



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

ANALYST BRIEFING FY2017

31 May 2017

Contents

1

Executive Summary

- FY2017 Accomplishments
- FY2017 Performance

2

Going Forward

- Our Strategy
- FY2018: Targets and Guidance

3

Appendix - Financial Results:

- 4Q FY2017
- FY2017

Summary of FY17 Accomplishments**Continued improvement in underlying business**

- Top 3 ROE in the industry
- PPOP : +5.8% Y-o-Y, 2x faster than historical CAGR
 - NIM improvement of +11bps
 - Better RAR loans grew 13.6% (SME grew 9.3%)
 - Strong customer deposits growth (CASA +4.6% Y-o-Y, CASA ratio: 34.2%)
 - Client based fee income grew 8.2% Y-o-Y
 - Improved cost to income ratio to 47.1%

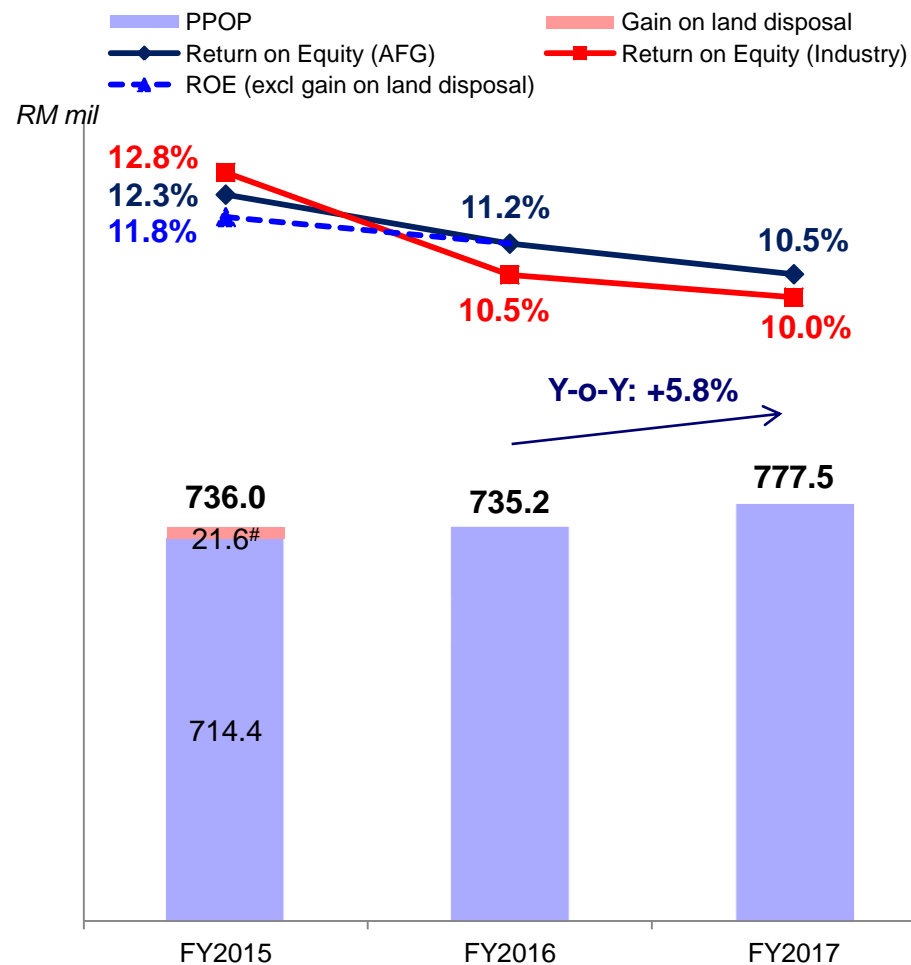
... however slight decline in NPAT

- NPAT : -1.9% Y-o-Y to RM512.1 million due to:
 - lower treasury income
 - normalising credit cost
- Credit cost within management guidance, stable outlook moving forward

Top 3 ROE in the industry, Y-o-Y PPOP improvement

- a) ROE : 10.5%, above industry average
(remain within the top 3 in the industry)
- b) Pre-provision operating profit improved +RM42.3 million or 5.8% y-o-y, 2x faster than historical CAGR

PPOP & ROE



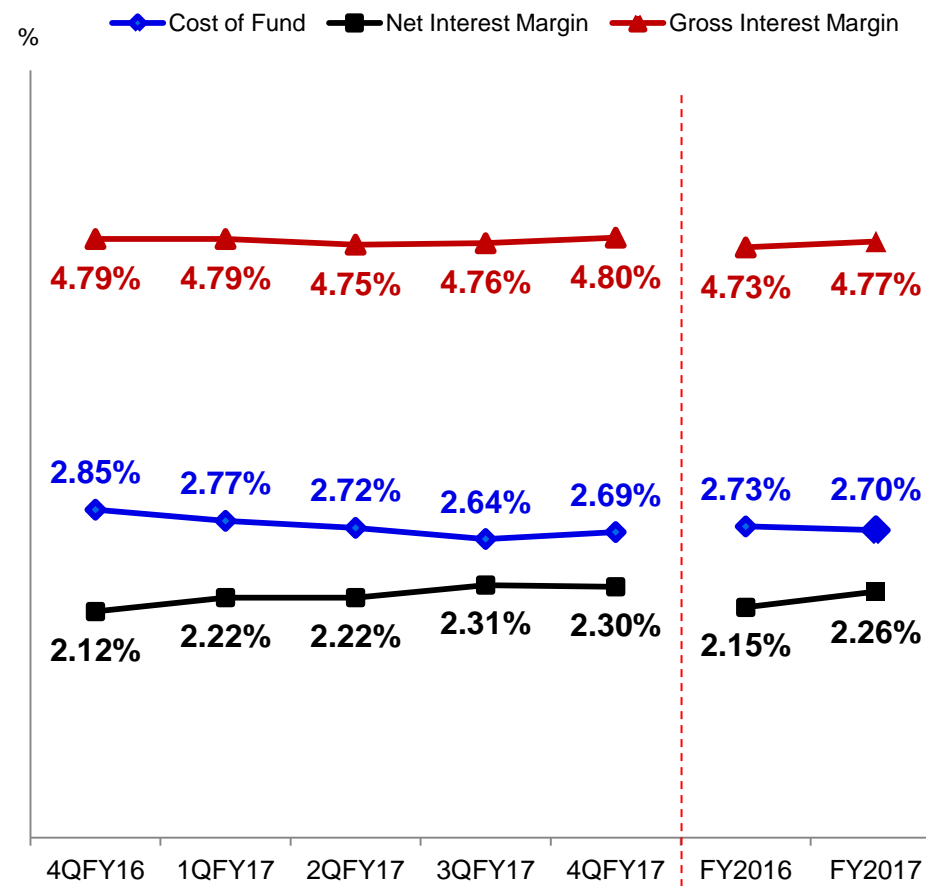
Notes: Industry ROE is based on average of local banks (latest financials)

[#] NPAT impact on gain on land disposal is RM19.5 million

Y-o-Y NIM improvement

- a) NIM: +11 bps y-o-y
- b) Cost of funds: -3 bps y-o-y due to deposit repricing
- c) GIM: +4 bps y-o-y due to higher RAR loans growth

Cost of Funds & Net Interest Margin Trend



Targeted growth in better risk adjusted return loans

- a) Improved loan origination mix: FY2017 annualized loans growth:
- Better risk adjusted return (“RAR”) loans: 13.6%
 - Lower RAR loans: -1.8%
- b) Portfolio RAR: +10 bps y-o-y

Loans Growth			
	FY2016 Loans Growth RM (mil)	FY2017 Loans Growth RM (mil)	FY2017 Loans Growth %
Better RAR loans			
SME & Commercial	1,075	1,176	
Consumer Unsecured	212	159	
Total	1,286	1,334	13.6%
Lower RAR loans			
Mortgage & Biz. Premises	1,165	(515)	
Hire Purchase	(274)	(265)	
Corporate	(79)	229	
Total	812	(551)	-1.8%

RAR = 1.89%

RAR = 0.69%

Y-o-Y improvement in portfolio RAR from 0.94% to 1.04%

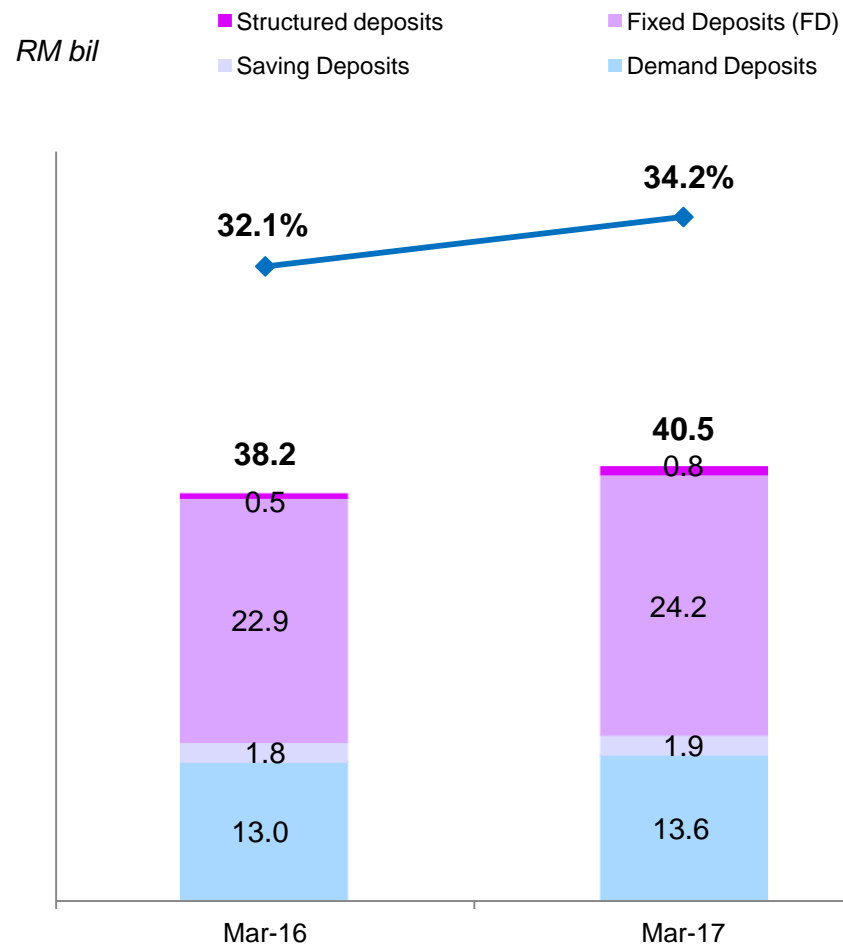
Note: Risk Adjusted Return: Net Interest Margin less (Direct Variable Cost + Business as Usual Credit Cost) ÷ Average Loan Balance

Strong customer deposits growth

a) Focus on growing customer based funding:

- CASA : +4.7% y-o-y (ratio improved to 34.2%)
- Core customer deposits : +6.1% y-o-y (faster than industry growth of 3.9%^)

Core Deposits Growth and CASA Ratio



Notes: Core customer deposits = CASA + Fixed Deposits + Structured deposits

^ Banking System: based on the BNM Monthly Statistical Bulletin March 2017

Strong growth in client based fee income

a) Client based fee income up 8.2% y-o-y, with growth in:

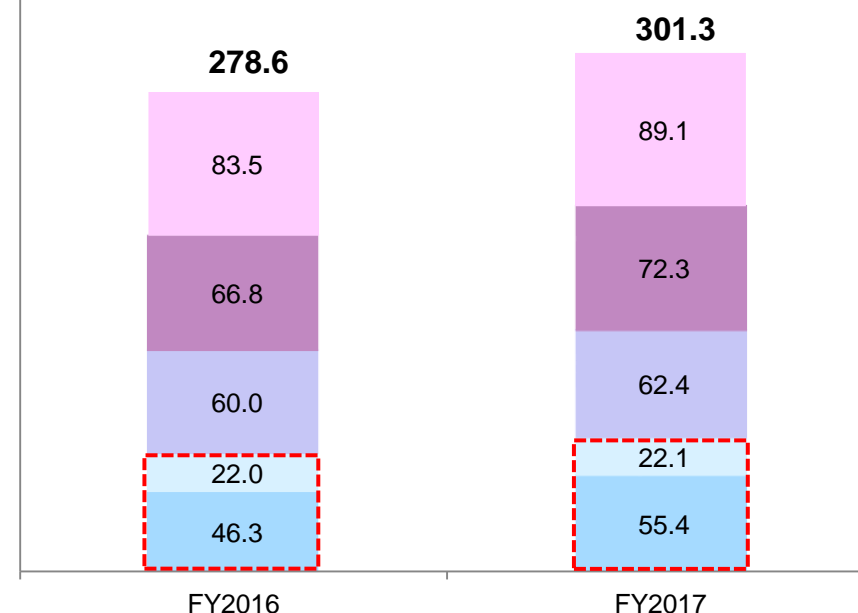
- Wealth Management: +13.5% (vs 3.5% in FY16)
- FX sales: +3.9%
- Trade fees: +8.2%
- Banking Services fees: +6.8%

Client Based Fee Income Trend

RM mil

- Insurance, Banca & Unit Trust Fees
- Brokerage & Share Trading Fees
- FX Sales
- Trade Fees
- Banking Services Fees

 = Wealth Management



Note: Non-Interest Income in this Chart is inclusive of Islamic Banking client-based fee income

Cost to income ratio improved y-o-y

a) Positive JAWS

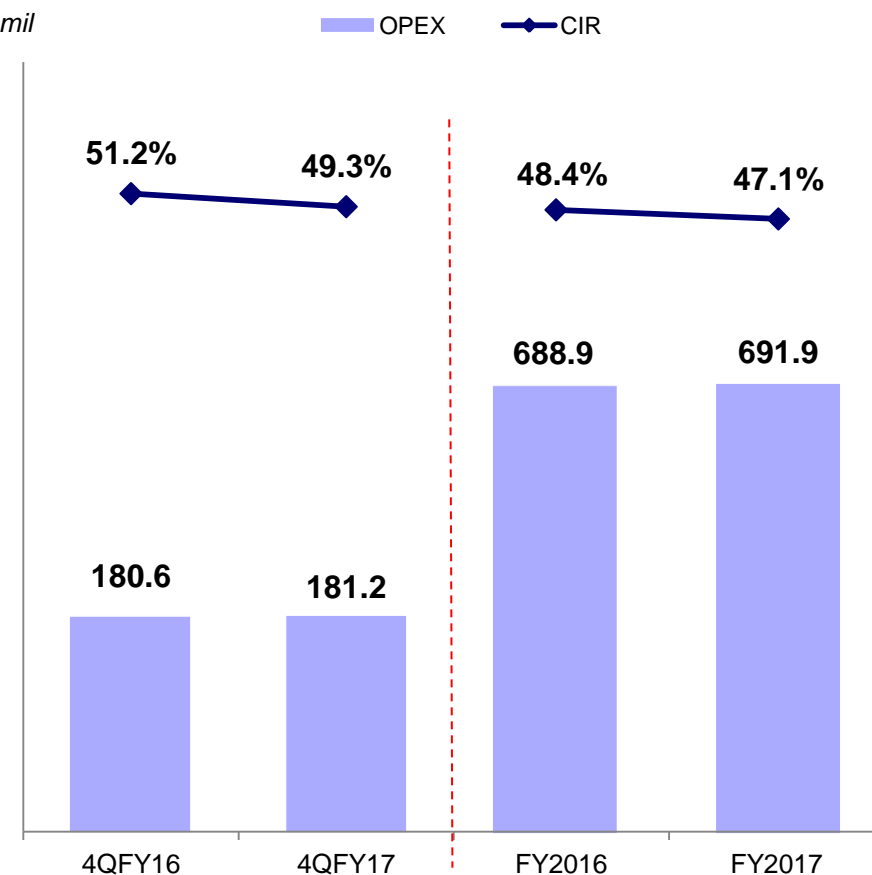
FY2017	Y-o-Y
Revenue Growth	+3.2%
Expense Growth	+0.4%
JAWS	+2.8%

b) Operating expenses up only 0.4% y-o-y due to cost discipline

c) Cost to income ratio at 47.1% (below industry: 48.7%*)

Operating Expenses Trend

RM mil

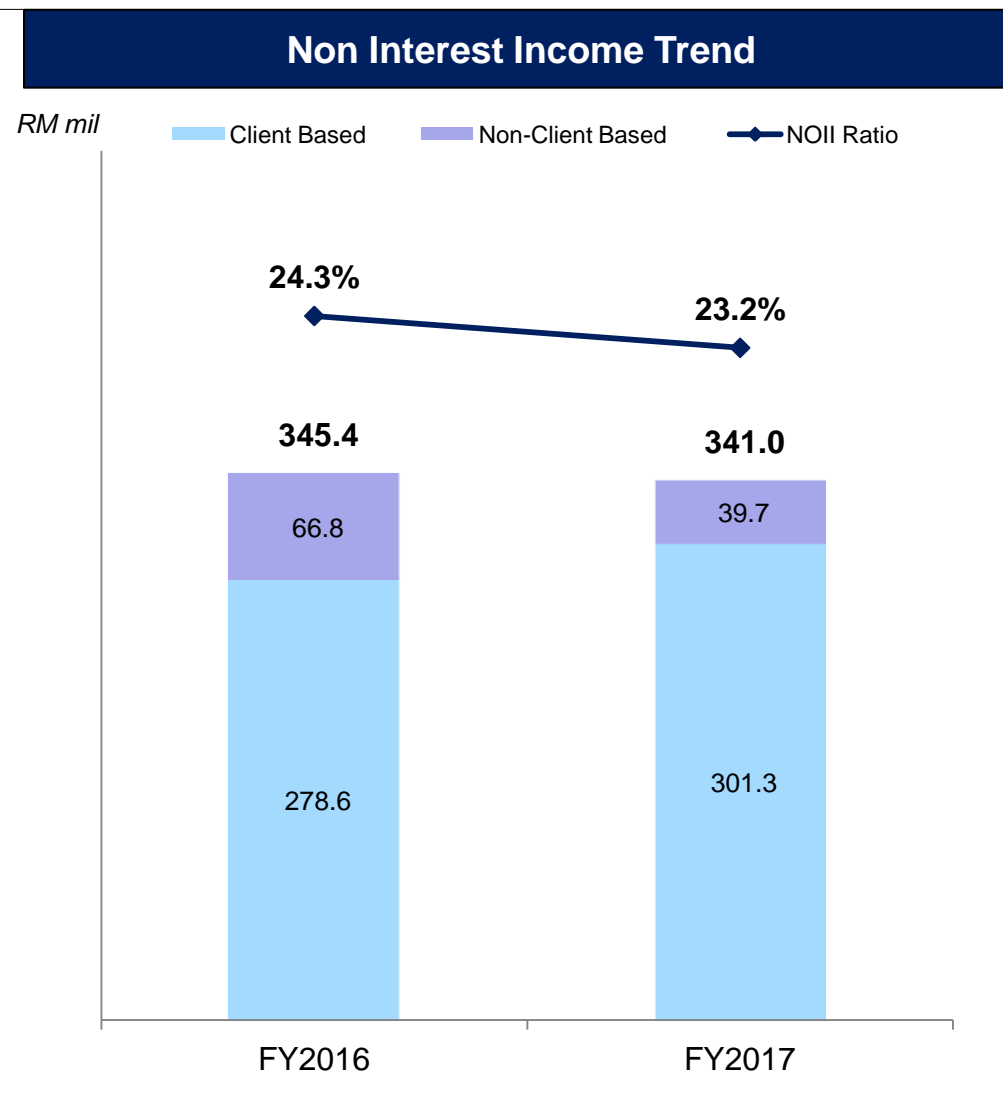


*Note: * Average cost to income ratio of local banking groups at December 2016*

However, NPAT impacted by lower treasury contribution...

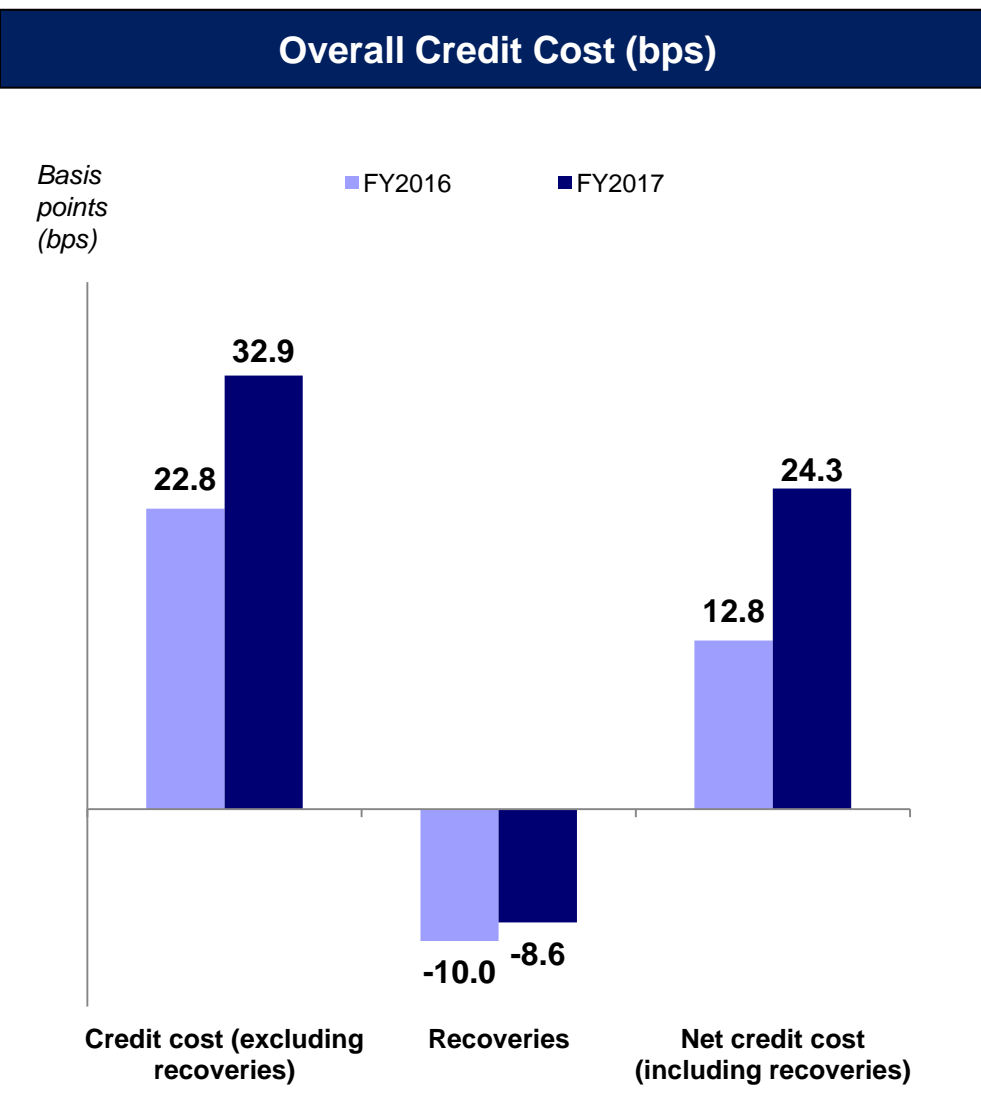
a) Non client based non-interest income declined by RM27.1 million mainly due to:

- Lower treasury income from derivatives
- Lower contribution from foreign exchange trading income



...and normalising credit cost

- a) Net credit cost at 24.3bps
- b) Credit cost increased by RM42.4 million due to:
 - seasoning of personal loans portfolio (volume: +RM7.5 million; flow: +RM7.7 million)
 - FY16: write-back of a large corporate account
- c) Restructured & Rescheduled loans:
 - Flow: -RM51.4 million y-o-y
 - Stock: RM81.3 million (0.2% of total loans)



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1

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- FY2017 Performance

2

Going Forward

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3

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We are a bank that uses innovation to bring you simple, fast and responsive solutions that are always aligned to customers' needs

Our Vision

“Building Alliances to Improve Lives”

Our Strategy

Be the Most Important Relationship for the Financial Success of Business Owners

Our Brand

Providing Innovative Solutions that are Fast, Simple & Responsive and aligned to Customers' Needs

Our Strategic Themes**1**

Scale up economically

2

Reduce complexity

3

Future-proof

FY2018: Targets**FY18 Management Guidance**

- 1** Mid single digit loans growth
- 2** NIM to improve by around 5bps
- 3** Cost to Income ratio

<u>BAU:</u> <47%	<u>With transformation:</u> < 52%
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- 4** Net credit cost 30-35 bps
- 5** ROE :

<u>BAU:</u> around 10.5%	<u>With transformation:</u> around 9.5%
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- 6** Maintain dividend payout policy

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1

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- FY2017 Performance

2

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3

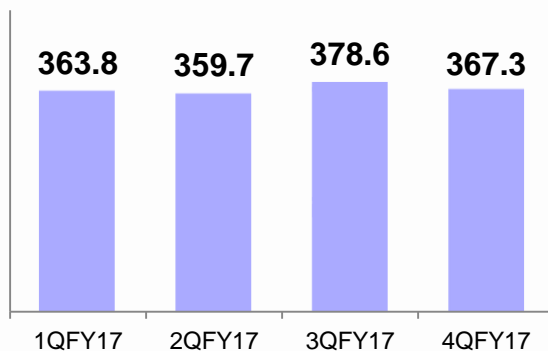
Appendix - Financial Results:

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Net profit after tax: RM117.4 million

Revenue

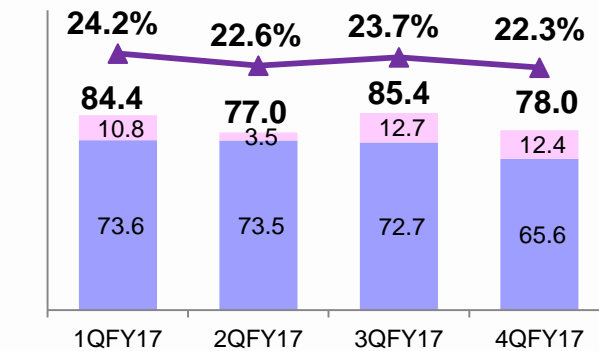
RM mil



Non Interest Income & NOII Ratio

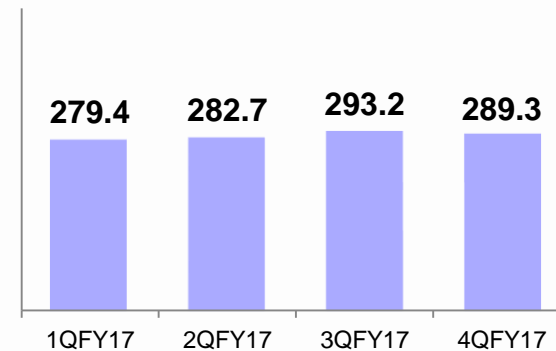
Client Based Non Client Based NOII Ratio

RM mil



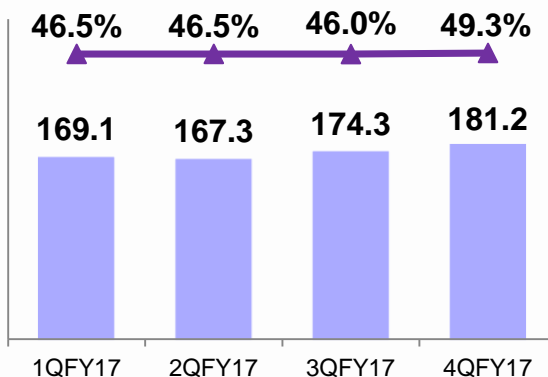
Net Interest Income & Islamic Banking Income

RM mil



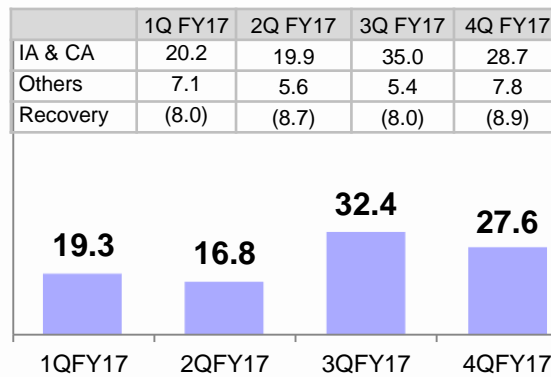
Operating Expenses & CIR Ratio

RM mil



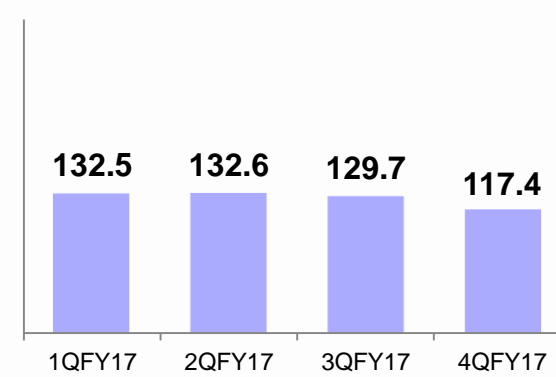
Credit Cost

RM mil



Net Profit

RM mil



Income Statement	3QFY17 RM mil	4QFY17 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	218.4	212.8	(3.5)	(1.3%)
Islamic Net Financing Income	70.4	72.5		
Islamic Non-Financing Income	4.4	4.0	(7.8)	(8.7%)
Non-Interest Income	85.4	78.0		
Net Income *	378.6	367.3	(11.3)	(3.0%)
Operating Expenses	174.3	181.2	(6.9)	(3.9%)
Pre-Provision Operating Profit	204.3	186.1	(18.2)	(8.9%)
Net Credit Cost ^	32.4	27.6	4.8	15.0%
Pre-tax profit	171.9	158.5	(13.4)	(7.8%)
Net Profit After Tax	129.7	117.4	(12.3)	(9.5%)

- **Net income** reduced by 3.0% q-o-q, due to:
 - -1.3% decrease in net interest income⁺ (mainly contributed by higher COF from customer deposits and derivative products)
 - -8.7% drop in non-interest income⁺
- **Client based fee income** declined by RM7.4 million or 9.6% q-o-q due to lower trade fees (-1.1%), FX sales (-17.9%) and banking services fees (-23.4%)
- **Non client based non-interest income** reduced by RM0.4 million mainly due to financial investment activities, and foreign exchange trading
- **Operating expenses** increased by RM6.9 million or 3.9% q-o-q mainly due to higher personnel cost, general administration, establishment costs and marketing expenses
- **Pre-provision operating profit** decreased by 8.9% q-o-q
- Lower **credit cost** due to lower collective assessment allowance and higher recoveries

Notes:

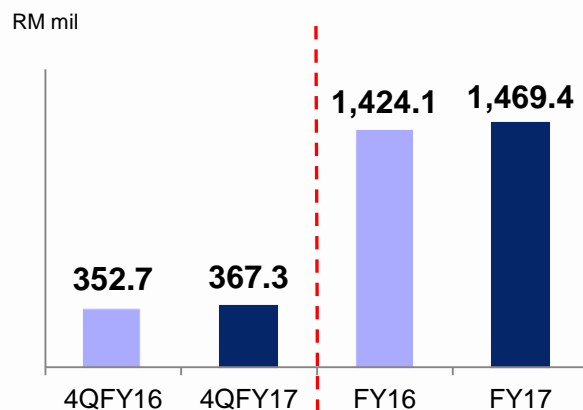
* Revenue

^ Allowance/ (Write back) for losses on loans & financing and other losses

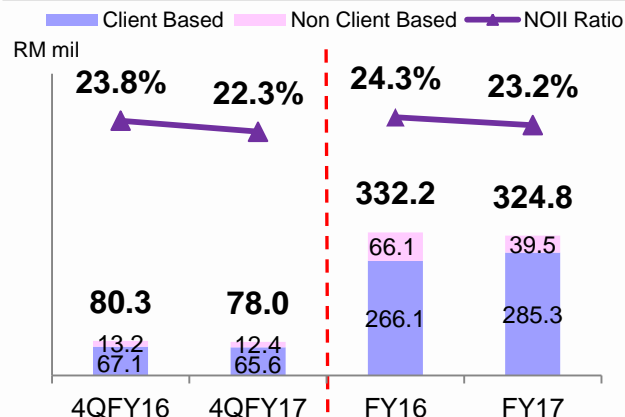
* Inclusive of Islamic Banking Income

Net profit after tax: RM512.1 million

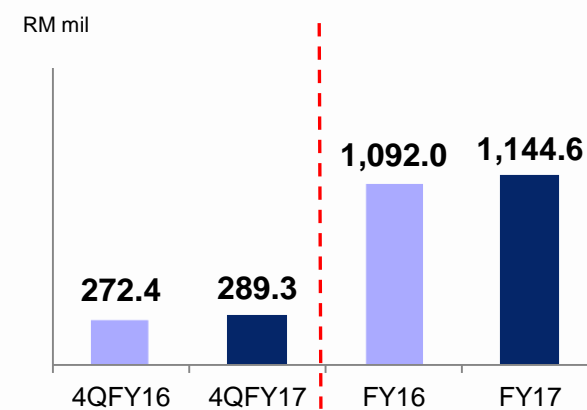
Revenue



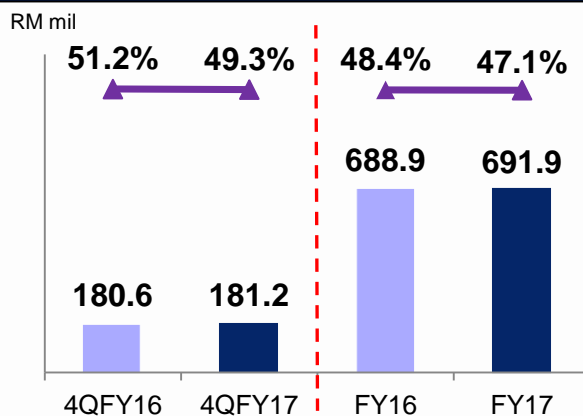
Non Interest Income & NOII Ratio



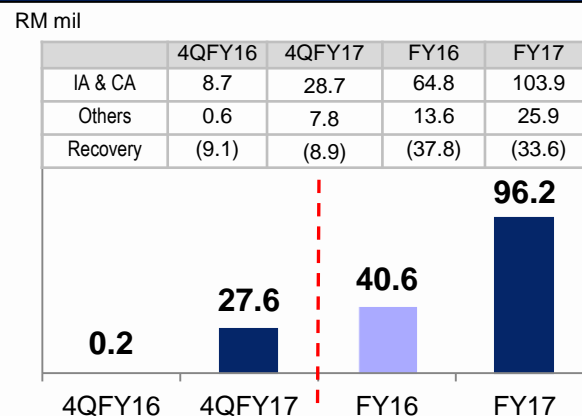
Net Interest Income & Islamic Banking Income



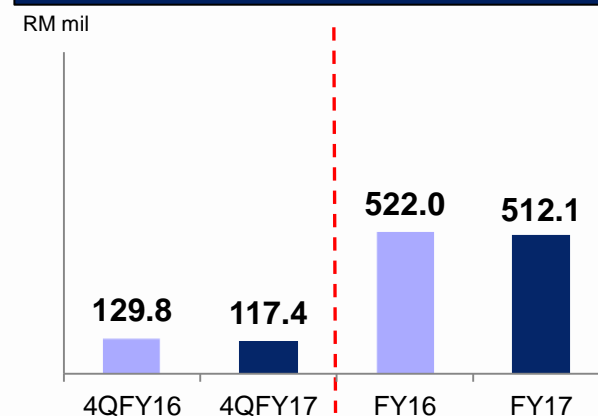
Operating Expenses & CIR Ratio



Credit Cost



Net Profit



Income Statement	4QFY16 RM mil	4QFY17 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	211.1	212.8	16.5	6.1%
Islamic Net Financing Income	57.7	72.5		
Islamic Non-Financing Income	3.6	4.0	(1.9)	(2.3%)
Non-Interest Income	80.3	78.0		
Net Income *	352.7	367.3	14.6	4.1%
Operating Expenses	180.6	181.2	(0.6)	(0.3%)
Pre-Provision Operating Profit	172.1	186.1	14.0	8.1%
Net Credit Cost ^	0.2	27.6	(27.4)	(>100%)
Pre-tax profit	171.9	158.5	(13.4)	(7.8%)
Net Profit After Tax	129.8	117.4	(12.4)	(9.6%)

- **Net income** increased by 4.1% y-o-y, due to:
 - +6.1% rise in net interest income⁺ (mainly contributed by higher Islamic net financing income)
 - -2.3% decrease in non-interest income⁺
- **Client based fee income** declined by RM0.5 million or 0.7% q-o-q due to lower FX sales (-16.9%) and banking services fees (-11.7%)
- **Non client based non-interest income** reduced by RM1.4 million mainly due to financial investment activities, and foreign exchange trading
- **Operating expenses** increased by RM0.6 million or 0.3% y-o-y mainly due to lower personnel cost but offset by higher general administration, establishment and marketing expenses
- **Pre-provision operating profit** improved by 8.1% y-o-y
- Higher **credit cost** due to higher collective assessment allowances on loans and financing

Notes:

* Revenue

^ Allowance/ (Write back) for losses on loans & financing and other losses

* Inclusive of Islamic Banking Income

Income Statement	FY16 RM mil	FY17 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	847.8	847.5	49.6	4.6%
Islamic Net Financing Income	231.0	280.9		
Islamic Non-Financing Income	13.2	16.2	(4.4)	(1.3%)
Non-Interest Income	332.2	324.8		
Net Income *	1,424.1	1,469.4	45.3	3.2%
Operating Expenses	688.9	691.9	(3.0)	(0.4%)
Pre-Provision Operating Profit	735.2	777.5	42.3	5.8%
Net Credit Cost ^	40.6	96.2	(55.6)	(>100%)
Pre-tax profit	694.6	681.3	(13.3)	(1.9%)
Net Profit After Tax	522.0	512.1	(9.9)	(1.9%)

Notes:

* Revenue

^ Allowance/ (Write back) for losses on loans & financing and other losses

* Inclusive of Islamic Banking Income

- **Net income** increased by 3.2% y-o-y, due to:
 - +4.6% rise in net interest income⁺ (mainly contributed by higher Islamic net financing income)
 - -1.3% decrease in non-interest income⁺
- **Client based fee income** grew by RM22.7 million or 8.2% y-o-y due to higher banking services fees (+6.8%), wealth management fees (+13.5%), FX Treasury sales (+3.9%) and trade fees (+8.2%).
- **Non client based non-interest income** declined by RM27.1 million mainly due to lower treasury income from derivatives and foreign exchange trading gain
- **Operating expenses** increased by RM3.0 million or 0.4% y-o-y mainly due to higher establishment and general administration expenses offset by lower personnel cost
- **Pre-provision operating profit** improved by 5.8% y-o-y
- Higher **credit cost** due to higher impairment allowances on loans and financing, lower recoveries and higher non-loan impairment charges

Balance Sheet	Dec 16 RM bil	Mar 17 RM bil	Change Q-o-Q	
			RM bil	%
Total Assets	53.8	54.1	0.3	0.5%
Treasury Assets *	11.9	11.6	(0.3)	(2.5%)
Net Loans	38.9	39.0	0.1	0.2%
Core Customer Deposits #	38.4	40.5	2.1	5.5%
CASA Deposits	15.3	15.5	0.2	1.3%
Shareholders' Funds	5.0	5.1	0.1	2.4%
Net Loans Growth (y-o-y)	1.6%	1.5%^		
Core Customer Deposit # Growth (y-o-y)	7.8%	6.1%+		

- 0.2% q-o-q **net loans growth**, with focus on better risk adjusted return loans namely SME, commercial and consumer unsecured lending
- **Better risk adjusted return loans** grew at a 13.6% annualized rate, compared to a contraction of -1.8% of lower risk adjusted return loans
- **SME loans growth** of +2.5% q-o-q, better than industry growth of 1.7%~
- **Core customer deposits**[#] increased by 5.5% q-o-q
- **CASA deposits** grew by 1.3% q-o-q, despite intensified market competition for deposits
- Loan to deposit ratio at 87.0% (industry: 89.9%)

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at March 2017

~ Based on BNM SME reports as at February 2017

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

Core customer deposits = CASA + Fixed Deposits + Structured deposits

^ Gross loans growth (y-o-y) = 1.5% (q-o-q: 0.2%)

+ Total deposits growth: -0.3% q-o-q, -1.7% y-o-y

Balance Sheet	Mar 16 RM bil	Mar 17 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	55.6	54.1	(1.5)	(2.8%)
Treasury Assets *	10.2	11.6	1.4	14.0%
Net Loans	38.4	39.0	0.6	1.5%
Core Customer Deposits #	38.2	40.5	2.3	6.1%
CASA Deposits	14.8	15.5	0.7	4.7%
Shareholders' Funds	4.8	5.1	0.3	5.6%
Net Loans Growth (y-o-y)	5.0%	1.5%^		
Core Customer Deposit # Growth (y-o-y)	4.7%	6.1%+		

- 1.5% y-o-y **net loans growth**, with focus on better risk adjusted return loans namely SME, commercial and consumer unsecured lending
- **Better risk adjusted return loans** grew at a 13.6% annualized rate, compared to a contraction of -1.8% of lower risk adjusted return loans
- **SME loans growth** of +9.3% y-o-y
- **Core customer deposits**[#] increased by 6.1% y-o-y
- **CASA deposits** grew by 4.7% y-o-y, despite intensified market competition for deposits
- Loan to deposit ratio at 87.0% (industry: 89.9%)

Note:

Industry comparison from BNM Monthly Statistical Bulletin as at March 2017

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

Core customer deposits = CASA + Fixed Deposits + Structured deposits

^ Gross loans growth (y-o-y) = 1.5%

+ Total deposits growth: -1.7% y-o-y

	Financial Ratios	4QFY16	3QFY17	4QFY17	FY16	FY17
Shareholder Value	Return on Equity	11.0%	10.4%	9.5%	11.2%	10.5%
	Earnings per Share	8.5sen	8.5sen	7.7sen	34.2sen	33.5sen
	Net Assets per Share	RM3.13	RM3.22	RM3.30	RM3.13	RM3.30
Efficiency	Net Interest Margin	2.12%	2.31%	2.30%	2.15%	2.26%
	Non-Interest Income Ratio	23.8%	23.7%	22.3%	24.3%	23.2%
	Cost to Income Ratio	51.2%	46.0%	49.3%	48.4%	47.1%
Balance Sheet Growth	Net Loans (<i>RM bil</i>)	38.4	38.9	39.0	38.4	39.0
	Total Deposits (<i>RM bil</i>)	46.0	45.4	45.2	46.0	45.2
Asset Quality	Gross Impaired Loans Ratio	1.3%	1.0%	1.0%	1.3%	1.0%
	Net Impaired Loans Ratio	0.8%	0.6%	0.6%	0.8%	0.6%
	Loan Loss Coverage Ratio ^	109.1%	137.1%	136.7%	109.1%	136.7%
Liquidity	CASA Ratio	32.1%	33.7%	34.2%	32.1%	34.2%
	Loan to Deposit Ratio	84.2%	86.6%	87.0%	84.2%	87.0%
	Loan to Fund Ratio	80.1%	83.4%	83.8%	80.1%	83.8%
Capital	Common Equity Tier 1 Capital Ratio	11.8%	12.0%	12.5%	11.8%	12.5%
	Tier 1 Capital Ratio	11.8%	12.0%	12.5%	11.8%	12.5%
	Total Capital Ratio	17.4%	16.6%	17.2%	17.4%	17.2%

Note:

^ Loan Loss Coverage includes Regulatory Reserve provision; excluding Regulatory Reserve, 96.6% at 4QFY17 or FY17 (vs. 97.2% at 3QFY17 or 9MFY17)

Loan to Fund Ratio is based on Funds comprising Customer Deposits and all debt instruments (such as senior debt, Cagamas and subordinated debt)

THANK YOU

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