ALLIANCE FINANCIAL GROUP BERHAD (6627-X)

Banking Made Personal

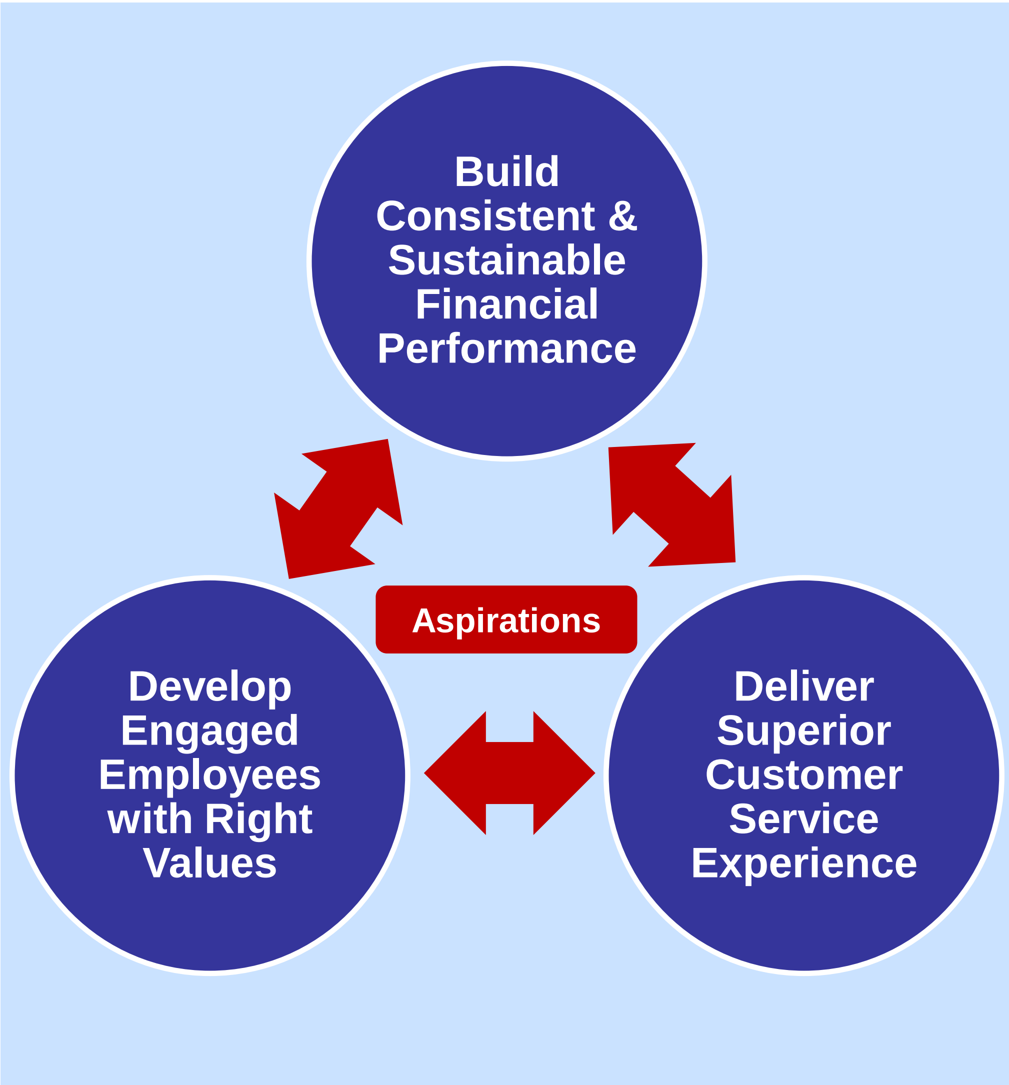
ANALYST BRIEFING

1st Half FY2015

26 November 2014

Contents

We have Built a Strong Franchise in Consumer & SME Banking



- ❑ Clear niche in Consumer & SME Banking:
- ❑ Focused on delivering long term sustainable financial performance:
  - ✓ Loans growth faster than industry at 15.5% y-o-y.
  - ✓ Improved asset quality with net impaired loans ratio at 0.7%.
  - ✓ Effective funding structure with CASA ratio at 35.2%.
  - ✓ Enhanced productivity and efficiency with Cost to Income ratio at 44.3%.
  - ✓ Return on Equity at 13.9%.
  - ✓ Strong capital ratio at 13.2%.

7.9% Growth in Pre-Tax Profit, Excluding One-Off Gain

Income Statement	1HFY15 RM mil	1HFY14 RM mil	%	
			RM mil	%
Net Interest Income	421.0	377.1	43.9	11.6%
Islamic Banking Income	107.6	105.6	2.0	1.9%
Non-Interest Income	198.3	196.2	2.1	1.1%
Net Income	726.9	678.9	48.0	7.1%
Operating Expenses	322.2	319.2	3.0	0.9%
Pre-Provision Operating Profit	404.7	359.7	45.0	12.5%
Write-back of losses on loans & financing and other losses	5.6	0.4	5.2	>100%
Pre-tax profit	410.3	360.1	50.2	13.9%
Net Profit After Taxation	311.1	269.0	42.1	15.7%

- +11.6% rise in ***net interest income*** from 15.5% net loans growth, but interest margins remain under pressure.
- +1.1% growth in ***non-interest income***, contributed by:
  - Higher investment income
  - Recurring income from transaction banking, wealth management and brokerage and treasury activities
  - Other income: one-off gain on disposal of land amounting to RM21.6 million
- ***Net write-back*** of provisions in 1HFY15 due to non-recurring recoveries of impaired accounts.
- ***Pre-tax profit*** up 7.9% excluding one-off non-recurring gain on disposal of land.

Net Loans Growth at 15.5% Y-o-Y, Driven By Consumer & SME Segments

Balance Sheet	1HFY15 RM bil	1HFY14 RM bil	Change	
			RM bil	%
Total Assets	**50.8**	**45.9**	**4.9**	**10.7%**
Treasury Assets	**12.1**	**12.6**	**-0.5**	**-4.2%**
Net Loans	**34.1**	**29.5**	**4.6**	**15.5%**
Customer Deposits	**40.8**	**36.7**	**4.1**	**11.0%**
CASA Deposits	**14.3**	**12.3**	**2.0**	**16.7%**
Shareholders' Funds	**4.4**	**4.1**	**0.3**	**5.6%**
Net Loans Growth (y-o-y)	**15.5%**	**13.1%**	**-**	**2.4%**
Customer Deposits Growth (y-o-y)	**11.0%**	**14.3%**	**-**	**-3.3%**

- +15.5% y-o-y ***net loans*** growth: above industry – driven by strong loans growth in the Consumer and SME segments:
  - Residential mortgage (+15.2% y-o-y)
  - Commercial mortgage (+36.8% y-o-y)
  - SME (+24.4% y-o-y)
- +11.0% y-o-y ***customer deposits*** growth, maintaining a healthy loans to deposit ratio while at the same time, ensuring efficient balance sheet management.
- +16.7% 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

Key Financial Ratios

	Financial Ratios	1HFY15	1HFY14	Change
Share-holder Value	Return on Equity	13.9%	13.3%	+0.6%
	Return on Assets	1.2%	1.2%	-
	Earnings per Share	20.5 sen	17.7 sen	+15.8%
	Interim Dividends per Share	9.0 sen	7.5 sen	+20.0%
	Net Assets per Share	RM 2.82	RM2.67	+RM0.15
Efficiency	Non-Interest Income Ratio*	28.1%	29.8%	-1.7%
	Cost to Income Ratio	44.3%	47.0%	-2.7%
Asset Quality	Gross Impaired Loans Ratio	1.2%	1.7%	-0.5%
	Net Impaired Loans Ratio	0.7%	0.9%	-0.2%
	Loan Loss Coverage Ratio	88.6%	86.7%	+1.9%
Liquidity	Loans to Deposit Ratio	84.5%	81.6%	+2.9%
	CASA Ratio	35.2%	33.4%	+1.8%
Capital	Common Equity Tier 1 Capital Ratio	10.13%	10.76%	-0.63%
	Tier 1 Capital Ratio	11.11%	12.17%	-1.06%
	Total Capital Ratio	13.19%	14.79%	-1.60%

Note: * Includes the non-interest income portion of Islamic banking business

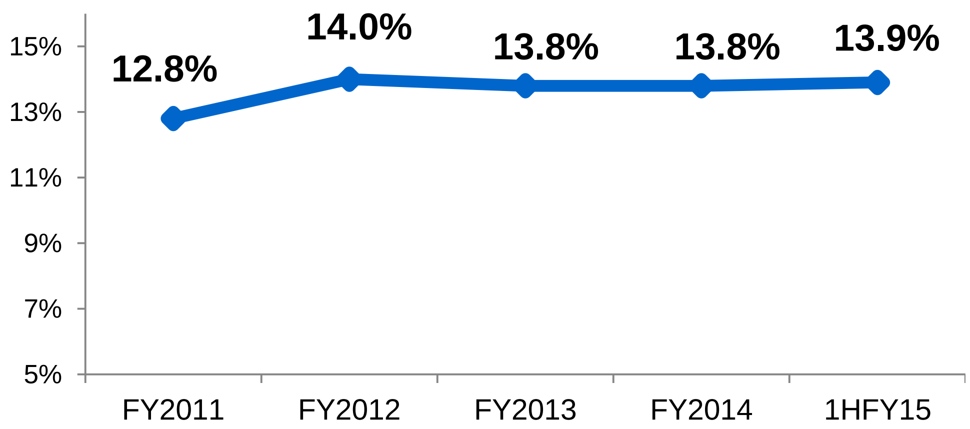
- ***Cost to income ratio*** – reduced to 44.3% arising from effective cost management.
- ***Non-interest income –*** 25.8% excluding one-off non-recurring gain on sale of land
- ***First interim dividend*** declared of 9.0 sen (as compared to 7.5 sen last year).
- ***Net Impaired Loans ratio*** – improved further to 0.7%.
- ***Loans to deposits ratio*** – raised to 84.5% for a more efficient balance sheet management, while maintaining a strong liquidity position.
- ***CASA ratio*** – improved to 35.2% on the back of CASA growth of 16.7%, outpacing our overall deposits growth.
- Strong ***capitalisation*** under Basel III.

ALLIANCE FINANCIAL GROUP

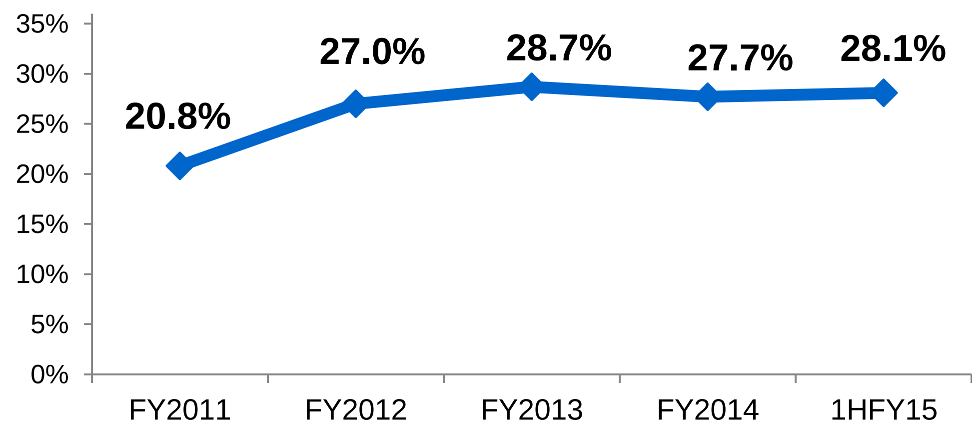
Trend: Key Financial Ratios

Sustained Financial Performance, with Key Metrics in the Right Direction

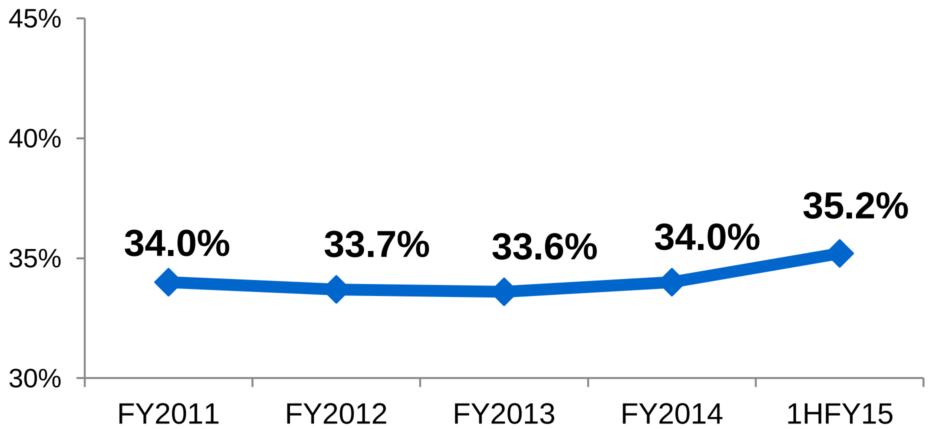
Return on Equity



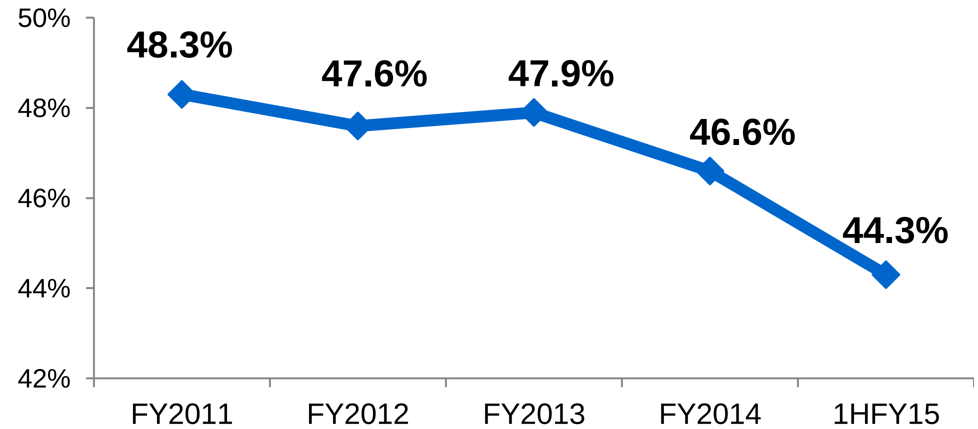
Non-Interest Income Ratio



CASA Ratio



Cost-to-Income Ratio



Franchise Building

FINANCIAL INSIGHTS INNOVATION AWARDS 2014
Asia's Most Customer Friendly Bank

FINANCIAL INSIGHTS INNOVATION AWARDS 2014
Asia's Best Online Banking

advertising+marketing MAGAZINE'S MARKETING EXCELLENCE AWARDS 2014
THE WESTIN KUALA LUMPUR | 17 OCTOBER 2014
GOLD WINNER

Excellence in Brand Strategy
Alliance BizSmart Academy

CARDS & ELECTRONIC PAYMENTS INTERNATIONAL
Asia Trailblazer Awards 2014
Best Business Card Programme

CARDS & ELECTRONIC PAYMENTS INTERNATIONAL
Asia Trailblazer Awards 2014
Credit Card Product of the Year - Malaysia

ASIAN BANKING & FINANCE RETAIL BANKING AWARDS 2014

Online Banking Initiative Of The Year – Malaysia

THE ASIAN BANKER® TECHNOLOGY IMPLEMENTATION AWARDS 2014
SELF SERVICE BANKING PROJECT

THE LOYALTY & ENGAGEMENT AWARDS 2014

Best Use of Integrated Marketing Campaign (Bronze)
Alliance BizSmart Academy

AUTHENTIC GLOBAL FINANCIAL MARKET REVIEW AWARD

Global Financial Market Review
Best SME Bank Malaysia 2014

RETAIL BANKER INTERNATIONAL
Asia Trailblazer Awards 2014
Service Excellence in SME Banking

GROWING BUSINESS IN NEW TERRITORY OR NEW SERVICE OFFERING
Architecture Excellence Award 2014

Architecture Excellence Awards 2014
Growing Business in New Territory or New Service Offering

Malaysia's 100 Leading Graduate Employers 2012, 2013 & 2014

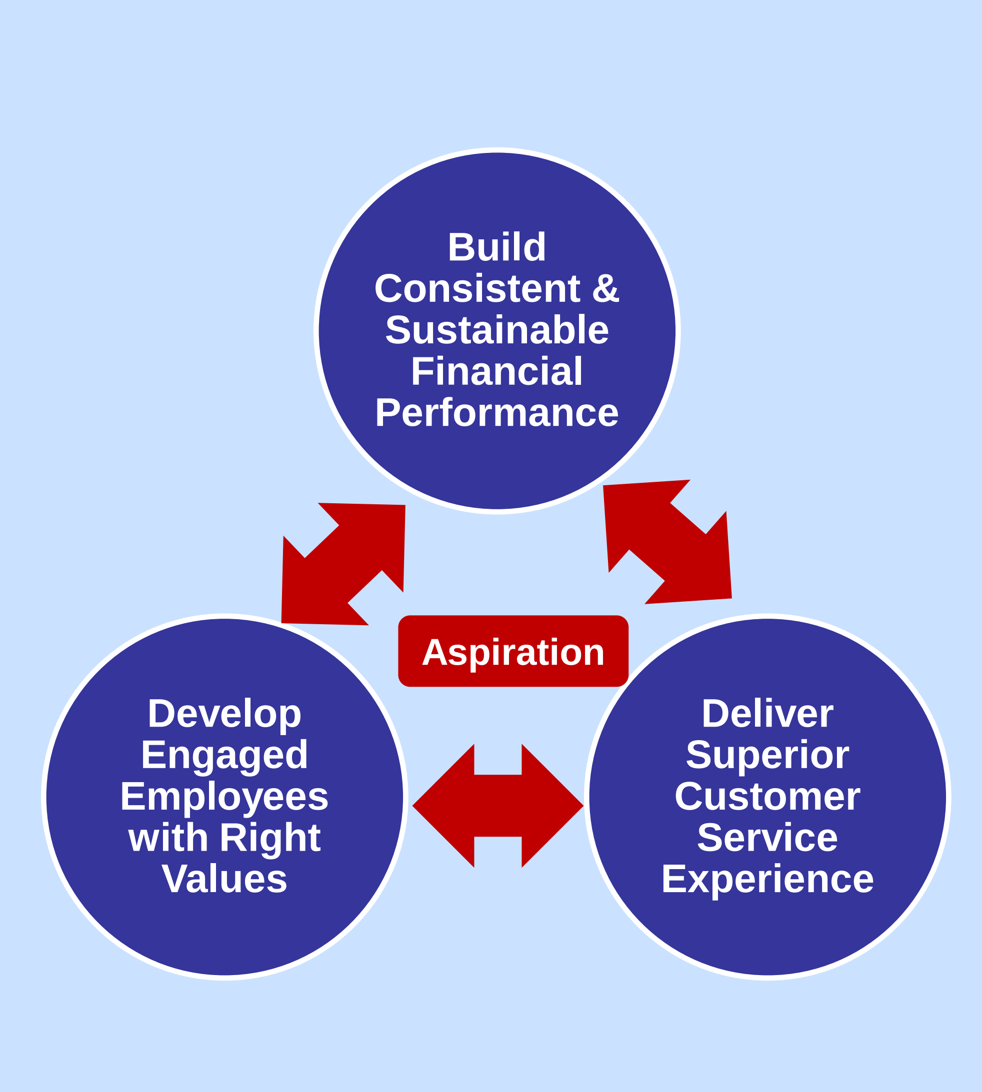
THE HIGHEST CUSTOMER SATISFACTION INDEX SCORE IN MALAYSIA
ABM and MPC 2013

ABM & MPC Highest CSI* Index Score in Malaysia 2013

THE ASIAN BANKER® EXCELLENCE IN RETAIL FINANCIAL SERVICES INTERNATIONAL AWARDS 2013
BEST SME BANK
in Asia Pacific, Gulf region & Africa

* Note: Customer Satisfaction Index

Continue To "Deliver Consistent and Sustainable Financial Performance"



Our Priorities

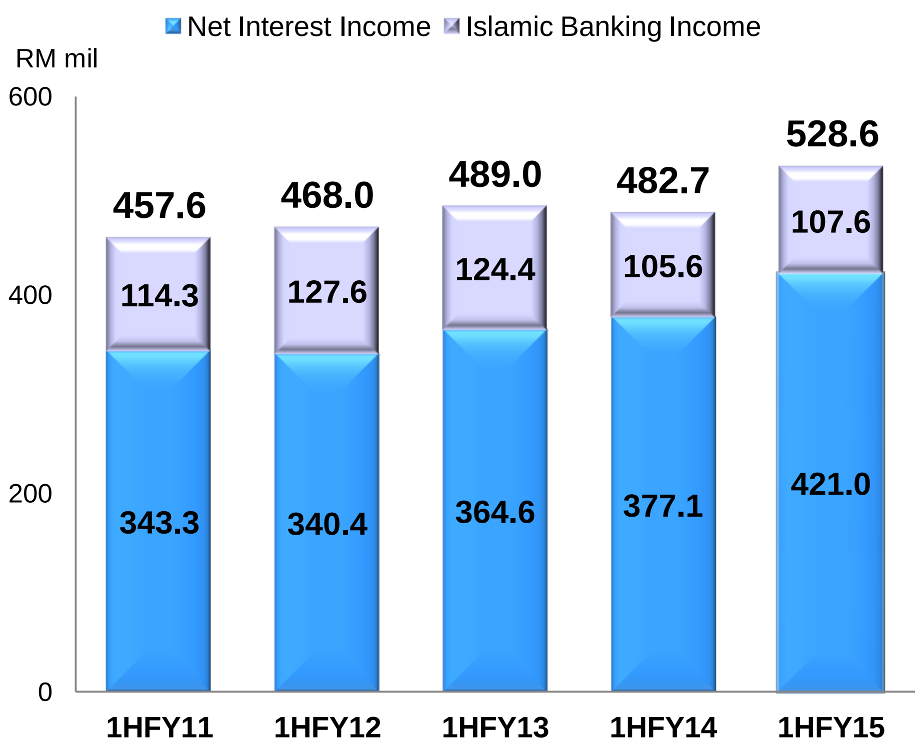
- Build on strengths and niche in Consumer and Business Banking
- Enhance existing branch network and leverage on alternate channels
- Enhance customer experience through streamlining of processes and raising staff productivity
- Improve efficiency in resource utilisation, ensuring impactful investments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

Contents

Steady Growth in Net Income Driven by Higher Loans Growth

Net Interest Income & Islamic Banking Income



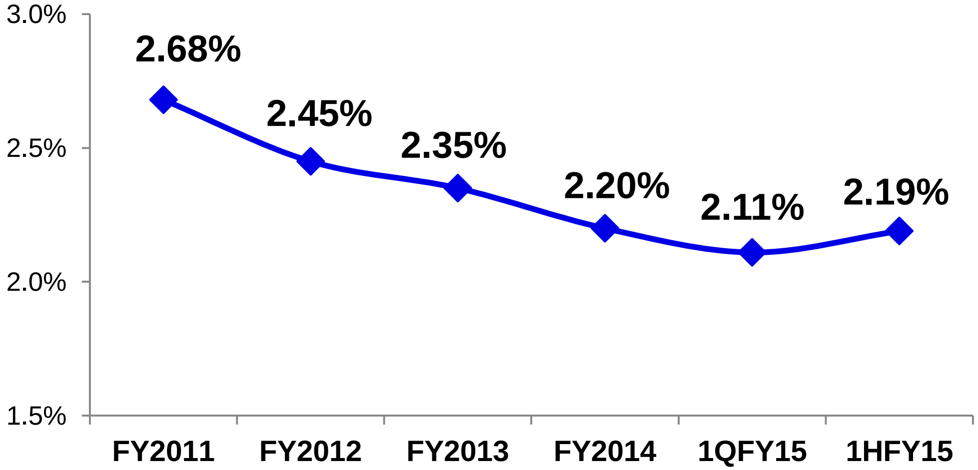
1HFY15 vs 1HFY14
+ RM 45.9 mil
+ 9.5%

- **Net interest income** growth of RM43.9 million or 11.6% y-o-y:
  - ✓ +RM109.7 million increase in interest income primarily from loans growth;

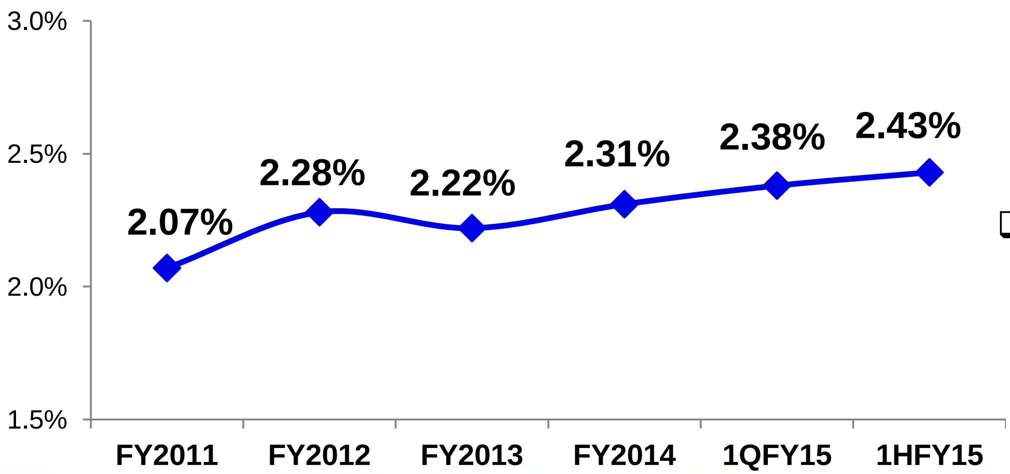
  Offset by:
  - ✓ +RM65.9 million rise in interest expense from 11.0% y-o-y expansion in deposits
  - ✓ Deposit rates on the rise:
    - Competition for retail deposits
    - Rates re-priced ahead of the recent OPR increase, as well as expectation of further OPR hike in 2015.
- **Net income from Islamic Banking**:
  - ✓ On the uptrend in 1HFY15, with the income from the expansion in hire purchase lending offsetting the run-off of the high-yielding co-op personal financing.

Net Interest Margin Continues To Be Under Pressure

Net Interest Margin Trend



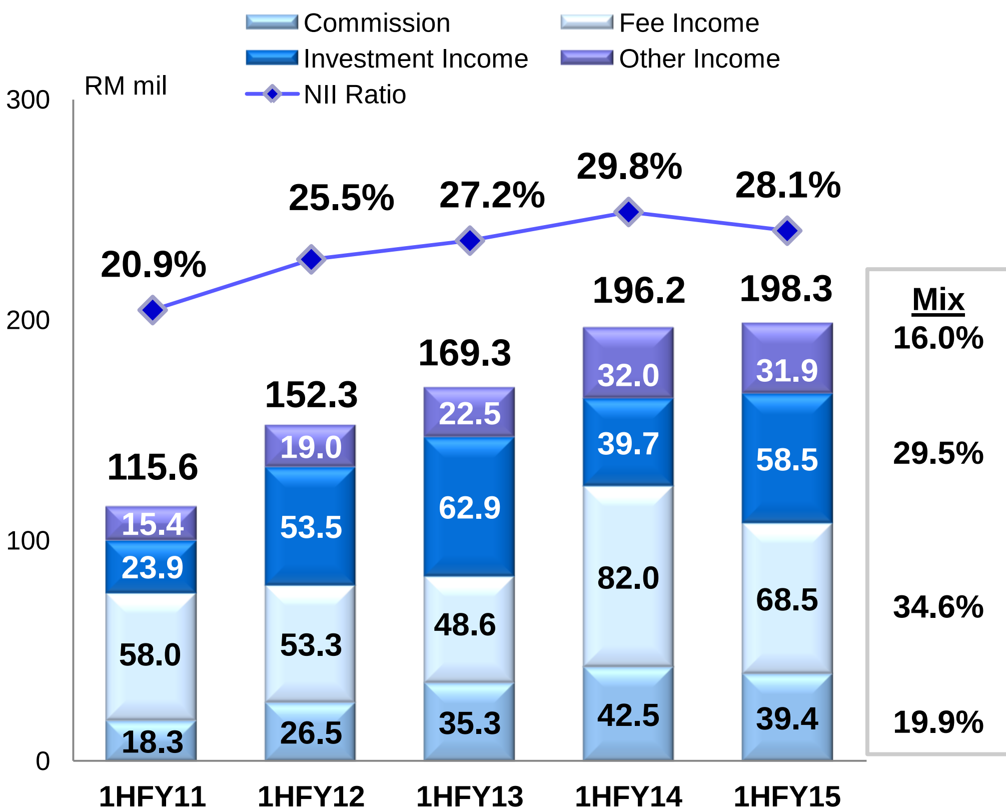
Cost of Funds Trend



- **Net Interest Margin (NIM)** was 2.19% for 1HFY15, down by 1 bp from a year ago (1HFY14: 2.20%).
- Continuing margin compression mainly due to:
  - Run-off from repayments of higher-yielding co-op loans:
    - ✓ RM408.7 million as at September 2014
    - ✓ RM454.4 million as at September 2013
    - ✓ RM1,023.1 million as at March 2011
  - New mortgage loans are at lower yield, with housing loans as a % of total Loans:
    - ✓ 41.5% as at September 2014
    - ✓ 39.1% as at September 2013
    - ✓ 37.1% as at March 2011
  - Intensified competition for lending activities and deposits.
- **Cost of Funds (COF)** increased to 2.43% following rise in OPR and competition for deposits.

Non-Interest Income Supported by Continuing Focus on Building Recurring Income

Non-Interest Income Trend



1HFY15 vs 1HFY14
+RM2.1 mil
+ 1.1%

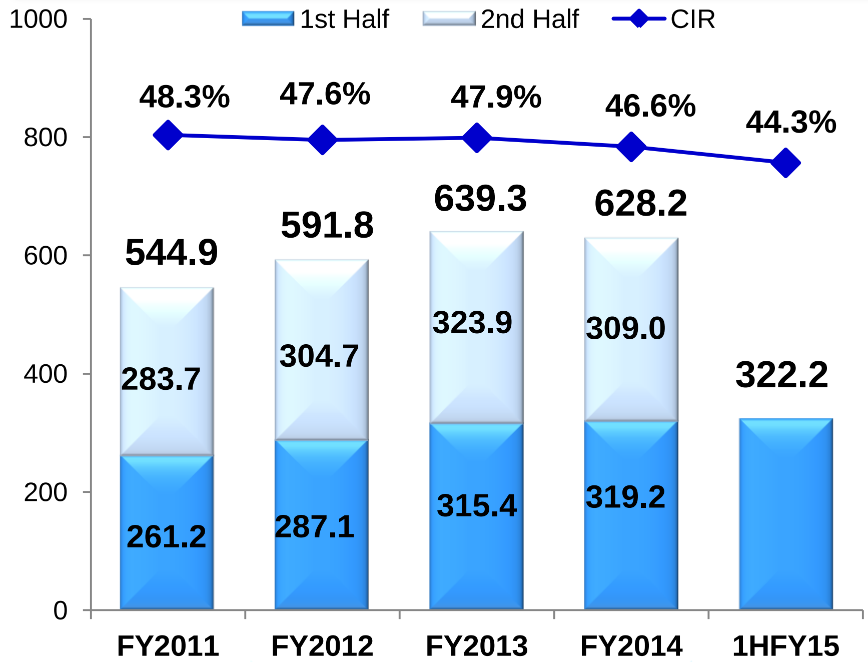
- **Non-interest income (NII)** in 1HFY15 increased by RM2.1 million or 1.1%, mainly due to:
  - Higher investment income by RM18.8 million or 47.3%, contributed by the marked-to-market valuation of derivative financial instruments.
  - Other income: one-off gain on disposal of land amounting to RM21.6 million.
  - **Offset by:** lower fee income compared to previous year due to the one-off sign-on fee income of RM30 million from Bancassurance agreement with Manulife in 1QFY14.
- Investment income from trading activities remains under pressure due to market volatility.
- **Excluding one-offs*, non-interest income ratio** in 1HFY15 is 25.8%.

*Note: * One-off gain on disposal of land amounting to RM21.6 million in Q2FY15*

Note: Non-interest income ratio includes the non-interest income portion of Islamic banking business

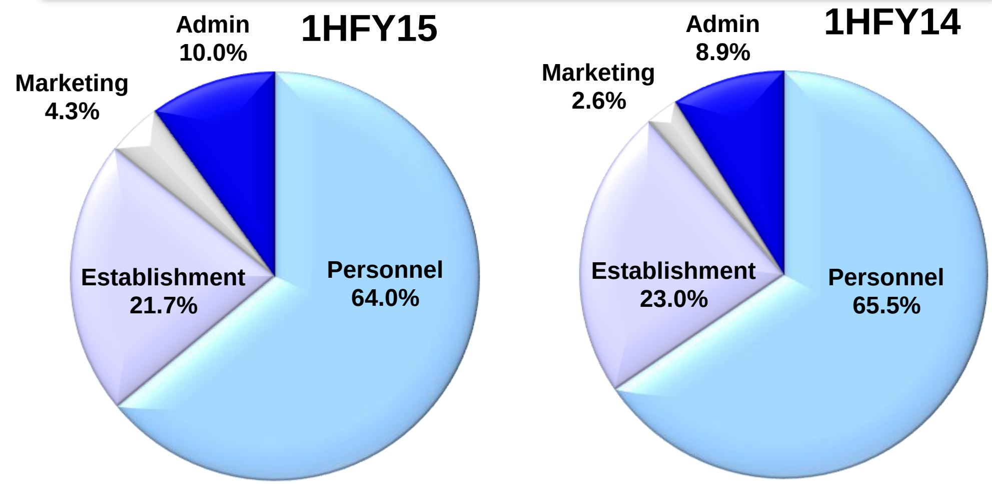
Cost-to-income Ratio improved to 44.3%, from Effective Cost Management

Operating Expenses Trend



1HFY15 vs 1HFY14
+ RM3.0 mil
+ 0.9%

Composition of Operating Expenses

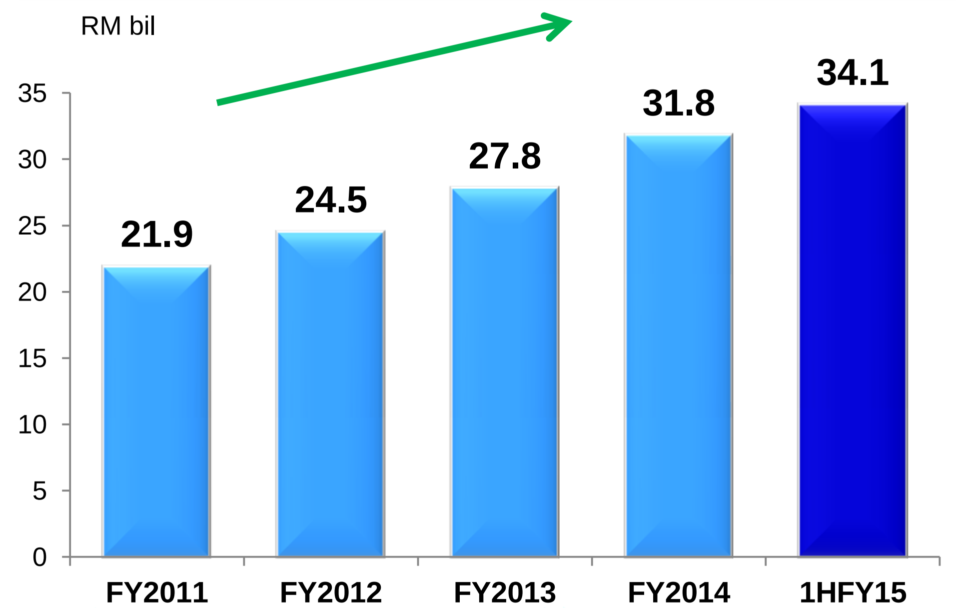


OPEX Contribution	1HFY15 RM mil	1HFY14 RM mil	Change	
			RM	%
Personnel	206.2	209.2	-3.0	-1.5
Establishment	70.0	73.3	-3.3	-4.4
Marketing	14.0	8.3	5.7	69.4
Administration	32.0	28.4	3.6	12.6
Total OPEX	322.2	319.2	3.0	0.9

- Overall personnel cost reduced by 1.5% to RM206.2 mil in 1HFY15. The Group incurred a one-off MSS cost of RM10.6 million in June 2014 quarter, compared to VSS cost of RM22.3 million in June 2013 quarter.
- Group has stepped up investments in branch channels, IT infrastructure and marketing cum brand building initiatives.

Net Loans at 15.5% Y-o-Y, Driven By Consumer and SME Lending

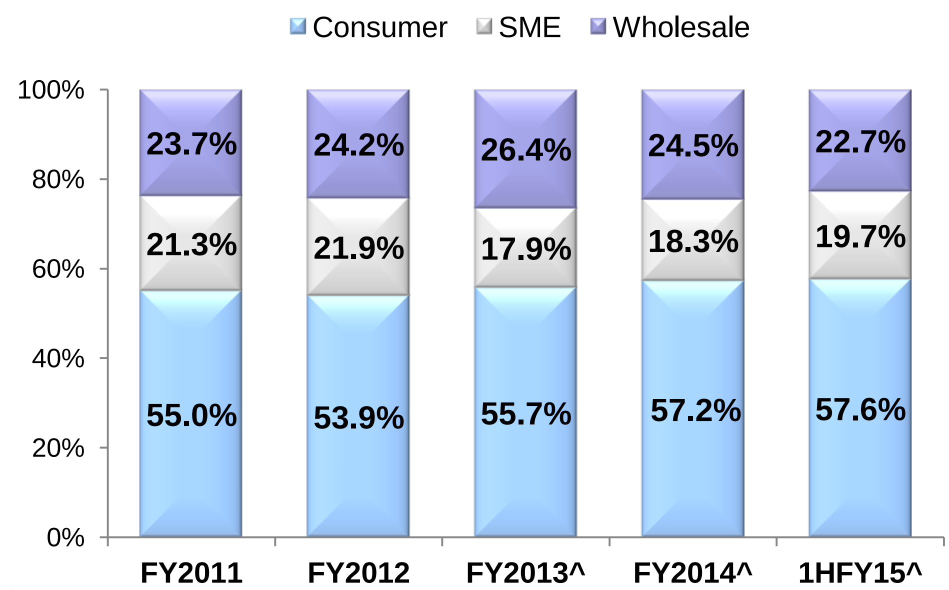
Net Loans, Advances and Financing Trend



1HFY15 vs 1HFY14
+ RM 4.6 bil
+ 15.5%

1HFY15 YTD
Annualised
+14.0%

Loans Composition by Business Segments

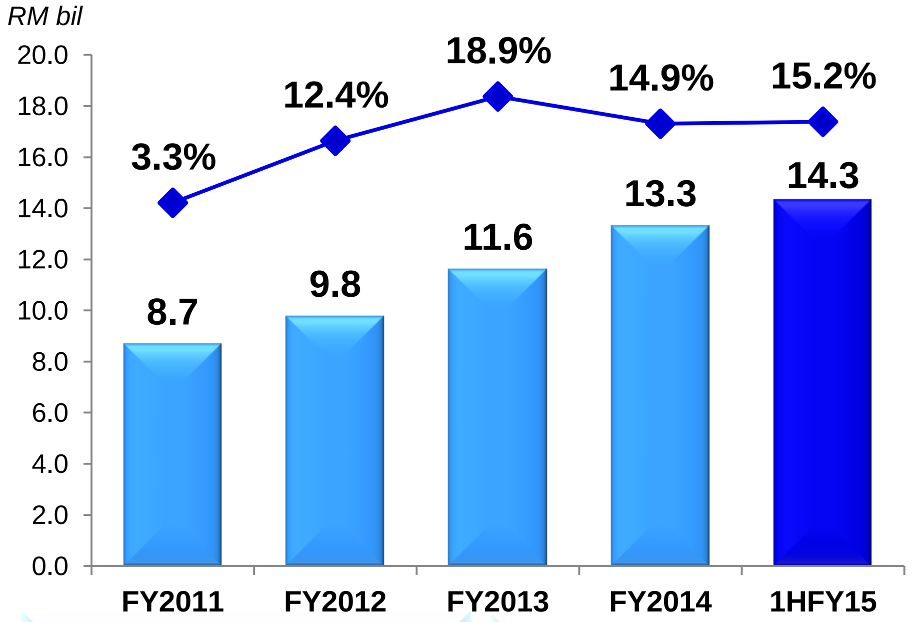


- **Net loans growth** of 15.5% y-o-y, higher than the industry growth, driven by Consumer and SME segments. Loans growth momentum continue following the streamlining of processes from loan origination to disbursements.
- Balanced loans composition with 57.6% Consumer; 19.7% SME and 22.7% for Wholesale Lending.
- Effective management of interest rate risk: 89.7% of loan book is floating rate (1HFY14: 89.3%).

Note: ^ BNM's revised SME definition effective from 1 January 2014. FY2013 SME loans have been restated based on BNM's revised SME definition.

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

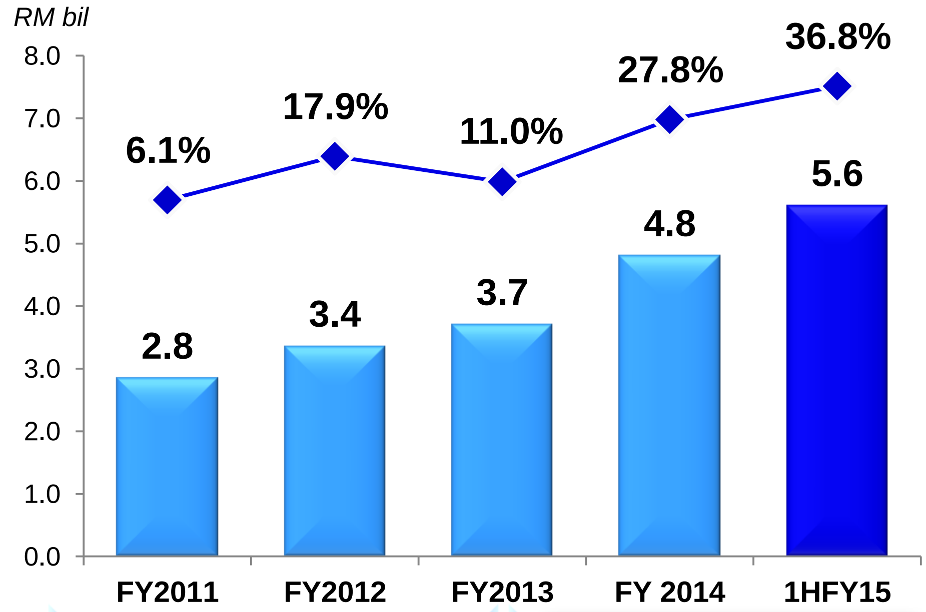
Loans Growth for Residential Property



1HFY15 vs 1HFY14
+ RM 1.9 bil
+ 15.2%

1HFY15 YTD
Annualised
+14.5%

Loans Growth for Commercial Property



1HFY15 vs 1HFY14
+ RM 1.5 bil
+ 36.8%

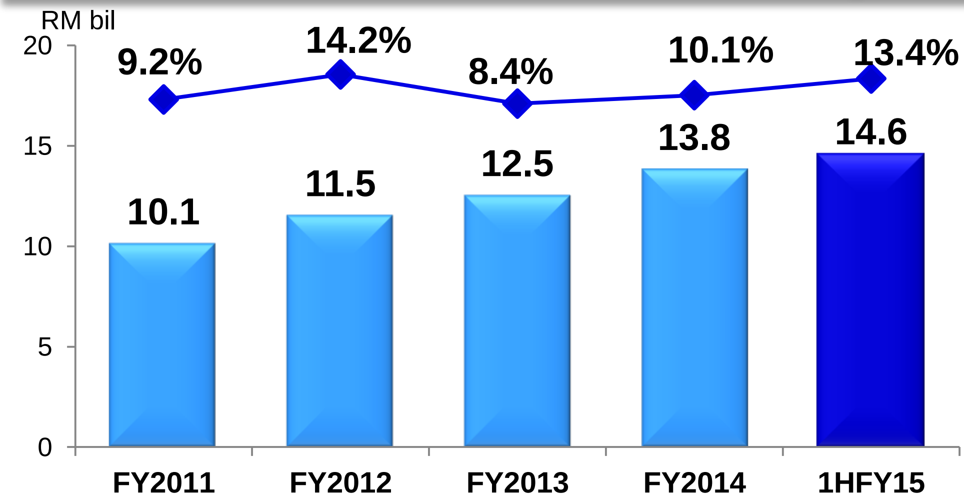
1HFY15 YTD
Annualised
+37.3%

- Residential properties: +RM1.9 billion or 15.2% y-o-y growth, higher than industry growth rate of 13.7%.
- Commercial properties: +RM1.5 billion or 36.8% 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.

Loans Growth: Business Banking & SME

Business Banking Loans Growth Accelerated to 13.4% Driven by Lending to SMEs

Loans Growth for Business Banking



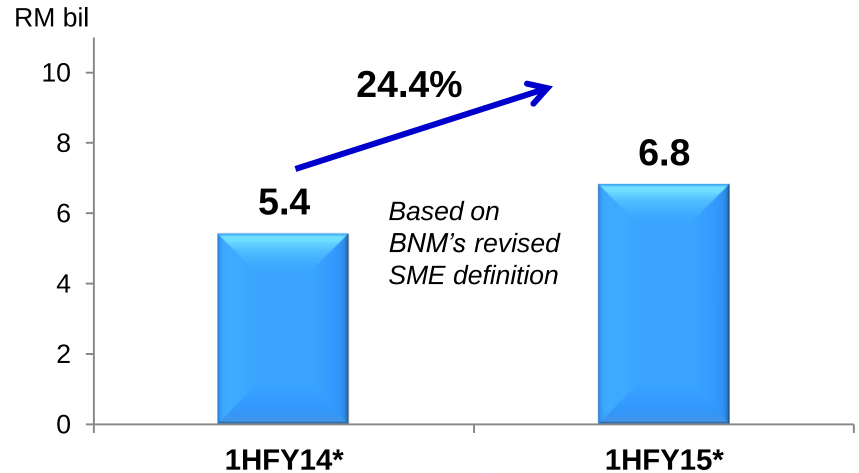
1HFY15 vs 1HFY14
+ RM1.7 bil
+ 13.4%

1HFY15 YTD
Annualised
+12.3%

RM mil	1HFY15	1HFY14	Y-o-Y Growth
SME	6,780	5,449	24.4%
Corporate & Commercial	7,842	7,446	5.3%

- Overall business loans: +RM1.7 billion or 13.4% y-o-y.
- Corporate & commercial loans: +RM0.4 million or 5.3% y-o-y, mainly attributed by growth in commercial loans.

Loans Growth for SME



1HFY15 vs 1HFY14
+ RM1.3 bil
+ 24.4%

1HFY15 YTD
Annualised
+29.8%

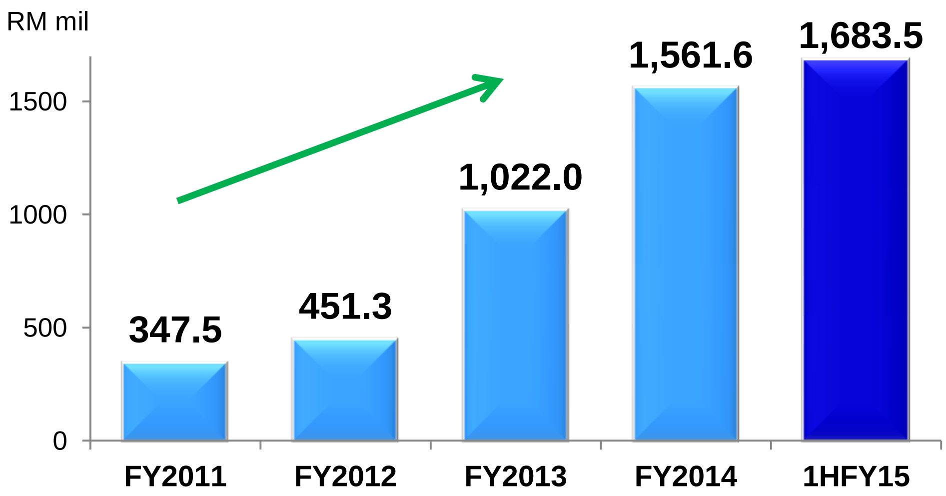
Note:
** BNM's revised SME definition effective from 1 January 2014. FY2013 SME loans have been restated based on BNM's revised SME definition.*

- SME Lending: up RM 1.3 billion or 24.4% y-o-y (based on BNM's revised SME definition).

Loans Growth: Share Margin & Transport Vehicles

Growth in Share Margin Financing and Hire Purchase Loans

Share Margin Financing Growth

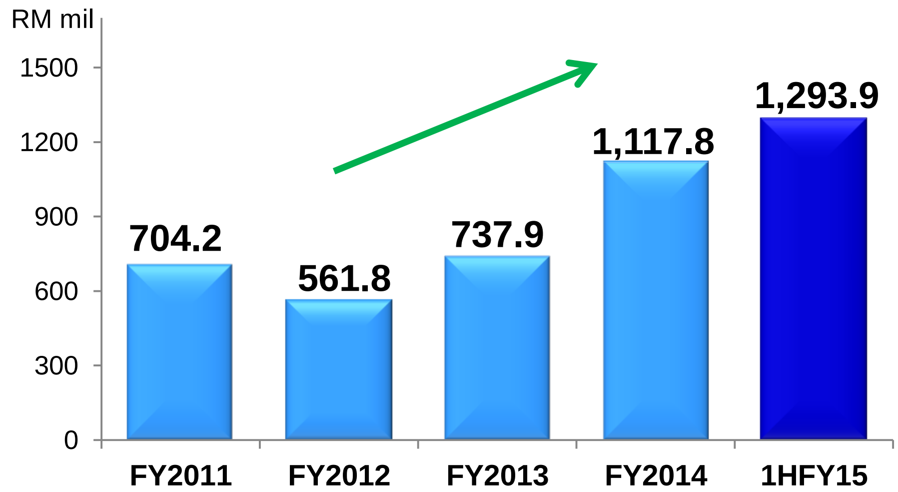


1HFY15 vs 1HFY14
+ RM 0.3 bil
+21.9%

1HFY15 YTD
Annualised
+15.6%

- Growth in Share Margin Financing in line with greater focus on wealth management and re-organisation of retail broking business.

Loans Growth for Transport Vehicles



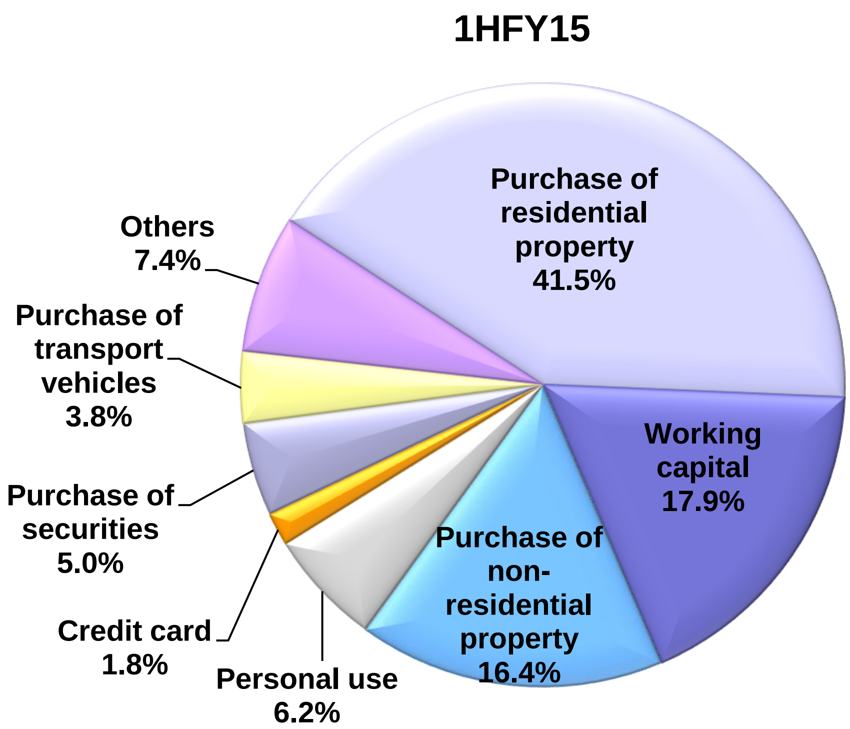
1HFY15 vs 1HFY14
+ RM 0.4 bil
+37.3%

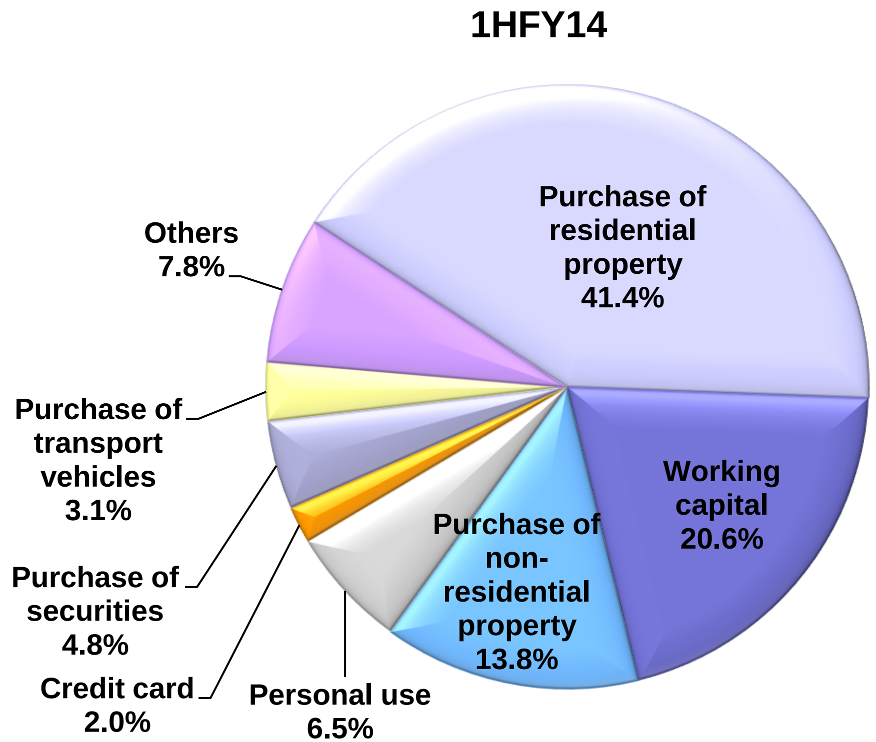
1HFY15 YTD
Annualised
+31.5%

- Re-commenced Hire Purchase financing in April 2012, focusing on new cars and non-national marquees.
- +RM351.2 million y-o-y growth with continued expansion of panel of car dealers and distributors.

Composition of Loans Portfolio

Well-diversified & Secured Loans Portfolio



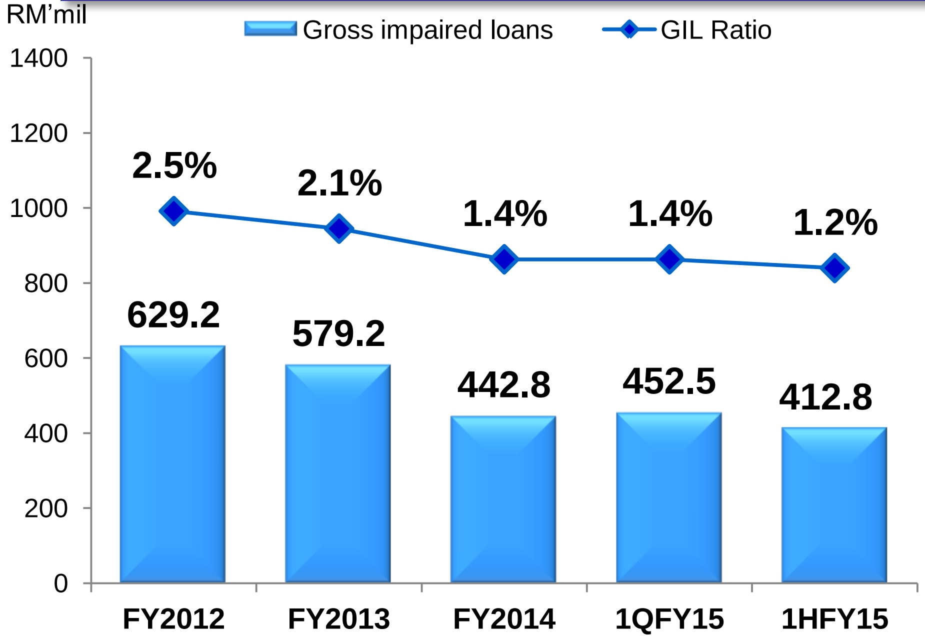


Loans Composition by Economic Purposes

- Risk Management: well-diversified and collateralised loan book.
- Residential and non-residential properties account for 57.9% of gross loans portfolio:
  - 41.5% of loans portfolio is for the purchase of residential properties (slightly up from 41.4% in 1HFY14)
  - 16.4% is for the purchase of non-residential properties (up from 13.8% in 1HFY14)
- 17.9% of loans is for working capital, compared to 20.6% in 1HFY14.

Asset Quality – Net Impaired Loans Ratio Maintained at 0.7%

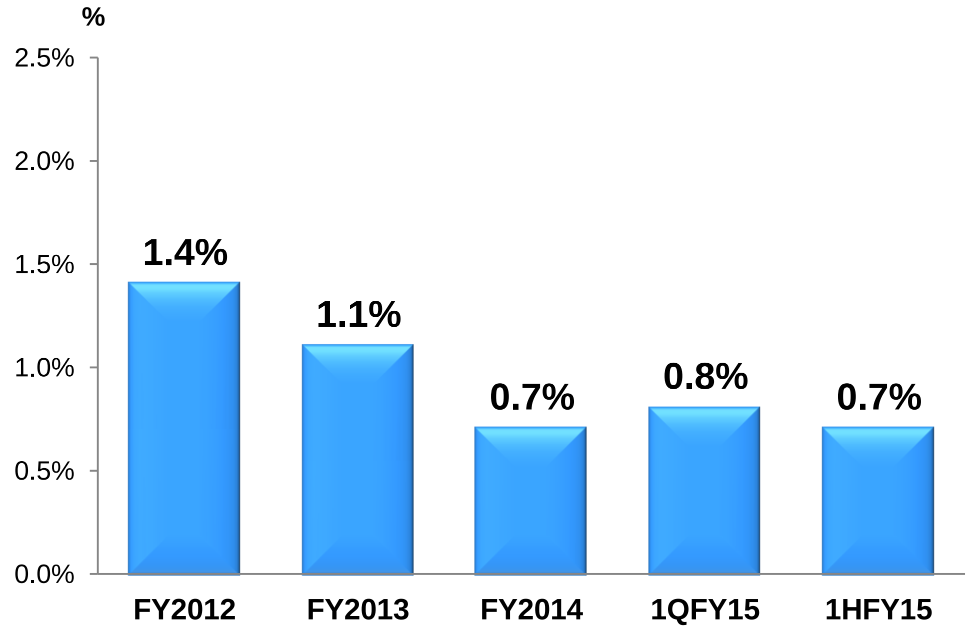
Gross Impaired Loans



1HFY15 vs 1HFY14
GIL: - RM 110.4 mil
-21.1%

1HFY15 vs 1HFY14
GIL Ratio: - 0.5%
(from 1.7% Sep 2013)

Net Impaired Loans Ratio

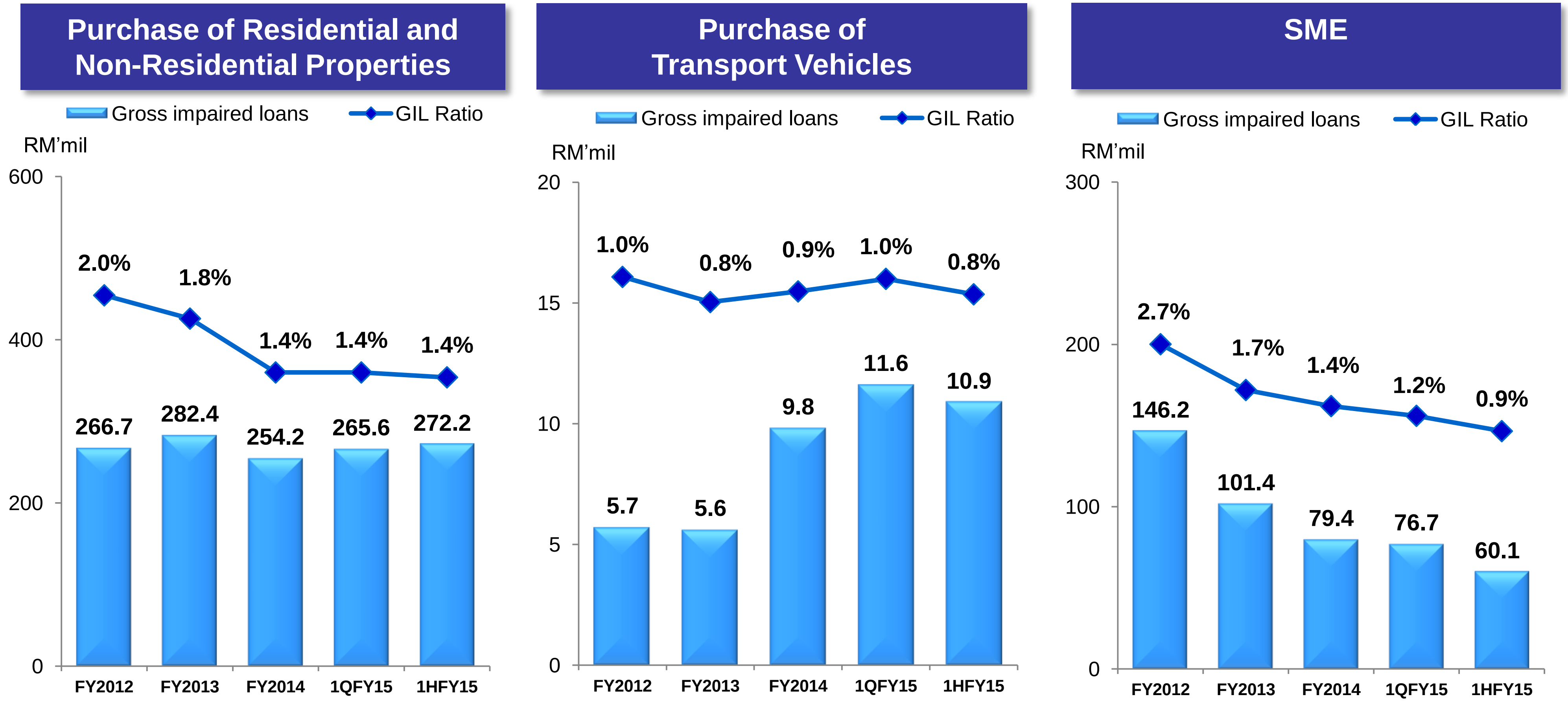


1HFY15 vs 1HFY14
NIL Ratio: - 0.2%
(from 0.9% Sep 2013)

- Gross impaired loans ratio improved to 1.2%.
- Net reduction in gross impaired loans of RM110.4 million y-o-y was mainly contributed by recoveries.
- Continuing efforts to refine credit origination processes, credit scoring models and intensify collections.

Asset Quality: Mortgages, Hire Purchase, SME

Improvement in Asset Quality for SME segment due to Recoveries



- Gross impaired loans ("GIL") ratio for the purchase of residential & non-residential properties maintained at 1.4% on a combined basis, while GIL ratio for purchase of transport vehicles improved marginally to 0.8%.
- GIL ratio for SME segment improved to 0.9% mainly due to recoveries.

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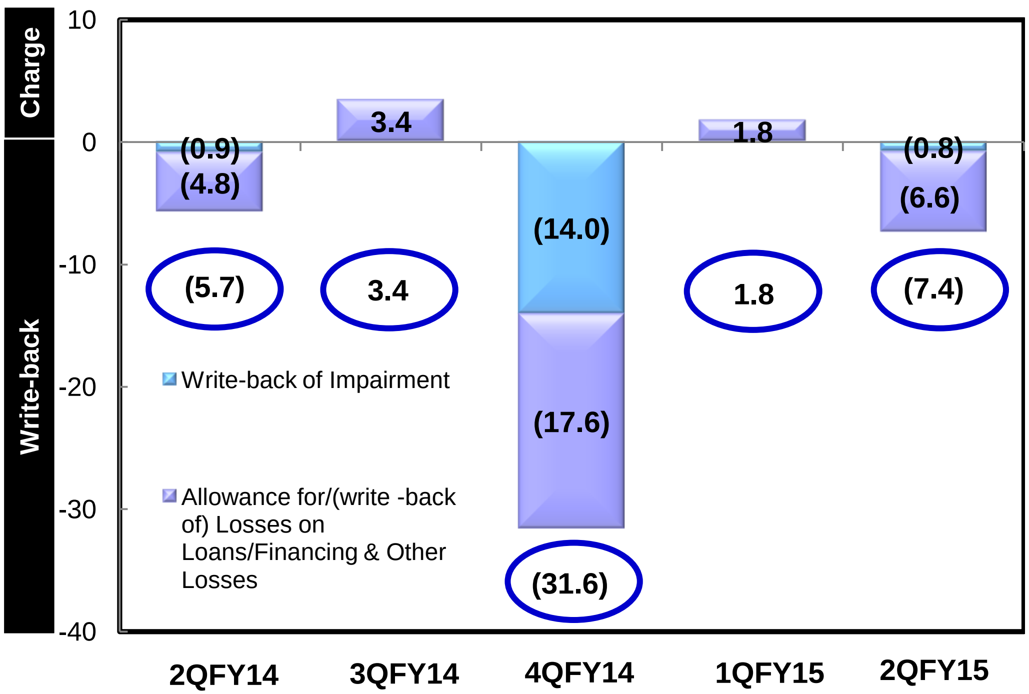
Impairment Provisions

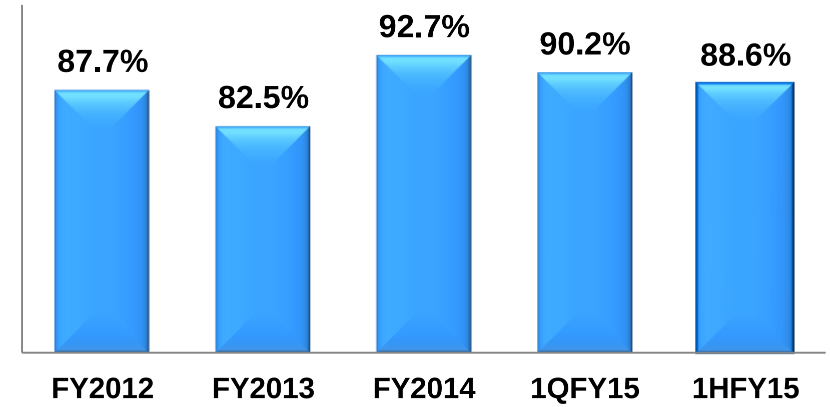
RM 5.7 million Net Write-Back In Provision Due to Recoveries. Credit cost ~ 10.3 bps

Allowance for /(Write-back of) Losses on Loans/Financing and Impairment



- ❑ Net write-back in 1HFY15 is due to recovery of several large accounts, despite the higher collective assessment arising from loans growth.
- ❑ For 1HFY15, credit charge for loans/financing was RM34.4 million or ~10.3bps (1HFY14: RM26.0 million or ~8.9bps) (excluding recoveries).

Loan Loss Coverage



RM'000	1HFY15	1HFY14
Individual assessment	(2,358)	3,069
Collective assessment	27,261	6,582
Bad debts recovered	(39,248)	(25,490)
Bad debts written off	8,986	14,854
Allowance for other assets	523	1,513
(Write-back)/Allowance for losses on loans/ financing and other losses	(4,836)	528
Write-back of impairment (CLO)	(833)	(902)
Total write-back	(5,669)	(374)

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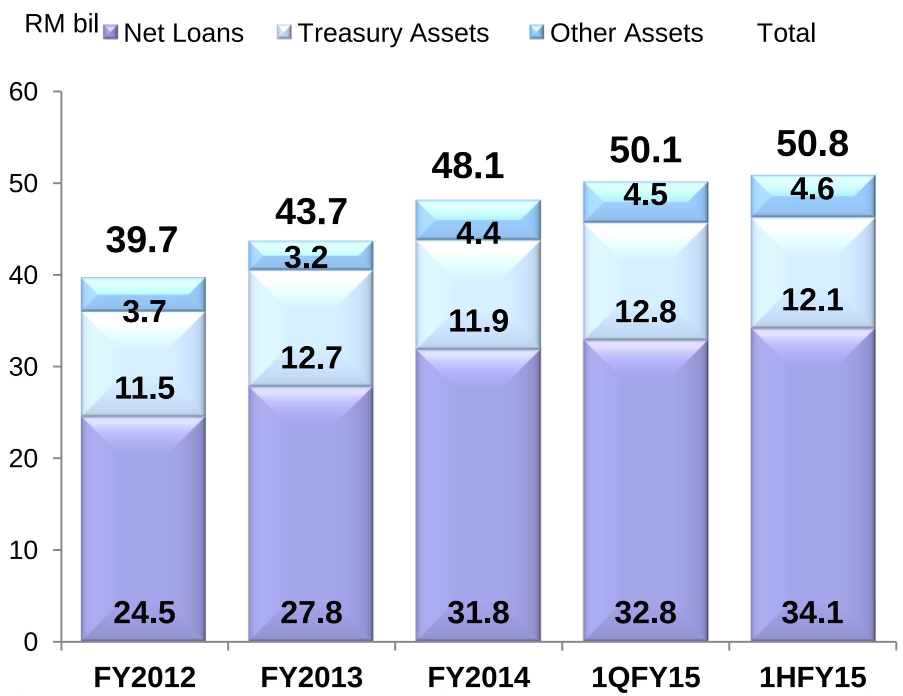
Effective Utilisation of Balance Sheet: Net Loans Constitute 67.1% of Total Assets

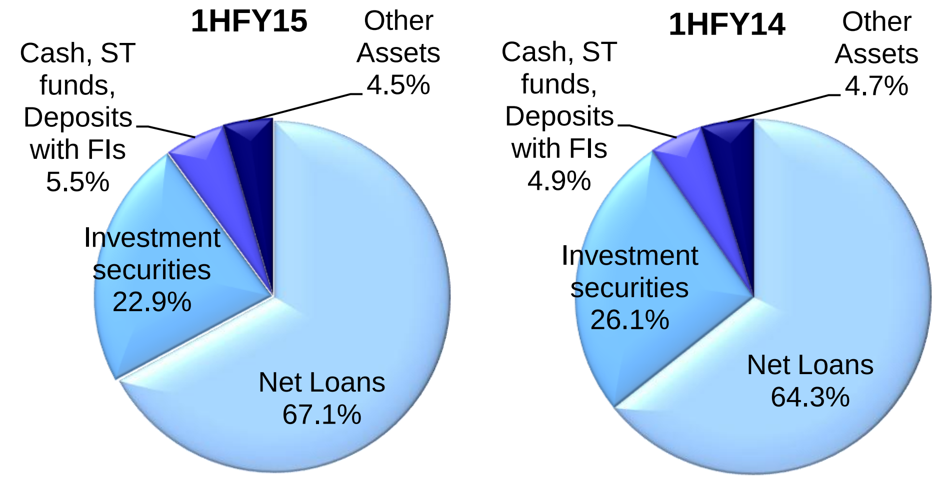
Total Assets Trend



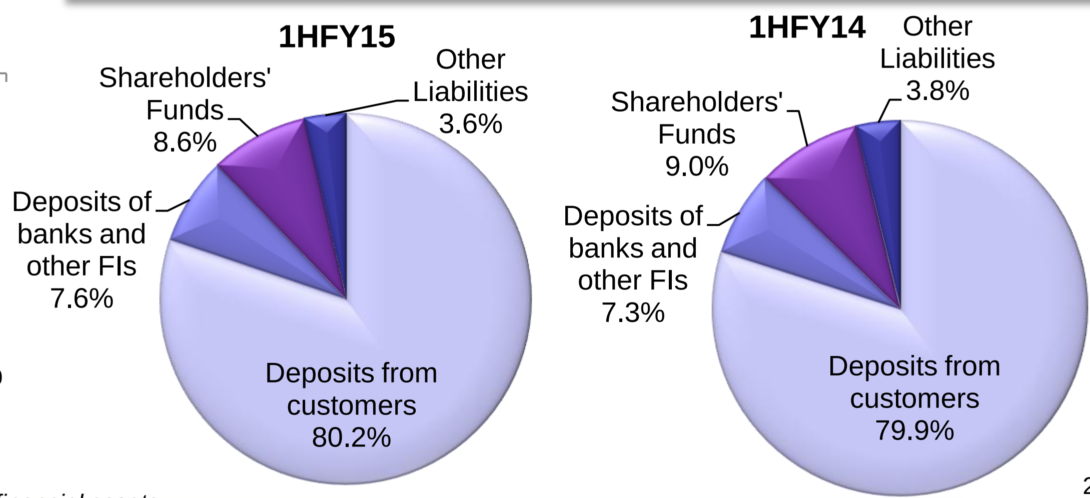
1HFY15 vs 1HFY14	1HFY15 YTD
+ RM4.9 bil	Annualised
+ 10.7%	**+11.5%**

- Total assets expanded by RM4.9 billion or 10.7% y-o-y to RM50.8 billion, driven mainly by lending.

Composition of Total Assets



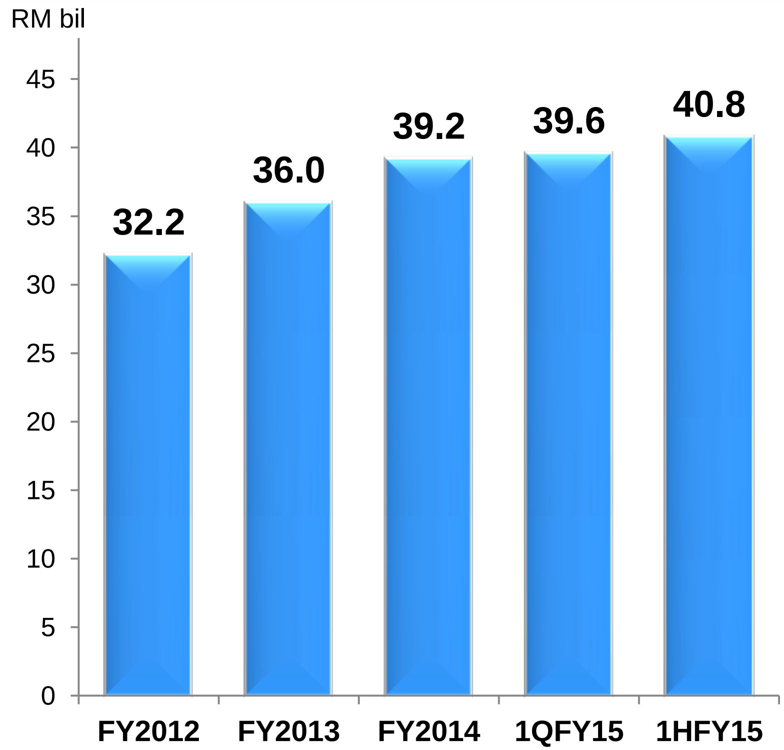
Composition of Total Liabilities/Equity



Note: Investment securities comprise financial assets (HFT, AFS & HTM) & derivative financial assets

Robust Deposit Growth of 11.0% Y-o-Y, With CASA Deposits Up 16.7% to RM14.3 billion

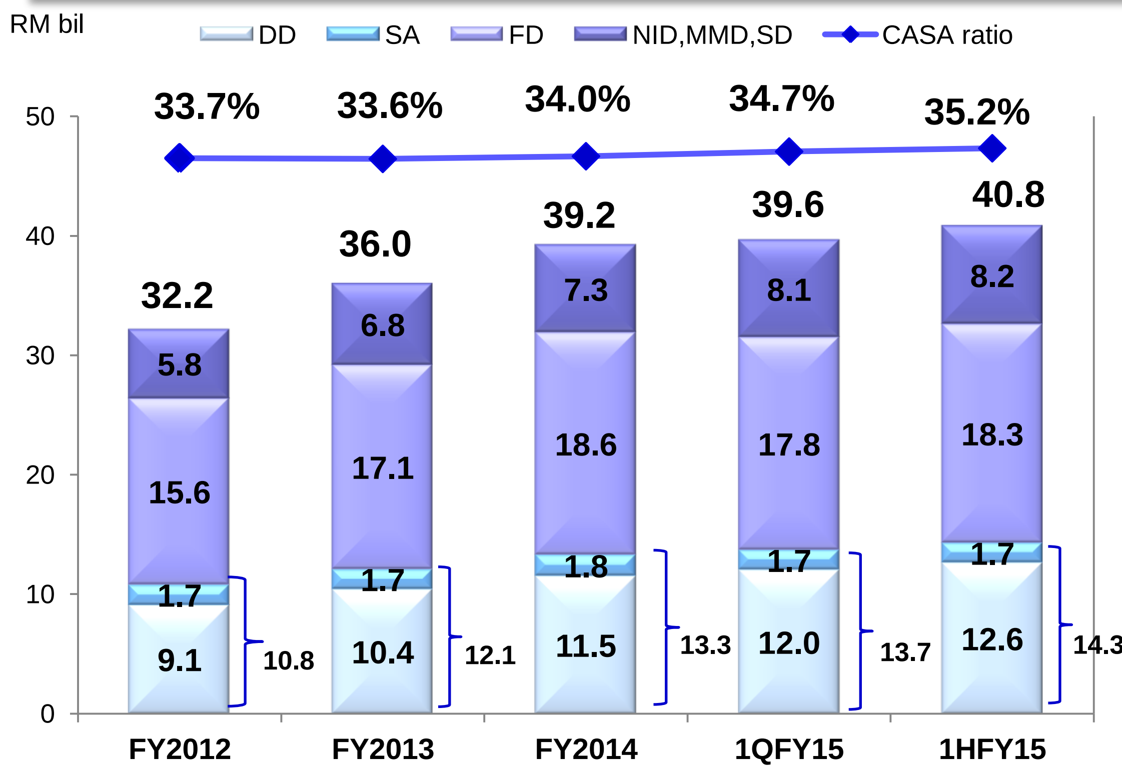
Customer Deposits Trend



1HFY15 vs 1HFY14
+ RM4.1 bil
+ 11.0%

1HFY15 YTD
Annualised
7.8%

CASA Trend

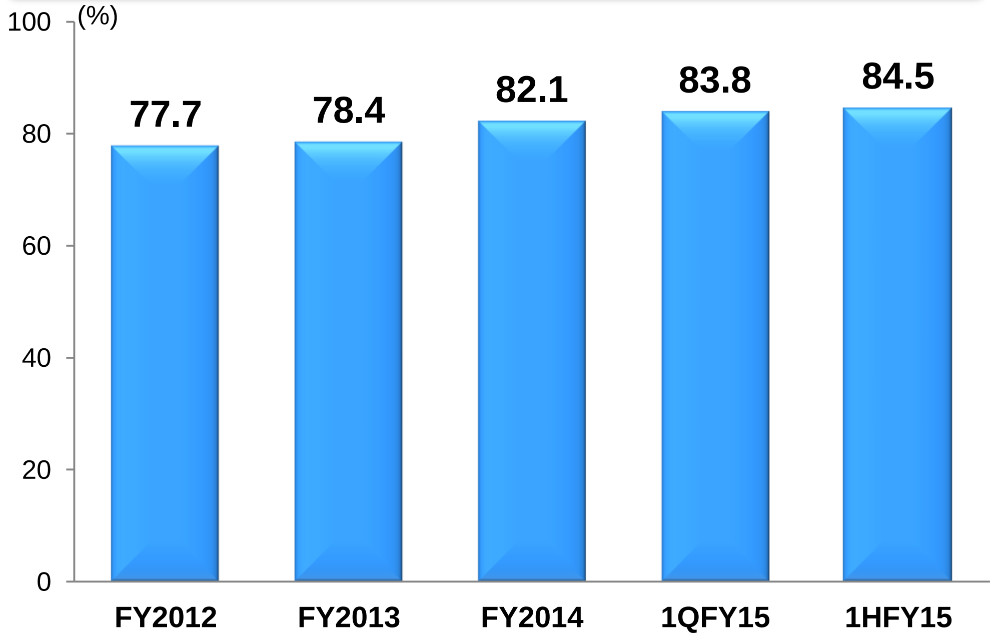


- Total customer deposits at RM40.8 billion in 1HFY2015, up 11.0% from last year.
- CASA deposits expanded by RM2.0 billion or 16.7% y-o-y to RM14.3 billion in 1HFY2015.

Customer Deposits

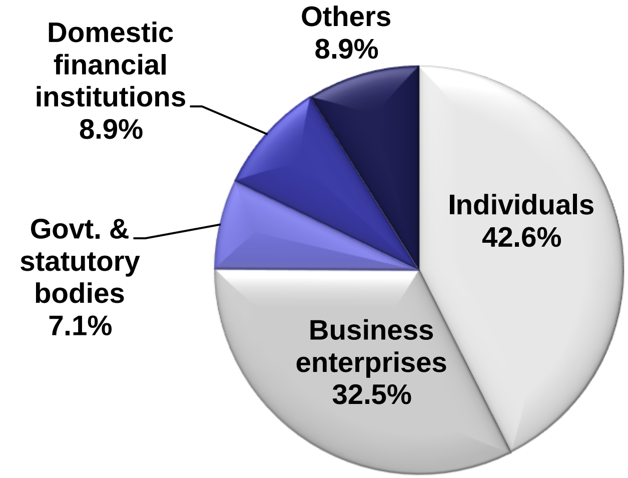
Strong Liquidity Position with Loans to Deposits Ratio at 84.5%

Loans to Deposit Ratio Trend

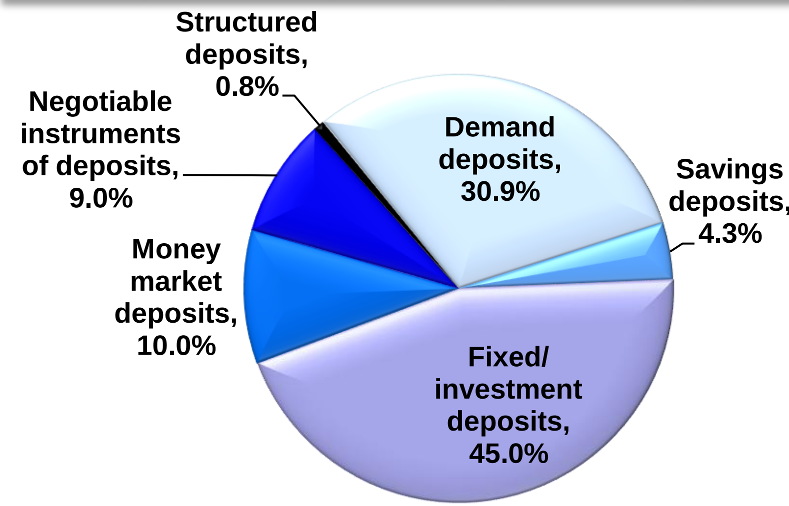


- Loans to Deposit Ratio of 84.5% in 1HFY2015.
- Our overall strategy is to maintain Loans to Deposit ratio closer to 85.0% for a more efficient liquidity and balance sheet management.

Deposits Composition by Customer Type

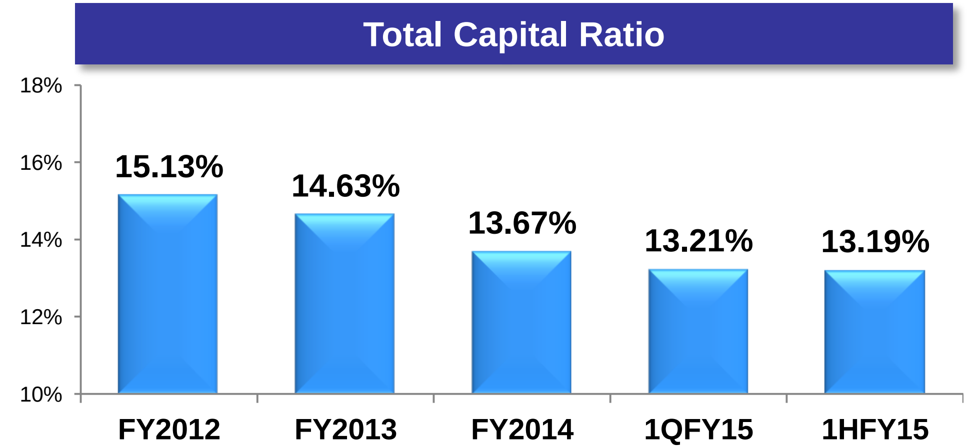


Deposits Composition by Product Type



Basel III: Capital Adequacy Ratios Well Above Regulatory Requirements

Legal Entities	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
AFG	10.13%	11.11%	13.19%
ABMB	10.20%	11.37%	11.41%
AIS	12.17%	12.17%	12.96%
AIBB	86.04%	86.04%	86.04%
Basel III Minimum regulatory capital adequacy ratio ^	**4.5%**	**6.0%**	**8.0%**



RM Mil	FY12	FY13	FY14	1Q FY15	1H FY15
Double Leverage Ratio	98.7%	98.5%	99.0%	98.8%	98.2%

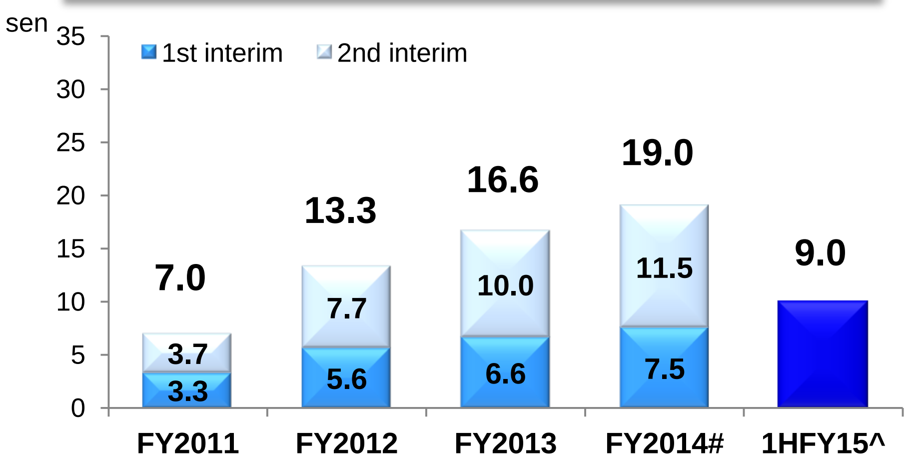
- ❑ Strong profit generation capacity to enable balance sheet expansion and meet targeted dividend payouts.
- ❑ Continuous enhancement of capital usage by focusing on:
  - Less capital intensive lending activities – Consumer, Mortgage and SME lending
  - Non-interest income and fee based activities –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

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

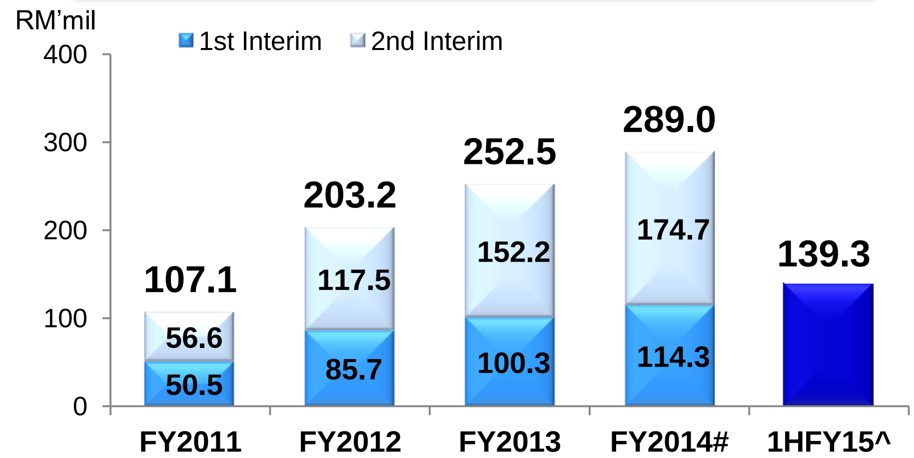
ALLIANCE FINANCIAL GROUP

1HFY15: Progressively Raising Dividend Payout in line with Policy of up to 60% of Net Earnings

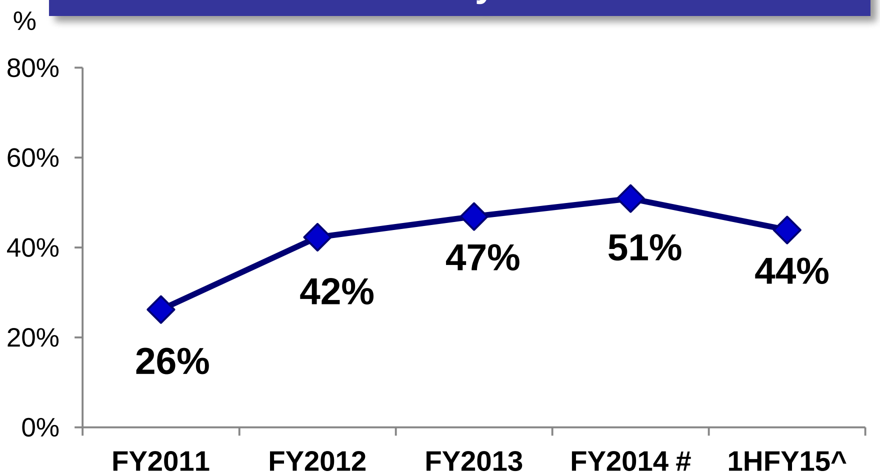
Dividend Per Share (Sen)



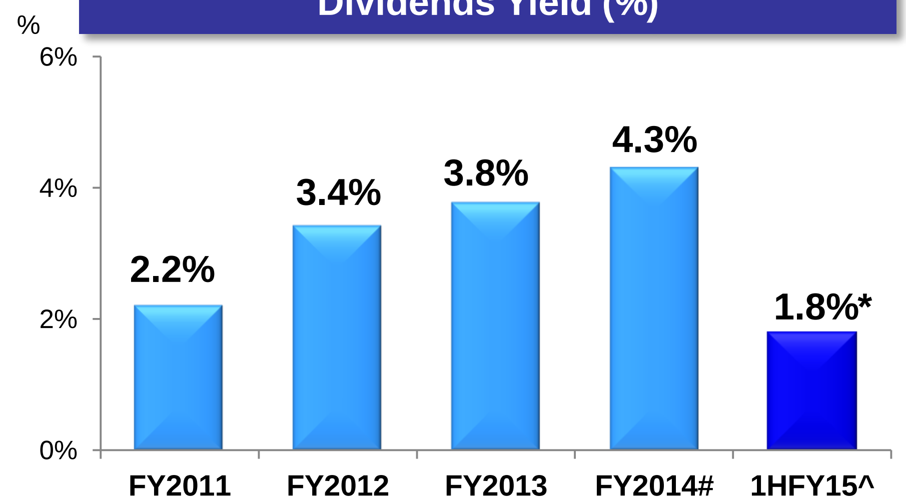
Dividends Paid (Amount)



Dividend Payout Ratio



Dividends Yield (%)



Note: ^ Includes proposed first interim dividend

 # Excluding special dividend of 10.5 sen or RM159.2 mil paid on 26 June 2014

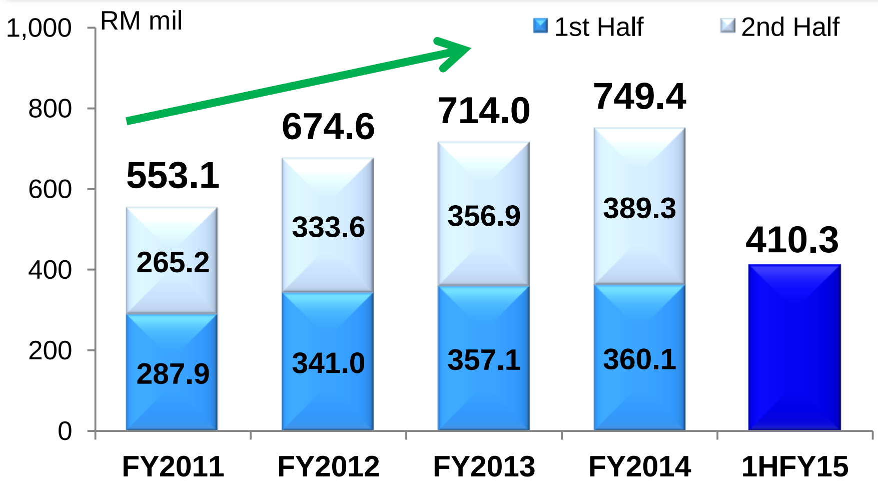
** Share price of RM4.99 as at 30 September 2014*

ALLIANCE FINANCIAL GROUP

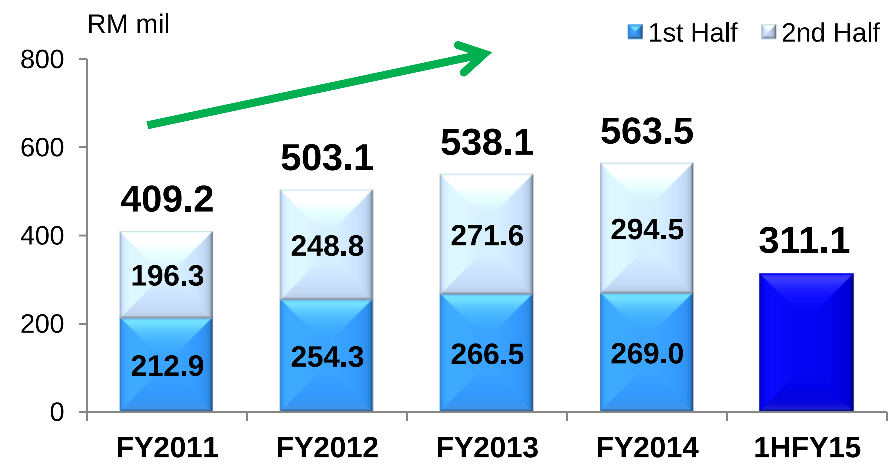
Enhanced Shareholder Value

Return on Equity at 13.9%, with Consistent Growth in Earnings Per Share

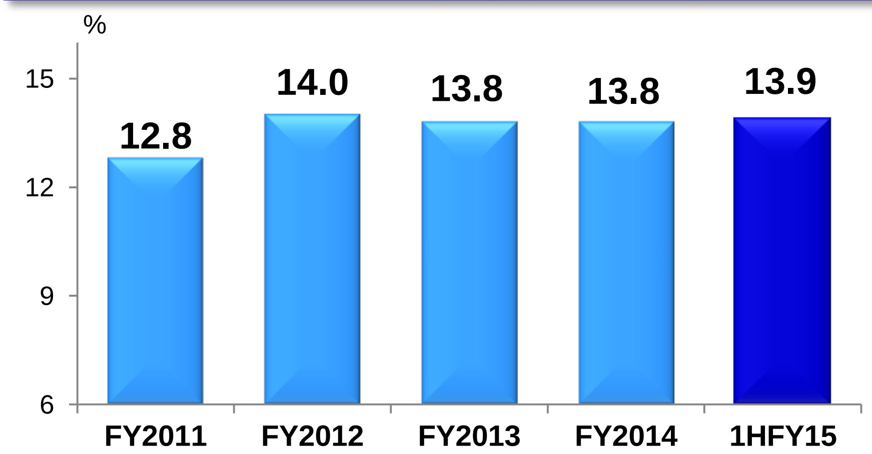
Profit Before Tax



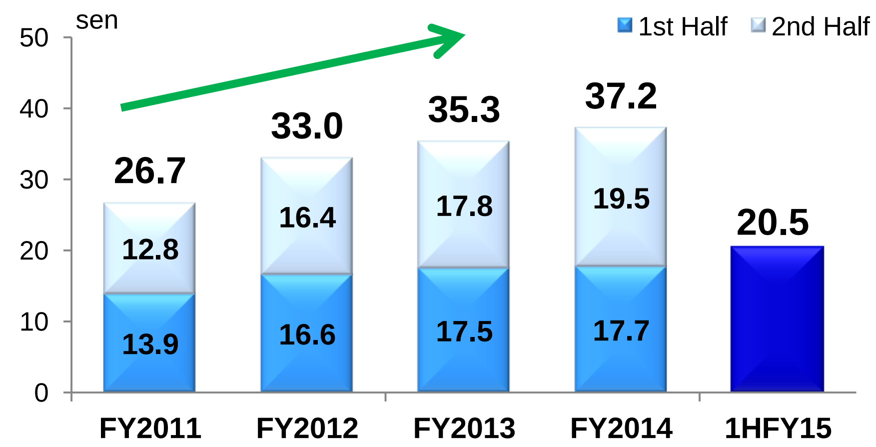
Net Profit After Tax



Return on Equity (After Tax)

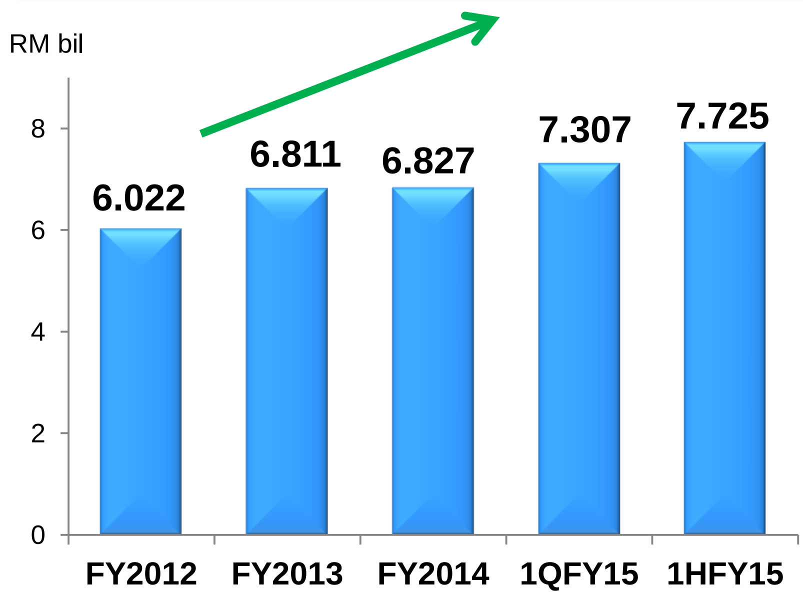


Earnings Per Share

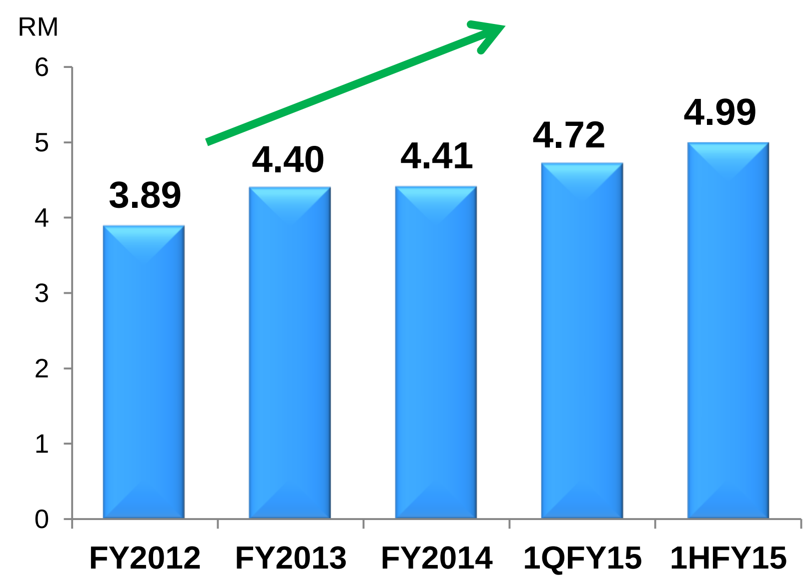


1HFY2015: Steady improvement in Market Capitalisation and Share Price performance

Market Capitalisation



Share Price Performance



- Market capitalisation and share price performance is improving steadily, with CAGR at 13.8% since FY2011.

RM Mil	FY11	FY12	FY13	FY14	1Q FY15	1H FY15
Price to book multiple	1.4	1.6	1.7	1.6	1.8	1.8

THANK YOU

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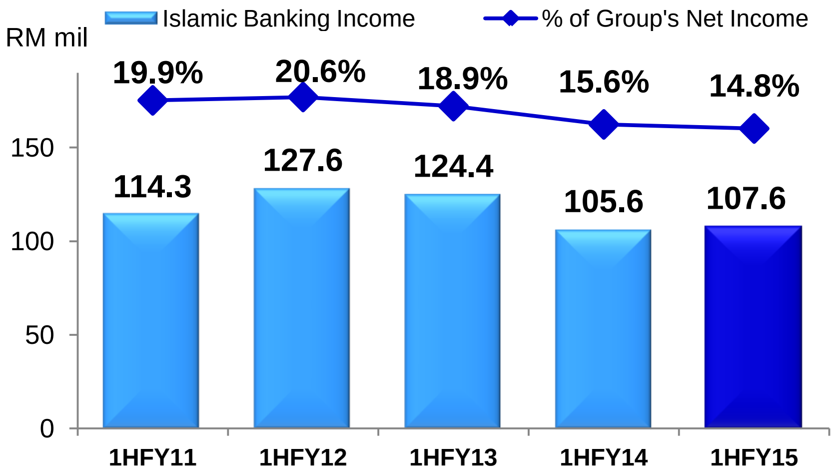
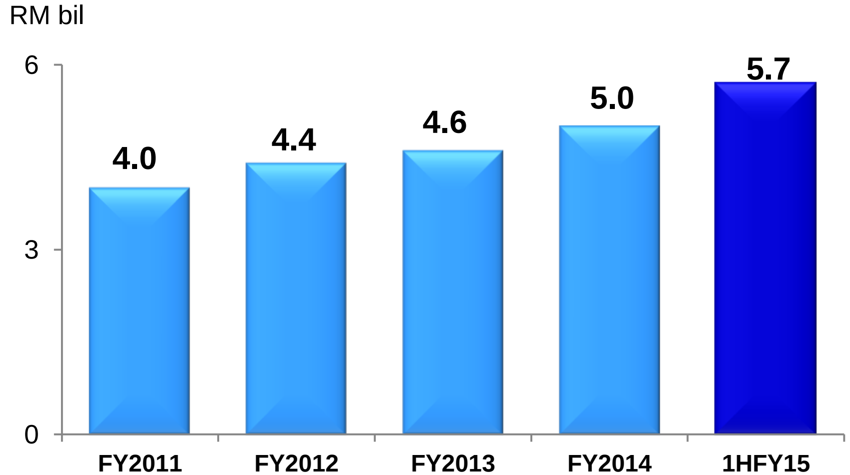
Islamic Banking: Y-o-Y Net Financing Growth of 22.7% and Deposit Growth of 13.7%

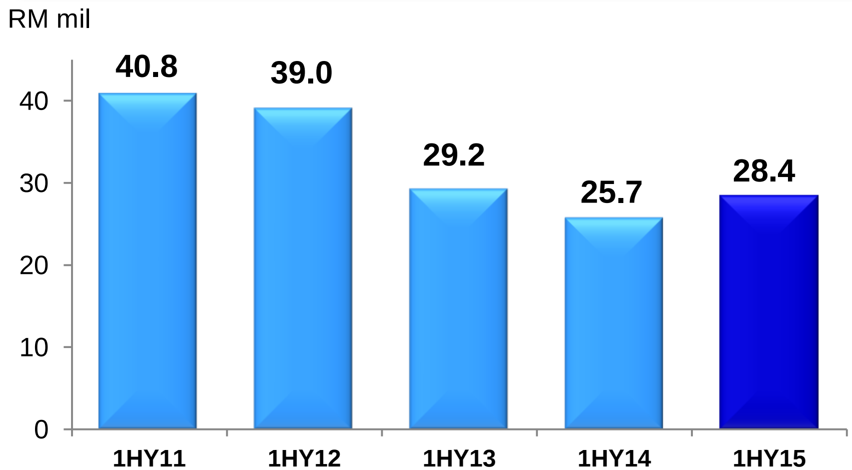
Islamic Banking Income



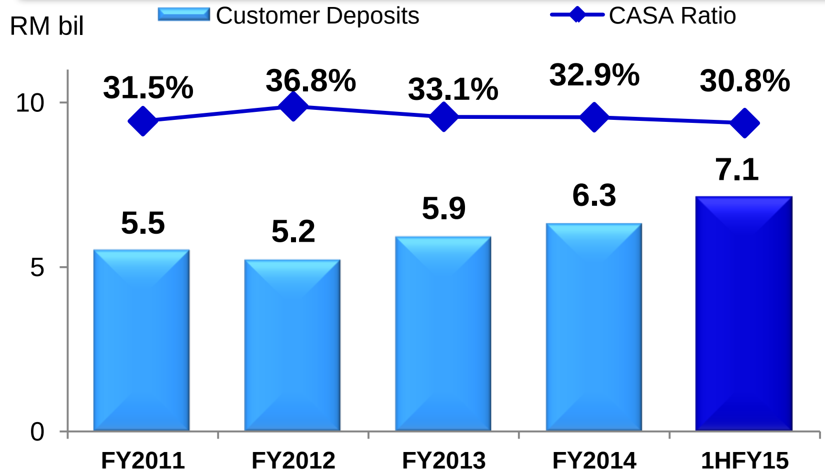
Net Financing & Advances (AIS)



Net Profit After Tax & Zakat (AIS)



Customer Deposits (AIS)



Guideline on Classification and Impairment Provision for Loans/Financing

Requirement

- Banks to ***maintain, in aggregate, collective assessment allowance ("CA") and Regulatory Reserve ratio of 1.2%.***
- The ***CA + Regulatory Reserve*** is stated as a percentage of gross loans (excluding government loans), net of individual allowance ("IA").
- ***CA*** includes both provision for impaired and non-impaired loans, amount as per disclosed in our financial statements.
- The Bank shall comply with this requirement by 31 Dec 2015.

AFG	Jun 2014	Mar 2014
CA %	0.90%	0.98%

Treatment

- In the event the Bank is required to top up the provision to 1.2% (via the ***creation of Regulatory Reserve***), the ***top up portion*** is created by way of transferring the provision from retained profits i.e. merely ***movement within the statement of equity*** without additional charge to profit & loss accounts.
  - It would be a transfer from Retained Earnings to Regulatory Reserve (within Shareholders Funds).
  - Effectively the Regulatory Reserve will be similar to the Statutory Reserve – cannot be used to declare dividends. But no impact on the NTA.
- As per Para 14.1, ***Regulatory Reserve***, attributable to non-impaired loan is eligible for inclusion into ***Tier-2 capital computation***.

Impact

- As at end-Sep 2014, AFG's CA ratio was at 0.90***%***. To top up to 1.2%, this translates to addition ***RM102.7 million***.
- Estimated impact to CET1 ratio is a ***drop of 0.31%*** to 9.81.%. Total Capital Ratio maintained at 13.18%.