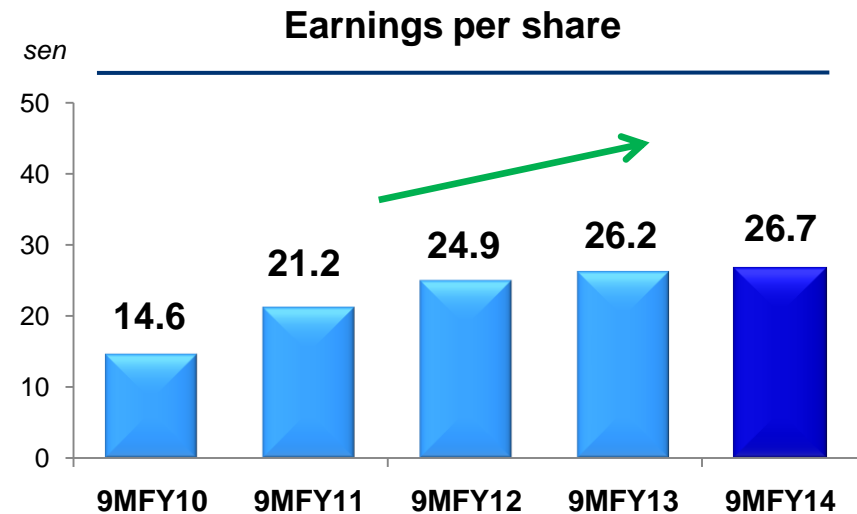
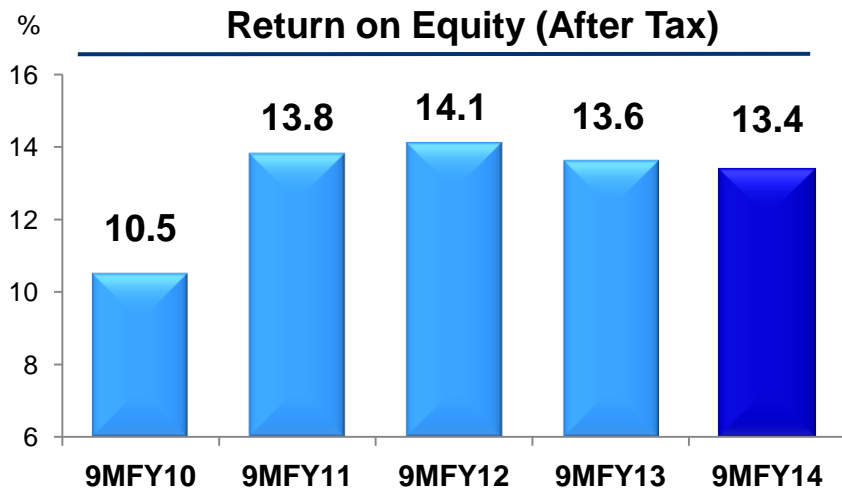
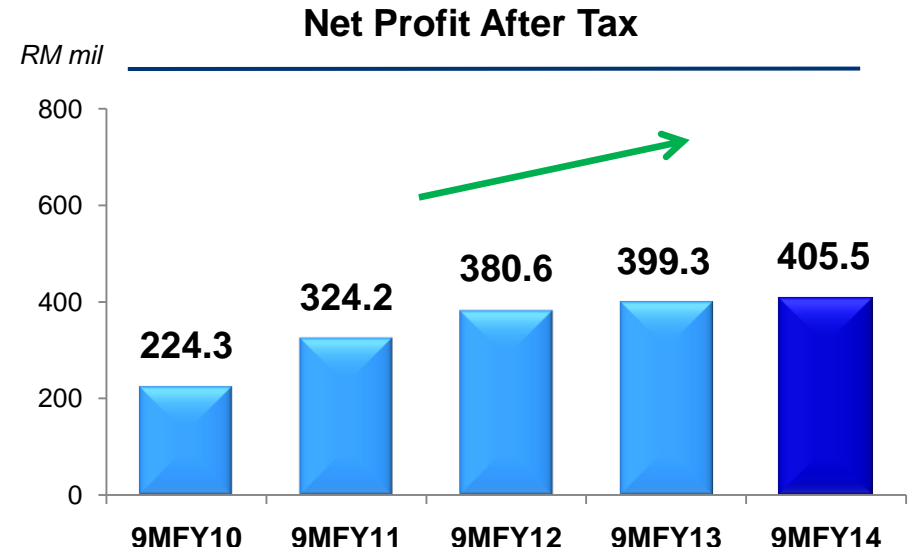
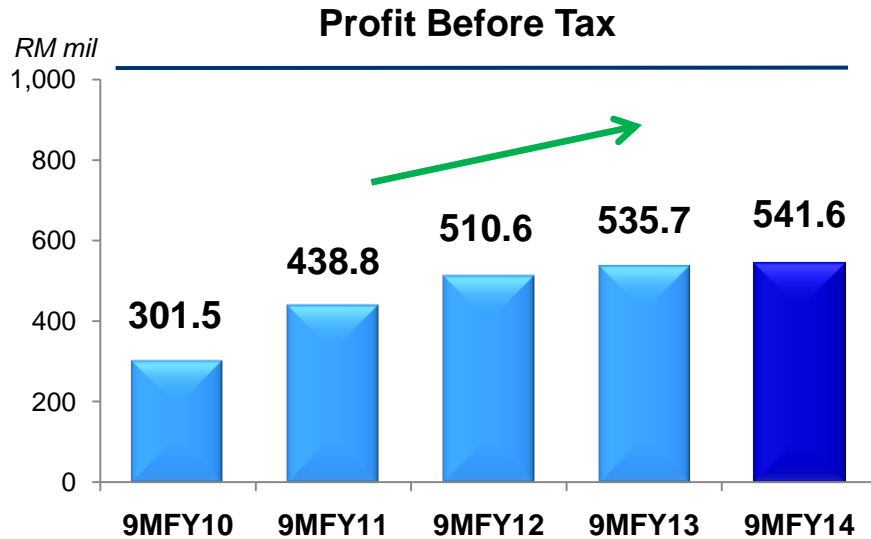


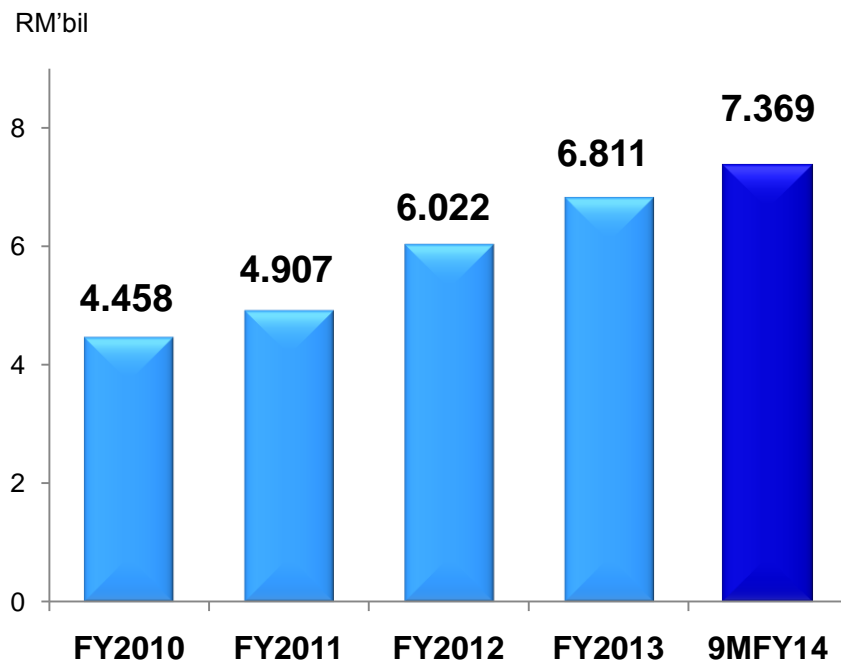
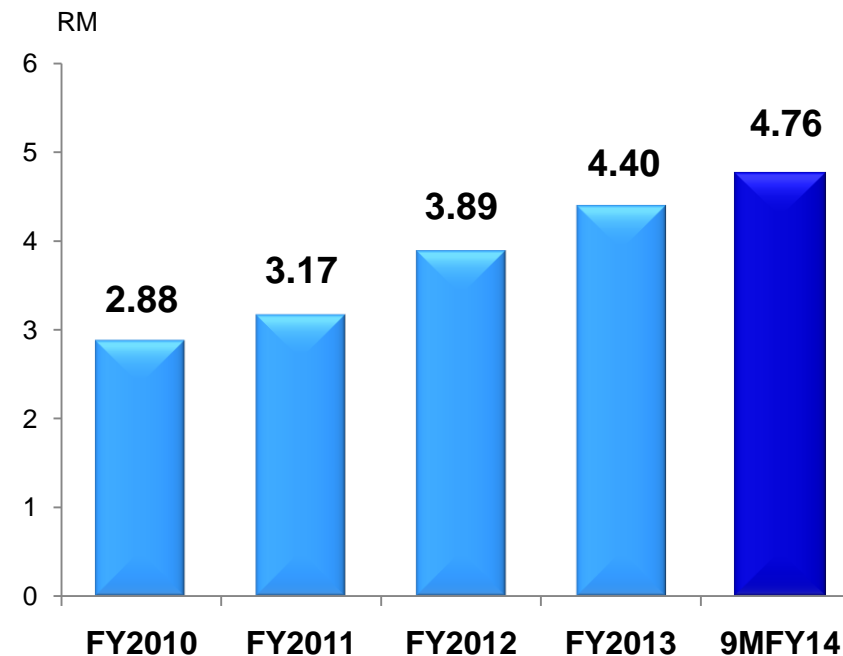
RM'mil	FY10	FY11	FY12	FY13	9M FY14
<b>Double Leverage Ratio</b>	<b>97.5%</b>	<b>97.2%</b>	<b>98.7%</b>	<b>98.5%</b>	<b>98.4%</b>

- 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.

^ Based on the Basel III minimum capital ratios for calendar year 2015

**Return on Equity at 13.4%, with Consistent Growth in Earnings Per Share**



**9MFY14: Steady improvement in Market Capitalisation and Share Price performance****Market Capitalisation****Share Price Performance**

- Market capitalisation and share price performance is improving steadily, with CAGR at 15.4% since FY2010.

# THANK YOU

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