



ALLIANCE FINANCIAL
GROUP BERHAD (6627-X)

Banking Made Personal

ANALYST BRIEFING

1st Half FY2016

27 November 2015



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**EXCELLENCE IN
RETAIL FINANCIAL SERVICES**
INTERNATIONAL AWARDS 2015

B E S T S M E B A N K

in Asia Pacific, Gulf Region & Africa



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Executive Summary

2

Appendix - Financial Results:

- 2Q FY2016
- 1H FY2016



Continued progress despite challenging economy

1

Revenue and Profitability

- Efficient loans growth with improved Risk Adjusted Return (“RAR”)
- Optimization of funding cost
- Better client based fee income
- Contained expense base

2

Effective Risk Management

- Stable asset quality
- Proactive portfolio management
- Strengthened capital position

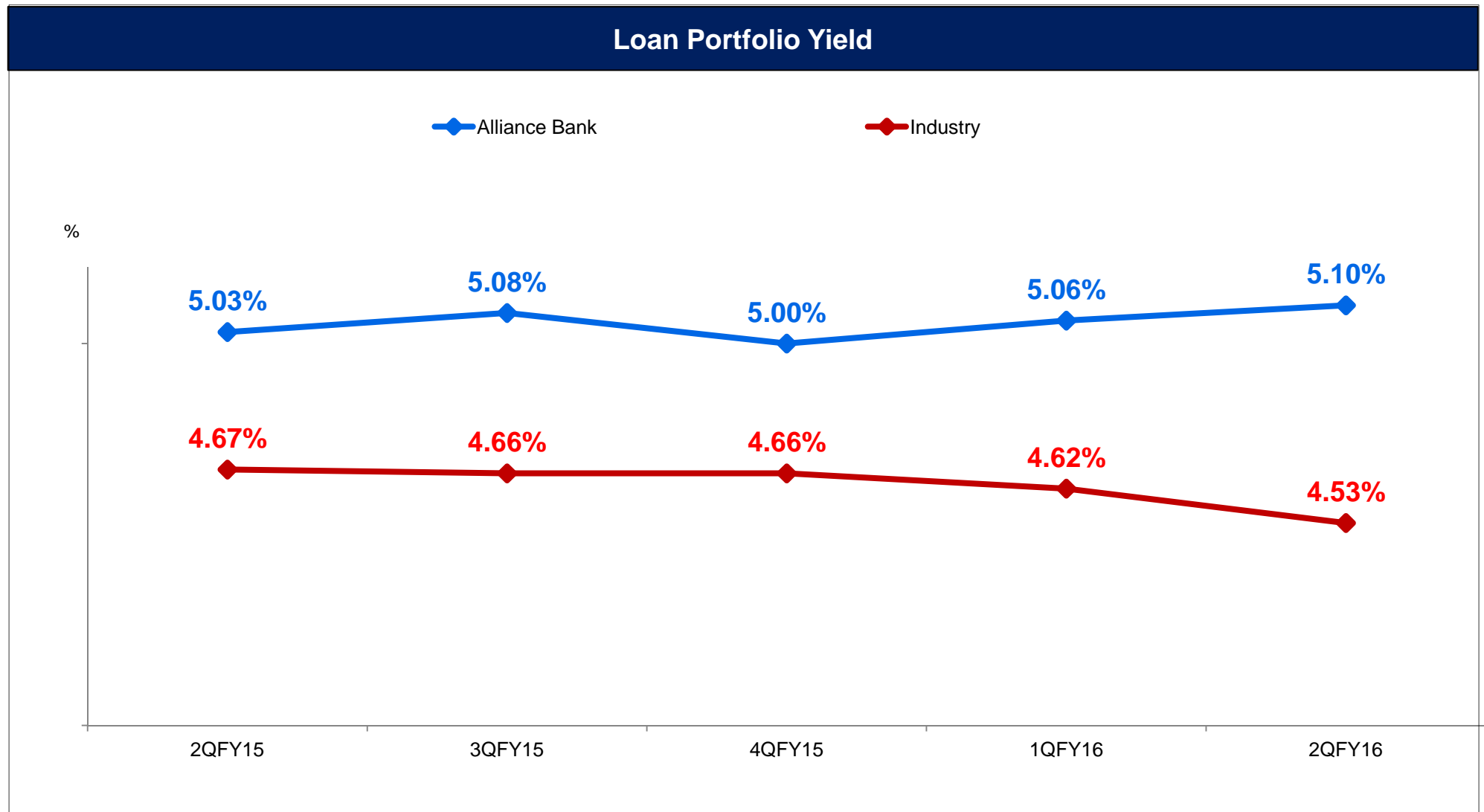
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Key Results

- 10.4% Q-o-Q profit growth
- 11.7% return on equity in 2Q FY2016
- Improved and sustainable capital ratios
- Interim dividend of 8 sen (48% payout ratio)



Efficient loans growth with improved risk adjusted returns



Efficient growth in better risk adjusted return loans
Net Loans Growth YTD (April – September)

	1H FY2015 Loan Growth RM (mil)	1H FY2016 Loan Growth RM (mil)	1H FY2016 Annualized Loan Growth %	
Better risk adjusted loans				
SME & Commercial	422	311		
Consumer Unsecured	56	140		
Total	478	451	10.6%	RAR = 1.87%
Lower risk adjusted loans				
Mortgage & Biz. Premises	1,515	755		
Hire Purchase	150	(132)		
Corporate	28	132		
Total	1,693	754	5.6%	RAR = 0.46%

Q-o-Q improvement in portfolio RAR from 0.77% to 0.84%

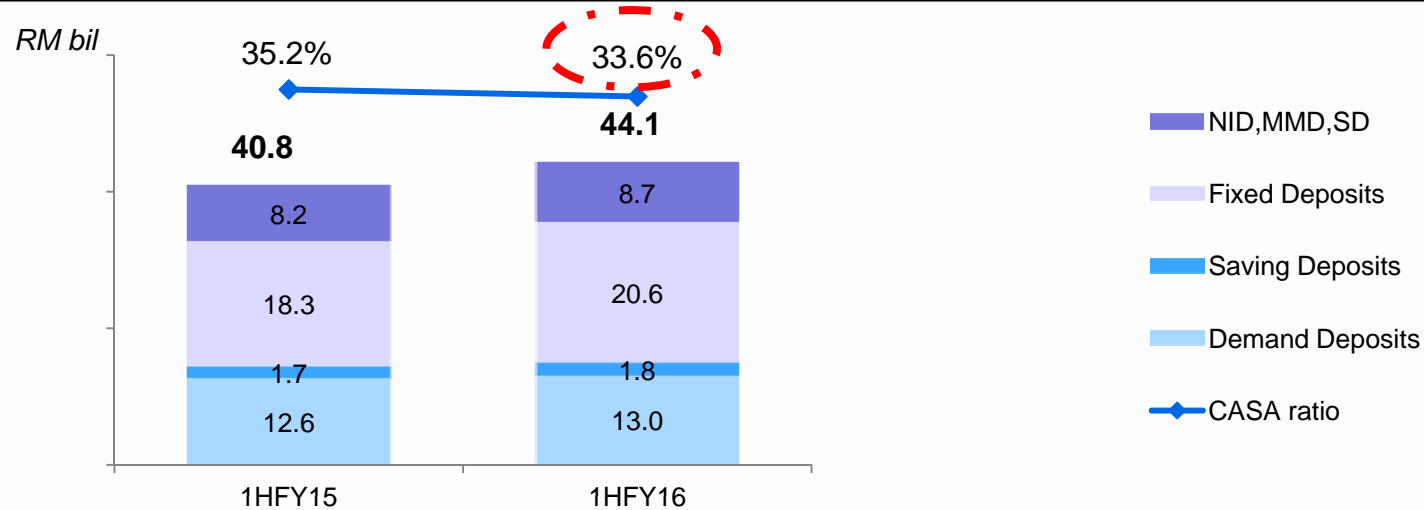
Note:

Risk Adjusted Return: $\text{Net Interest Margin less (Direct Variable Cost + Business as Usual Credit Cost)} \div \text{Average Loan Balance}$

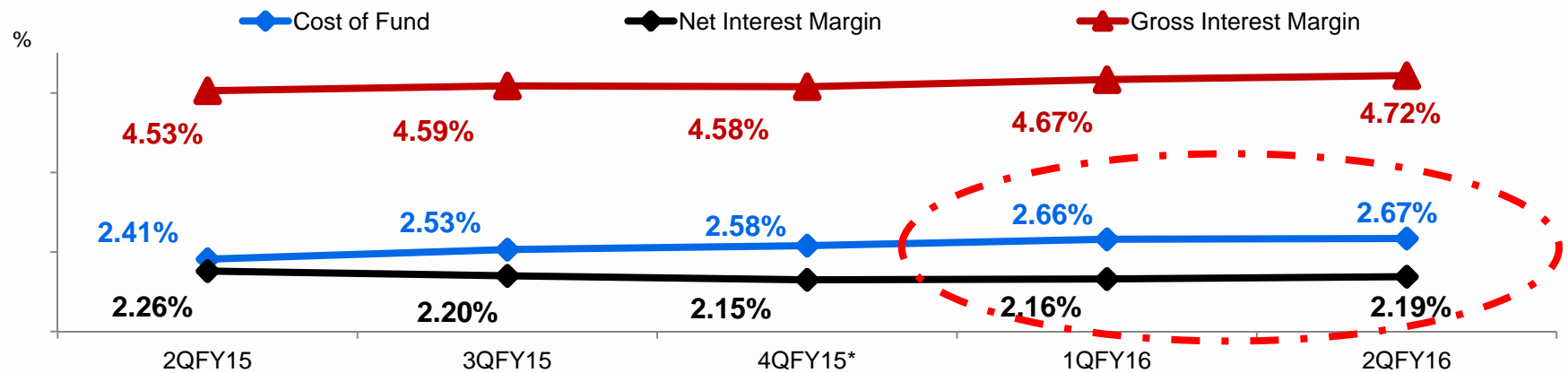


Optimizing funding cost

Deposit and CASA Growth



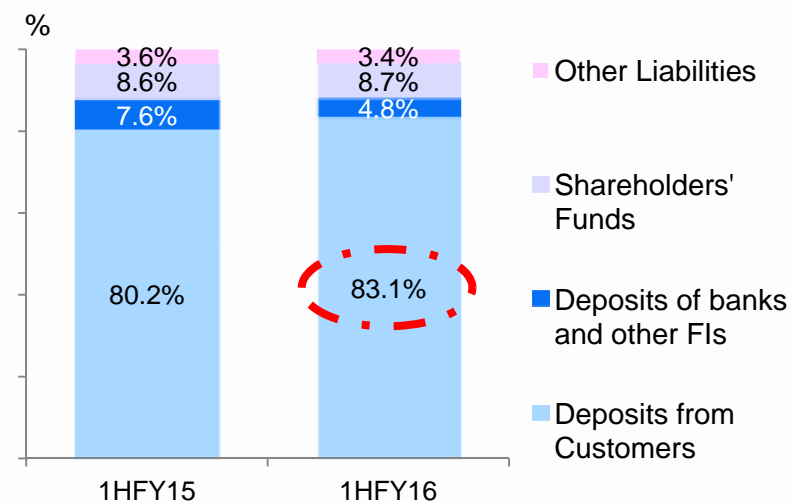
Cost of Funds & Net Interest Margin Trend



Focus on customer based funding

- a) Increased proportion of funding from customer deposits:
 - 1HFY2016: 83.1%
 - 1HFY2015: 80.2%
- b) +8.1% y-o-y deposit growth, faster than industry (+5.4%)
- c) Loans to deposits ratio at 86.2% (industry: 90.1%)
- d) YTD smaller funding gap at 0.26% between deposits and loans growth (Industry: 4.76%)

Funding of Balance Sheet



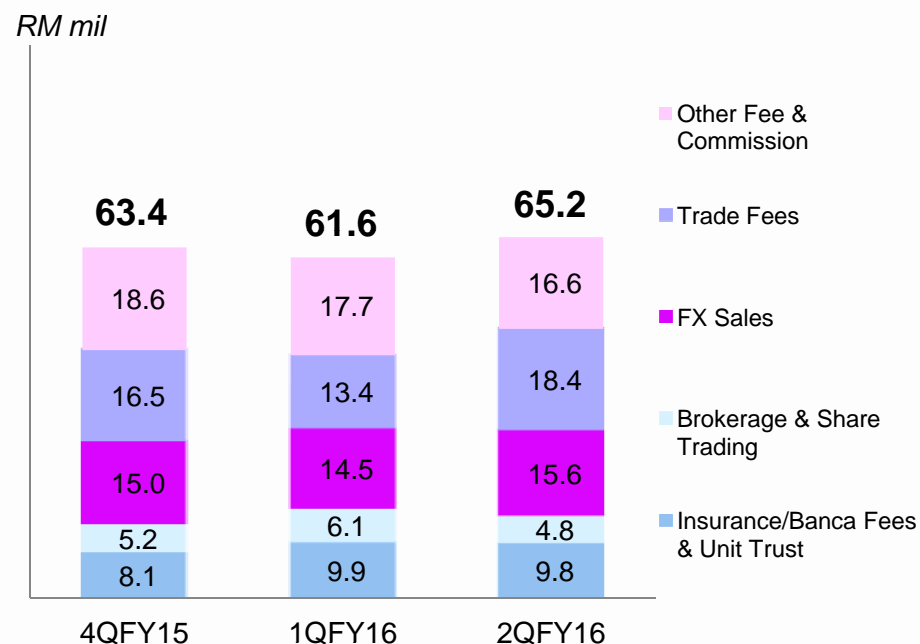
Jan - Sept. 2015 Year-to-date	AFG Group	Banking System
Deposits Growth	6.28%	1.54%
Loans Growth	6.54%	6.30%
Difference (Funding Gap)	(0.26%)	(4.76%)

Growing recurring client based fee income

Q-o-Q Performance: Client based income up 5.9%, with growth in:

- a) Trade fees up 36.8% despite slowdown in net exports
- b) FX sales up 7.7%
- c) Consumer Wealth Management - maintaining stronger momentum despite price pressures

Client Based Fee Income: Q-o-Q



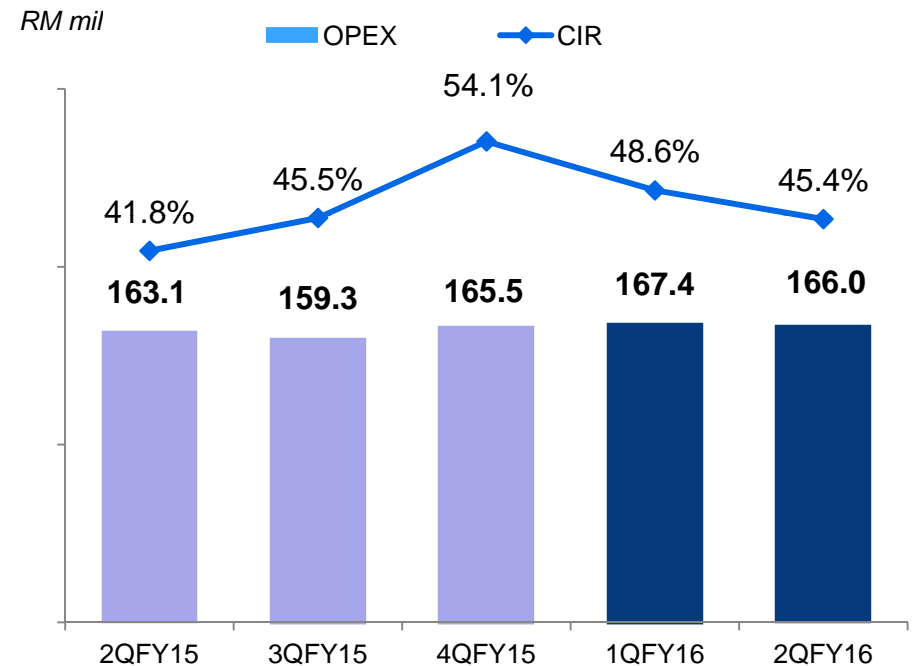
Note: Non-Interest Income in this Table is inclusive of Islamic Banking fee income



Contained expense growth

- a) 2QFY16: Positive JAWS of 7.1%
 - + 6.3% revenue growth
 - - 0.8% expense growth
- b) Cost to income ratio at 45.4% at 2QFY16
- c) Stable cost to income ratio at 46.9% (1HFY16)

Operating Expenses Trend: Q-o-Q





Stable asset quality

a) Better than industry asset quality:

- Gross impaired loans ratio at 1.1% (industry: 1.6%)
- Net impaired loans ratio at 0.7% (industry: 1.2%)

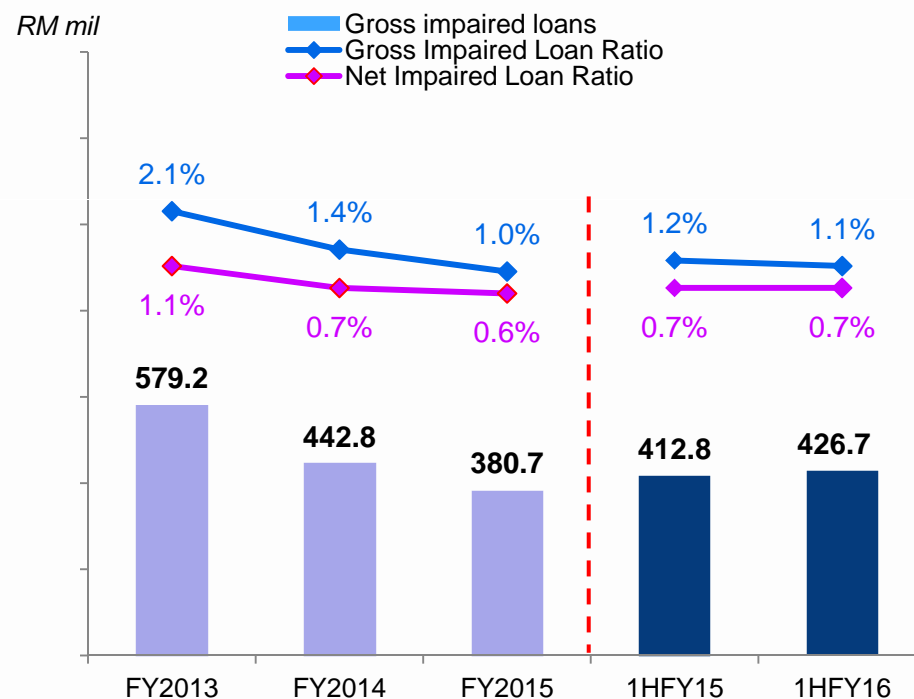
b) Stable gross impaired loans ratio despite slow down in mortgages and hire purchase loans

c) Restructured & Rescheduled loans : RM43 million, resulting in RM5 million provision charge

Proactive Actions:

- Enhanced credit underwriting policies
- Enhanced early warning systems
- Strengthened collections

Gross Impaired Loans

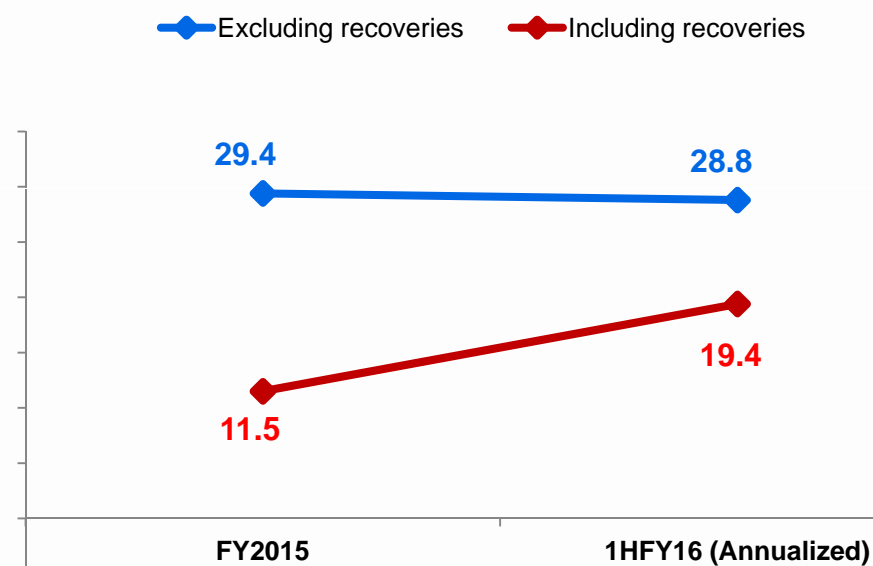


	FY2013	FY2014	FY2015	1HFY2016
Loan Loss Coverage	82.5%	92.7%	102.7%	92.7%

Stable credit cost

- a) 1HFY2016: Annualized net credit cost higher at 19.4 bps due to absence of major recoveries
- b) Recoveries:
 - 1HFY 2016: RM18.3 million
 - 1HFY 2015: RM46.5 million
- c) Y-o-Y credit cost (excluding recoveries) at 28.8 bps lower than FY2015 (29.4 bps)
- d) Guidance for net credit cost for FY2016 unchanged at 20 bps ~ 25 bps

Overall Credit Cost (bps)



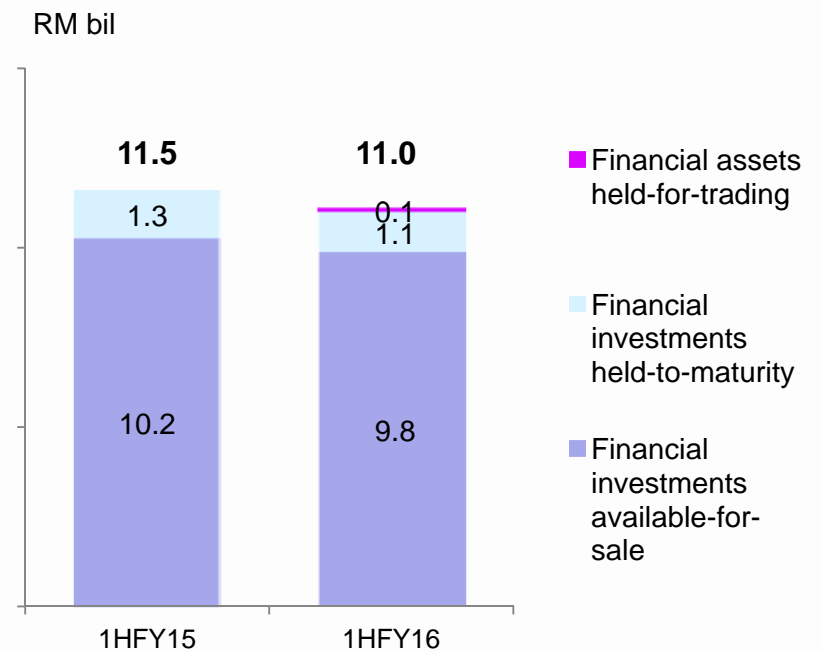
Credit Cost (bps)	1HFY15 Actual	FY2015 Actual	1HFY16 Actual	FY2016 Annualized
Including recoveries	(1.5 bps)	11.5 bps	9.7 bps	19.4 bps
Excluding recoveries	10.3 bps	29.4 bps	14.4 bps	28.8 bps



Effective management of interest rate risk

- a) Opportunistically reduced investments in Available for Sale and Held for Trading securities.
- b) Reduced sensitivity to interest rate risks
 - Shorten portfolio maturity by 16%
 - Lower net FX open positions by 63%

Investment Securities

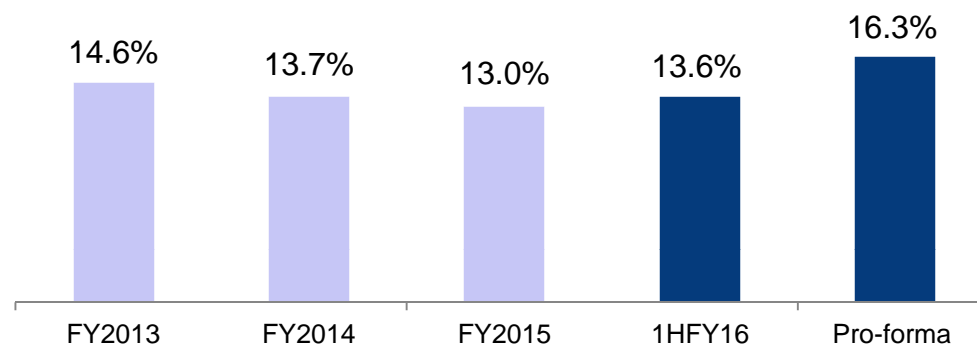




Strong capital ratios

- a) Strengthened total capital ratios with issue of RM900 million subordinated Tier 2 Medium Term Notes on 27 October 2015
- b) Total capital ratio improved to 16.3%
- c) Strong CET-1 ratio at 11.7%
- d) Capital ratios to remain stable with focus on:
 - Risk adjusted returns as key driver for loans growth
 - Improving ratio of revenue to loans growth
 - Customer based fee income

Total Capital Ratio (%)



Legal Entity	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Pro-forma Capital Ratios
				Issue RM900 m Bonds
Alliance Financial Group	11.7%	11.7%	13.6%	16.3%
Alliance Bank	11.8%	11.8%	12.3%	15.5%
Basel III Minimum regulatory capital adequacy ratio ⁽¹⁾	4.5%	6.0%	8.0%	8.0%

Note: Capital ratios after proposed dividends



Better Return on Equity and Dividend Payout Ratio

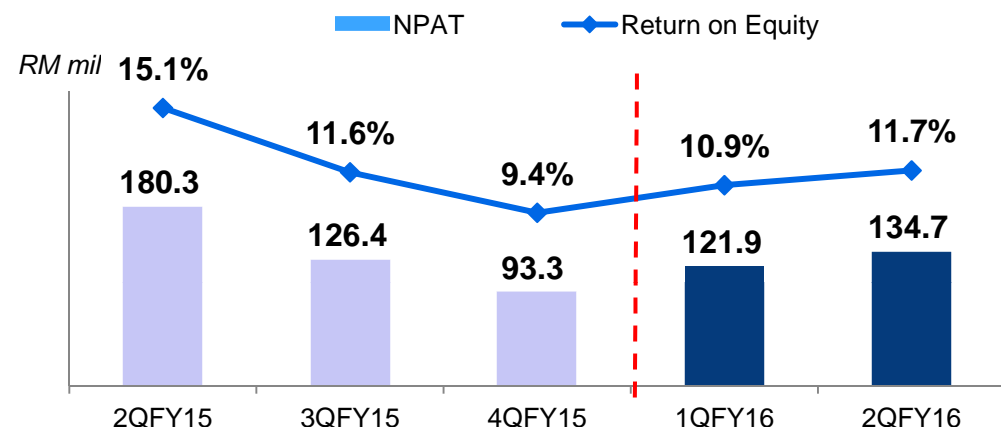
a) Sequential improvement Q-o-Q with Risk Adjusted Return strategy in:

- NPAT : + 10.4%
- ROE : + 80 bps to 11.7%
- ROA : + 10 bps to 1.0%

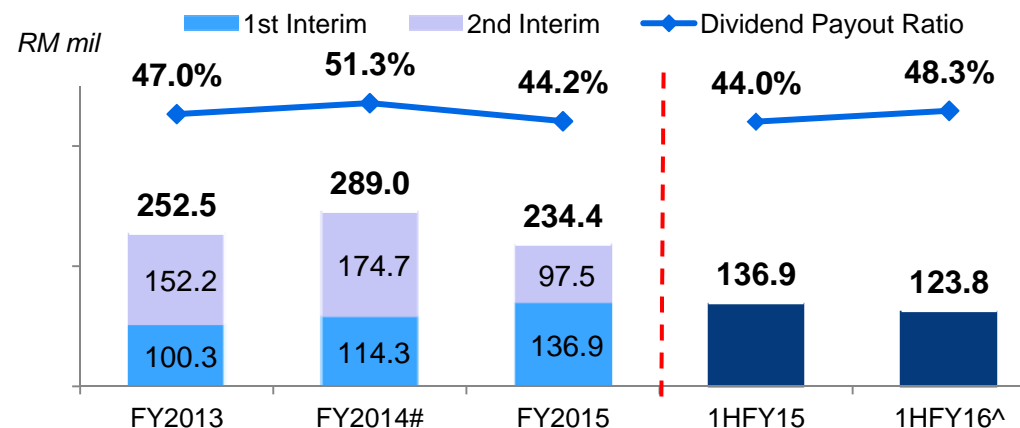
b) Dividends:

- First interim dividend of 8 sen
- Raised dividend payout ratio to 48.3%
- Stable capital ratios support dividend policy

Net Profit After Tax and Return on Equity



Dividends Paid (Amount) and Payout Ratios



Note: ^ Includes proposed first interim dividend

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



Focus on sustainable profitability

1

Revenue and Profitability

- Efficient loans growth with focus on Risk Adjusted Returns
- Optimization of funding mix and cost of funds
- Improved client based fee income
- Contained costs

2

Effective Risk Management

- Enhance credit underwriting standards and collections processes
- Effective management of asset quality and credit costs
- Proactive portfolio management to mitigate balance sheet risk

3

Focus on Client Excellence

- Enhance client value propositions and client service standards
- Build differentiated and relevant brand positioning in target segments



1

Executive Summary

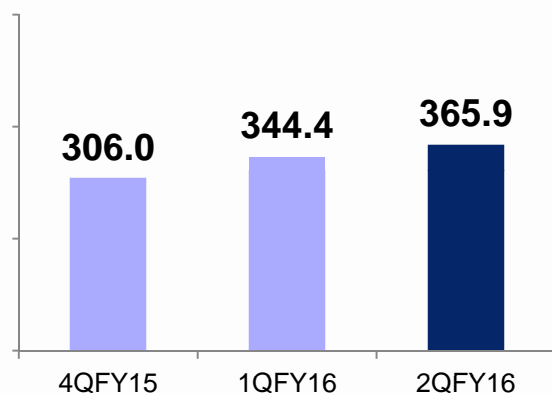
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Appendix - Financial Results:

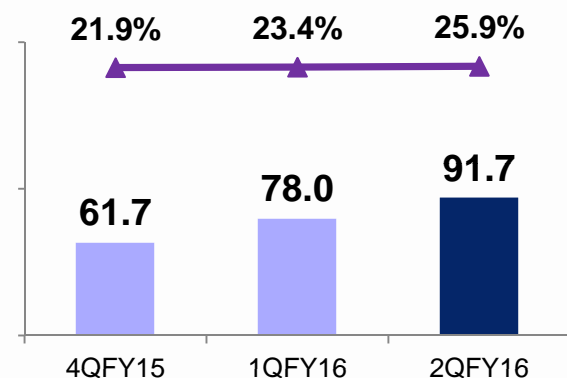
- 2Q FY2016
- 1H FY2016

Q-o-Q net profit after tax up 10.4%
Revenue

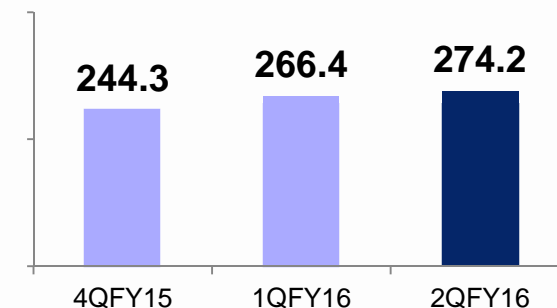
RM mil


Non Interest Income & NII Ratio

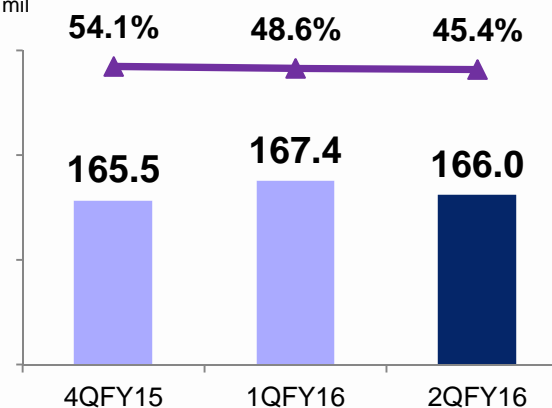
RM mil


**Net Interest Income &
Islamic Banking Income**

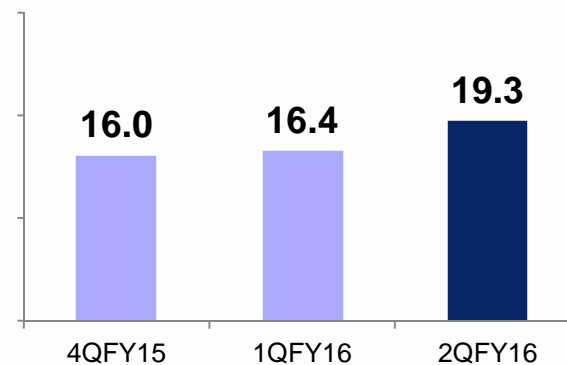
RM mil


Operating Expenses & CIR Ratio

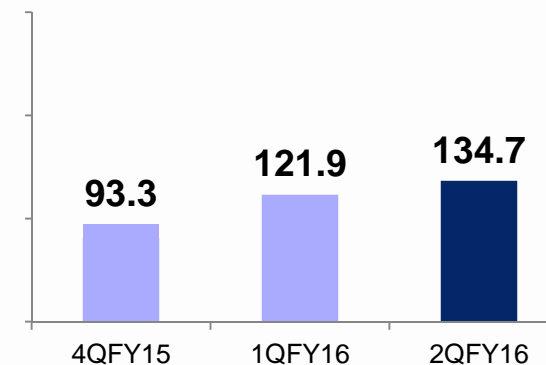
RM mil


Credit Cost

RM mil


Net Profit

RM mil



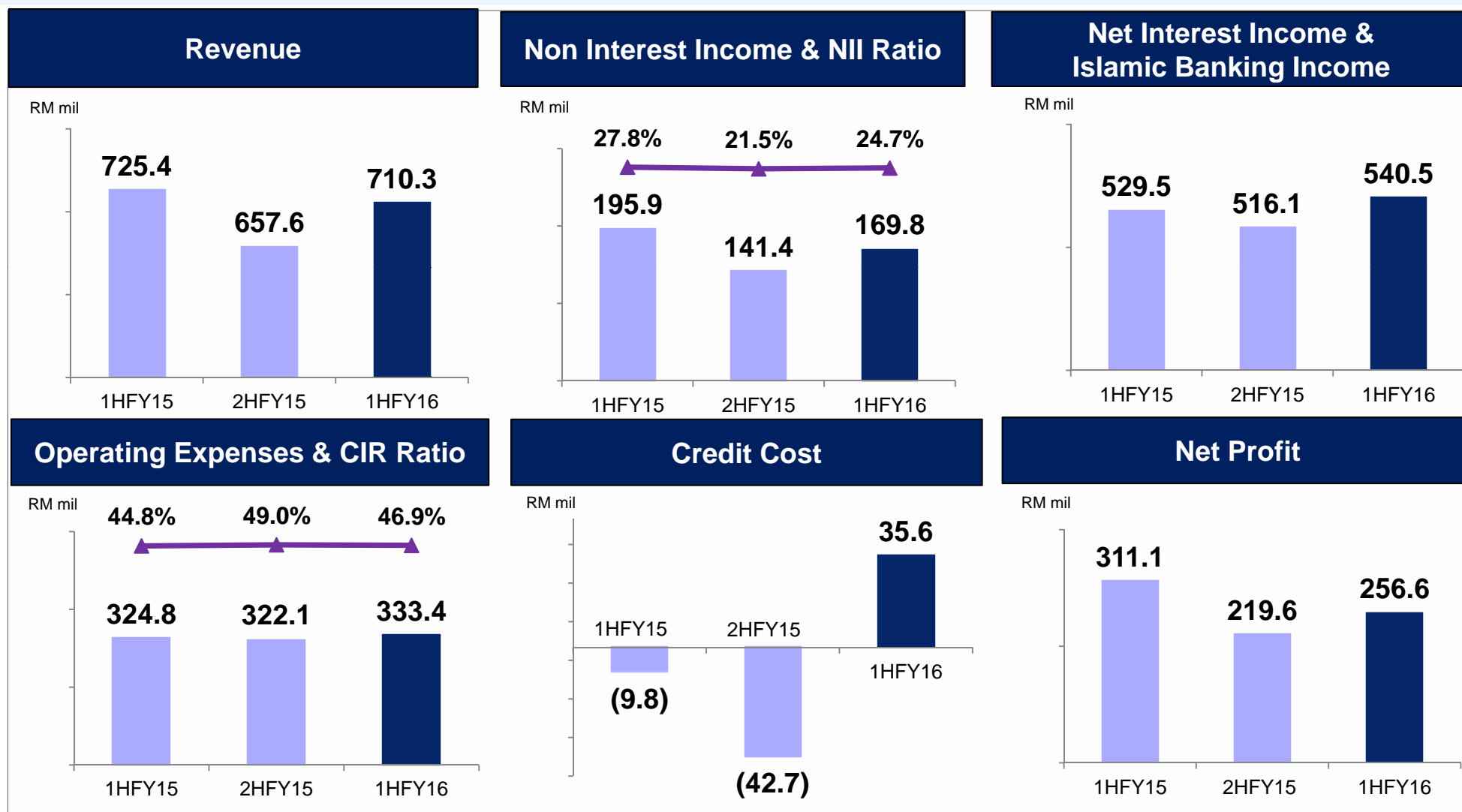
Q-o-Q net profit after tax up 10.4%

Income Statement	2QFY16 RM mil	1QFY16 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	213.1	207.8	5.3	2.6%
Islamic Banking Income	61.1	58.6	2.5	4.3%
Non-Interest Income	91.7	78.0	13.7	17.6%
Net Income	365.9	344.4	21.5	6.3%
Operating Expenses	166.0	167.4	1.4	0.8%
Pre-Provision Operating Profit	199.9	177.0	22.9	12.9%
Allowance/ (Write back) for losses on loans & financing and other losses	19.3	16.4	(2.9)	(17.2%)
Pre-tax profit	180.6	160.6	20.0	12.5%
Net Profit After Tax ("NPAT")	134.7	121.9	12.8	10.4%

Q-o-Q Performance:

- Net Income up 6.3% q-o-q driven by:
 - + 3 bps improvement in net interest margin
 - Growth focused in higher risk adjusted return products
 - Non-interest income up 17.6% due both to client based transactions and treasury trading.
- Positive jaws, with operating expenses 0.8% lower
- Pre-provision profit up 12.9%
- Credit cost remained stable at 19.4 bps, and within 25 bps guidance.

Credit cost stable but Y-o-Y lower NPAT due to absence of major recoveries



Notes: 1. Gain on disposal of land of RM21.6 million and RM10.0 million of Bancassurance Fee in Q2FY15

2. Implementation of Mutual Separation Scheme (MSS) in Q1FY15 to right-size the Group



1HFY2016: Y-o-Y Normalised NPAT 12.2% lower due to absence of major recoveries

Income Statement	1HFY16 RM mil (Reported)	1HFY15 RM mil (Normalised)	Y-o-Y Change (Normalised) Better / (Worse)		1HFY15 Reported
			RM mil	%	
Net Interest Income	420.9	421.0	(0.1)	-	421.0
Islamic Banking Income	119.6	108.5	11.1	10.2%	108.5
Non-Interest Income	169.8	164.3	5.5	3.3%	195.9
Net Income	710.3	693.8	16.5	2.4%	725.4
Operating Expenses	333.4	314.2	19.2	6.1%	324.8
Pre-Provision Operating Profit	376.9	379.6	(2.7)	(0.7%)	400.6
Allowance/ (Write back) for losses on loans & financing and other losses	35.6	(9.8)	45.5	(>100.0%)	(9.8)
Pre-tax profit	341.3	389.4	(48.1)	(12.4%)	410.4
Net Profit After Tax	256.6	292.2	(35.6)	(12.2%)	311.1

Y-o-Y Performance:

- Net income up 2.4% despite 7 bps y-o-y contraction in net interest margin
- Pre-provision profits marginally lower by RM2.7 million
- Credit cost excluding recoveries stable at 28.8 bps (annualized) compared with 29.4 bps in FY2015.
- 1HFY2016 has net impairment provision charge of RM35.6 million as compared to net write back of RM9.8 million in 1HFY2015.
- 1HFY2015 had exceptional recoveries of impaired loans and CLO of RM46.5, million in contrast with only RM18.3 million in 1HFY2016

1H FY2015: Exceptional Items	RM mil
Non-Interest Income	+31.6 mil ⁽¹⁾
Operating Expenses	-10.6 mil ⁽²⁾
NPAT Impact	+ 18.9 mil
1H FY2015 Normalised NPAT	292.2 mil

Notes:

- Gain on disposal of land of RM21.6 million and RM10.0 million of Bancassurance Fee in Q2FY15
- Implementation of Mutual Separation Scheme (MSS) in Q1FY15 to right-size the Group



Balance sheet growth

Balance Sheet	1HFY16 RM bil	1HFY15 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	53.0	50.8	2.2	4.3%
Treasury Assets ⁽¹⁾	11.4	12.1	(0.7)	(5.8%)
Net Loans	37.6	34.1	3.5	10.2%
Customer Deposits	44.1	40.8	3.3	8.1%
CASA Deposits	14.8	14.3	0.5	3.3%
Shareholders' Funds	4.6	4.4	0.2	5.8%
Net Loan Growth (y-o-y)	10.2%	15.5%		
Customer Deposit Growth (y-o-y)	8.1%	11.0%		

- Effective management of liquidity and market risk: Treasury assets reduction of 5.8% y-o-y
- +8.1% y-o-y **Customer Deposit** growth, is above industry growth rate of 5.1%.
- +3.3% y-o-y growth in **CASA deposits** despite intensified competition for deposits

Note: * Industry : BNM Monthly Statistical Bulletin as at September 2015

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



	Financial Ratios	2QFY16	1QFY16	2QFY15	1HFY16	1HFY15
Shareholder Value	Return on Equity	11.7%	10.9%	15.1%	11.5%	13.9%
	Earnings per Share	8.8sen	8.0 sen	11.9sen	16.8sen	20.5sen
	Net Assets per Share	RM2.98	RM2.92	RM2.82	RM2.98	RM2.82
Efficiency	Net Interest Margin	2.19%	2.16%	2.26%	2.18%	2.20%
	Non-Interest Income Ratio	25.9%	23.4%	24.6%	24.7%	27.9%
	Cost to Income Ratio	45.4%	48.6%	41.8%	46.9%	44.8%
Balance Sheet Growth	Net Loans (RM bil)	37.6	37.0	34.1	37.6	34.1
	Customer Deposits (RM bil)	44.1	43.9	40.8	44.1	40.8
Asset Quality	Gross Impaired Loans Ratio	1.1%	1.0%	1.2%	1.1%	1.2%
	Net Impaired Loans Ratio	0.7%	0.6%	0.7%	0.7%	0.7%
	Loan Loss Coverage Ratio	92.7%	105.4%	88.6%	92.7%	88.6%
Liquidity	CASA Ratio	33.6%	34.5%	35.2%	33.6%	35.2%
	Loan to Deposit Ratio	86.2%	85.1%	84.5%	86.2%	84.5%
Capital	Common Equity Tier 1 Capital Ratio	11.7%	11.1%	10.1%	11.7%	10.1%
	Tier 1 Capital Ratio	11.7%	11.1%	11.1%	11.7%	11.1%
	Total Capital Ratio	13.6%	13.0%	13.2%	13.6%	13.2%



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THANK YOU

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