



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

ANALYST BRIEFING 1Q FY2018

29 August 2017



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1QFY18 Financial Performance

- Key Results
- Revenue and Profitability
- Effective Risk Management
- Transformation Progress

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- 1Q FY18

Steady progress despite weak operating environment**Key Results**

- **ROE: 10.7%**, above industry average
- **Net Profit After Tax:**
+1.9% y-o-y to RM135.0 million
- **Pre-Provision Operating Profit:**
+8.0% y-o-y to RM210.2 million,
3x faster than historical CAGR

Effective Risk Management

- Strong **customer deposits growth**
(CASA ratio improved to 35.3%)
- **Healthy liquidity coverage ratio** at 143.7%
- **Credit cost** at 30.9 bps (annualized),
within management guidance
- Sustainable **capital position**

Revenue & Profitability

- Revenue up 6.3% y-o-y
 - ✓ Q-o-q **net interest margin** improvement
 - ✓ Focus on **better risk adjusted return loans**
 - ✓ Strong growth in **client based fee income**
- **Cost to income ratio** at 45.6%,
positive JAWS (+7.9%)

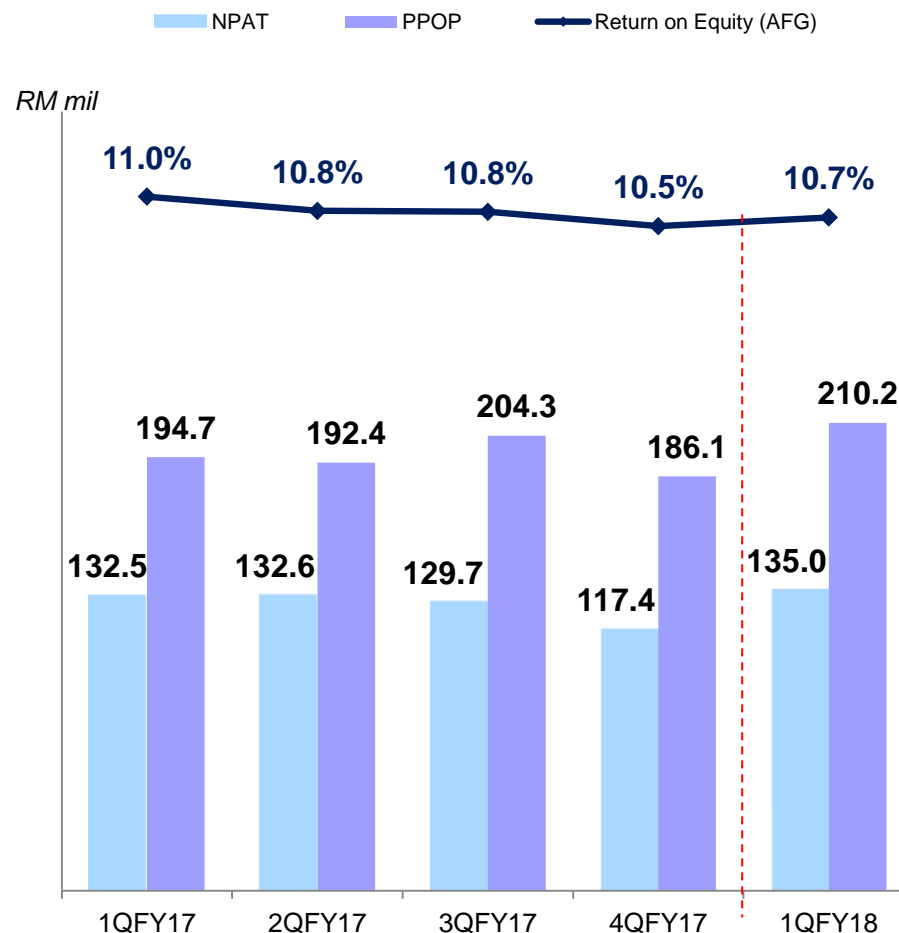
Transformation Progress

- **Alliance One Account:**
 - ✓ Strong sales acceptance: >RM300 million (July'17)
- **Alliance @ Work:**
 - ✓ Recruitment of key personnel
 - ✓ On-boarding >30 companies, with >2,400 employees' account opened or in progress

PPOP and NPAT improvement

- a) ROE : 10.7% (vs industry average of 10.0%)
- b) NPAT : +1.9% y-o-y to RM135.0 million
- c) PPOP: +8.0% y-o-y to RM210.2 million, 3x faster than historical CAGR

PPOP, NPAT & ROE

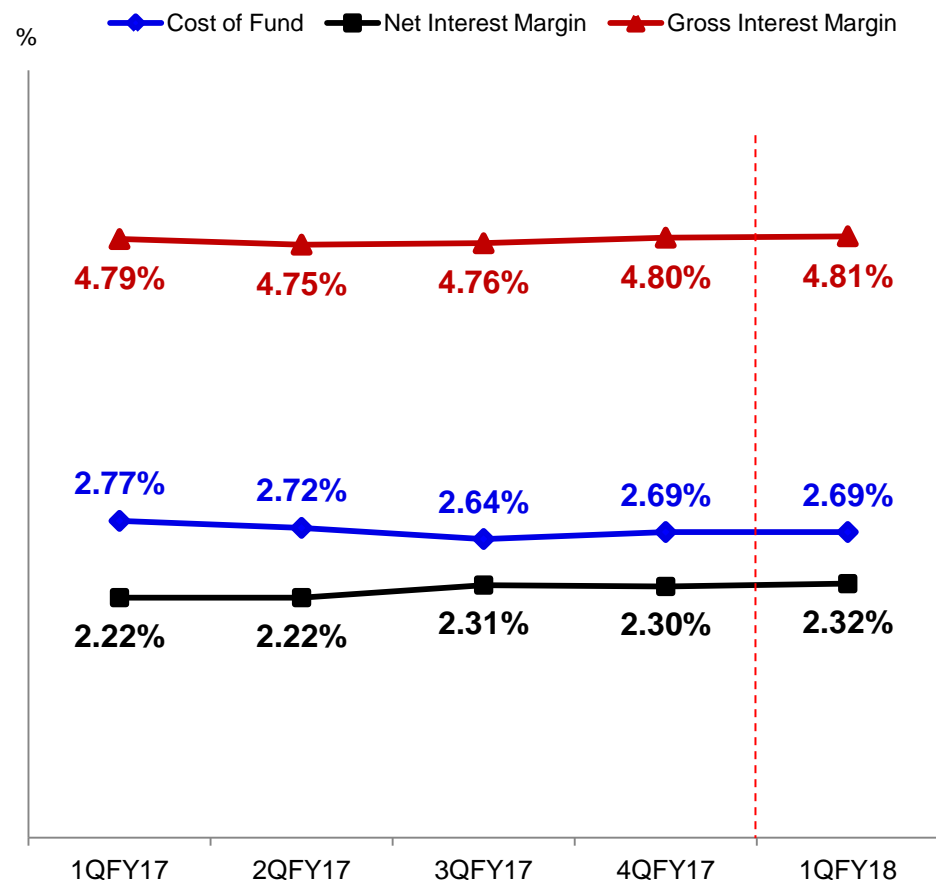


Note: Industry ROE is based on average of local banks (latest financials)

Q-o-q net interest margin improvement

- a) NIM: +2 bps Q-o-Q
- b) GIM: +1 bps Q-o-Q driven by improvement in yields contributed by higher RAR loans

Cost of Funds & Net Interest Margin Trend



Focus on better risk adjusted return loans

- a) 1Q FY18 Y-o-Y loans growth:
- Better risk adjusted return (“RAR”) loans: +11.3%
 - Lower RAR loans: -3.0%
- b) Improved loan mix:
- better RAR loans at 32% of portfolio
 - strong build-up in Alliance One Account
- c) Portfolio RAR at 1.08% (FY17: 1.04%)

Loans Growth				
	1Q FY17 Gross Loans (RM 'mil)	1Q FY18 Gross Loans (RM 'mil)	Average Loans Growth Per Quarter (RM 'mil)	Y-o-Y Loans Growth %
Better RAR loans				
SME & Commercial	8,438	9,449	253	+12.0%
Consumer Unsecured	1,744	1,888	36	+8.3%
Share Margin	929	954	6	+2.7%
Alliance One Account	-	81	81	n/a
Total	11,111	12,372	376	+11.3%
	29%	32%	Strong acceptance (>2 times disbursement)	RAR = 1.99%
Lower RAR loans				
Mortgage & Biz Premises	21,158	20,442	(179)	-3.4%
Hire Purchase	949	695	(64)	-26.8%
Corporate	5,196	5,355	40	+3.1%
Total	27,303	26,492	(203)	-3.0%
	71%	68%		RAR = 0.66%

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

Strong growth in client based fee income

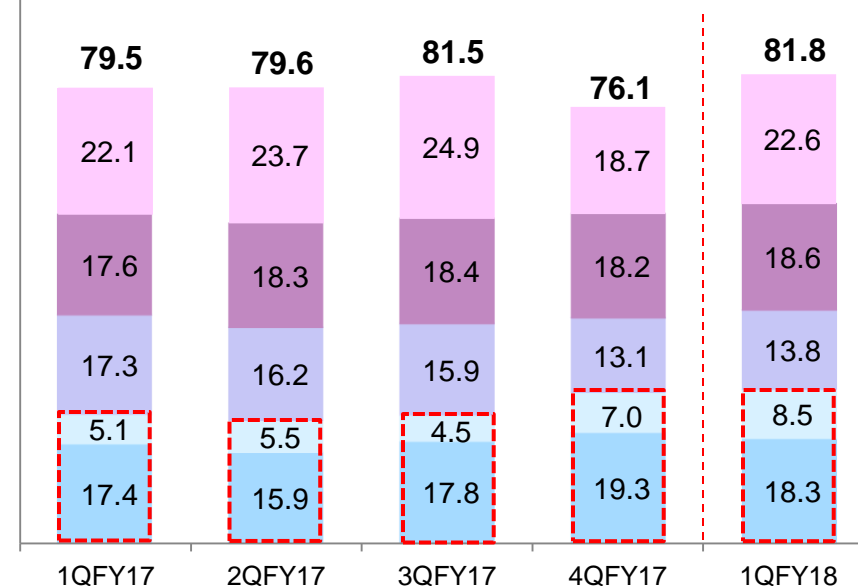
a) Client based fee income up 7.5% q-o-q, with growth in:

- Wealth Management: +2.1%
- FX sales: +6.0%
- Trade fees: +2.5%
- Banking Services fees: +20.8%

Client Based Fee Income Trend

RM mil

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



Note: Client Based Fee Income in this Chart is inclusive of Islamic Banking

Cost to income ratio at 45.6%, with positive JAWS

a) Positive JAWS

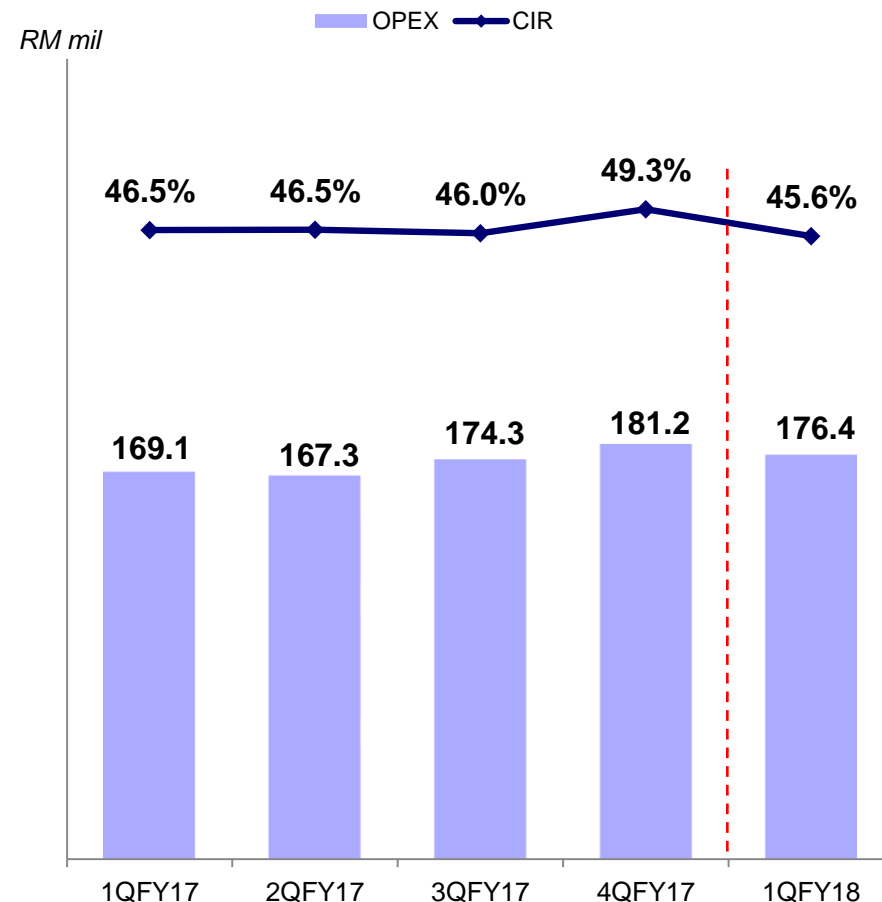
1QFY18	Q-o-Q
Revenue Growth	+5.3%
Expense Growth	-2.6%
JAWS	+7.9%

b) Operating expenses reduced -2.6% Q-o-Q

c) Cost to income ratio improved to 45.6%

d) Investments in strategic initiatives: RM2.2 million in 1QFY18, will increase in quarters ahead

Operating Expenses Trend

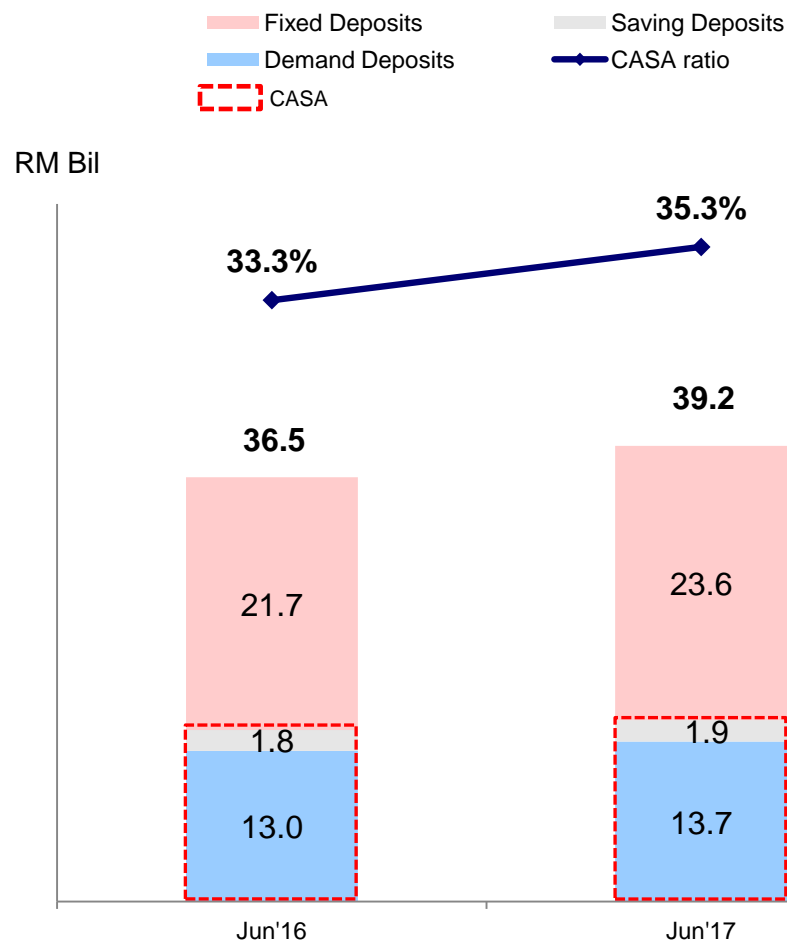


Strong customer deposits growth y-o-y

a) Focus on growing customer based funding:

- CASA : +5.8% y-o-y
- CASA ratio improved to 35.3%
- Core customer deposits: +7.4% y-o-y (faster than industry growth of 4.1%)

Core Deposits Growth and CASA Ratio



Note: Core customer deposits = CASA + Fixed Deposits

Healthy liquidity coverage ratio at 143.7%

a) Healthy liquidity position:

- Liquidity coverage ratio¹ at 143.7% (industry*: 140.6%)
- Loan to fund ratio² at 84.3% (industry#: 85.0%)
- Loan to deposits ratio at 88.2% (industry*: 90.4%)

b) Net stable funding ratio:

- To be implemented in Jan 2018

Notes:

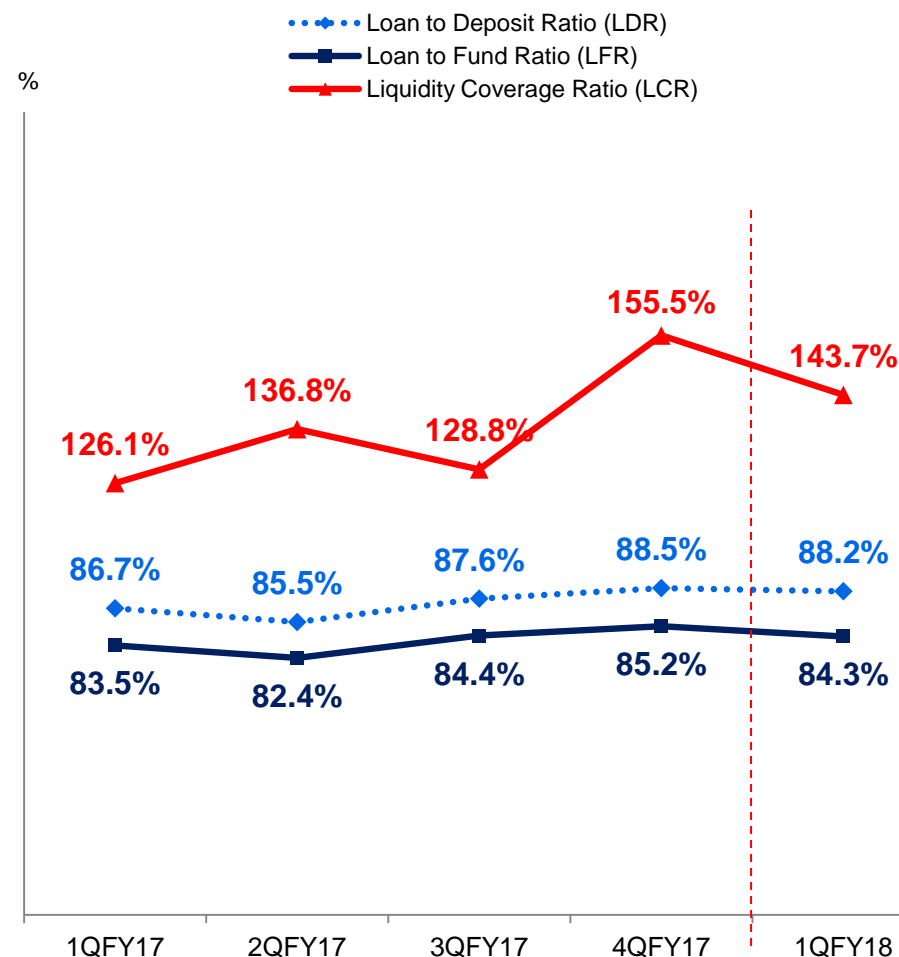
¹ Liquidity Coverage Ratio refers to highly liquid asset held by bank to meet short term obligation

² Loan to Fund Ratio is based on Funds comprising Customer Deposits and all debt instruments (such as senior debt, Cagamas and subordinated debt)

* Based on BNM Monthly Statistical Bulletin Jun 2017

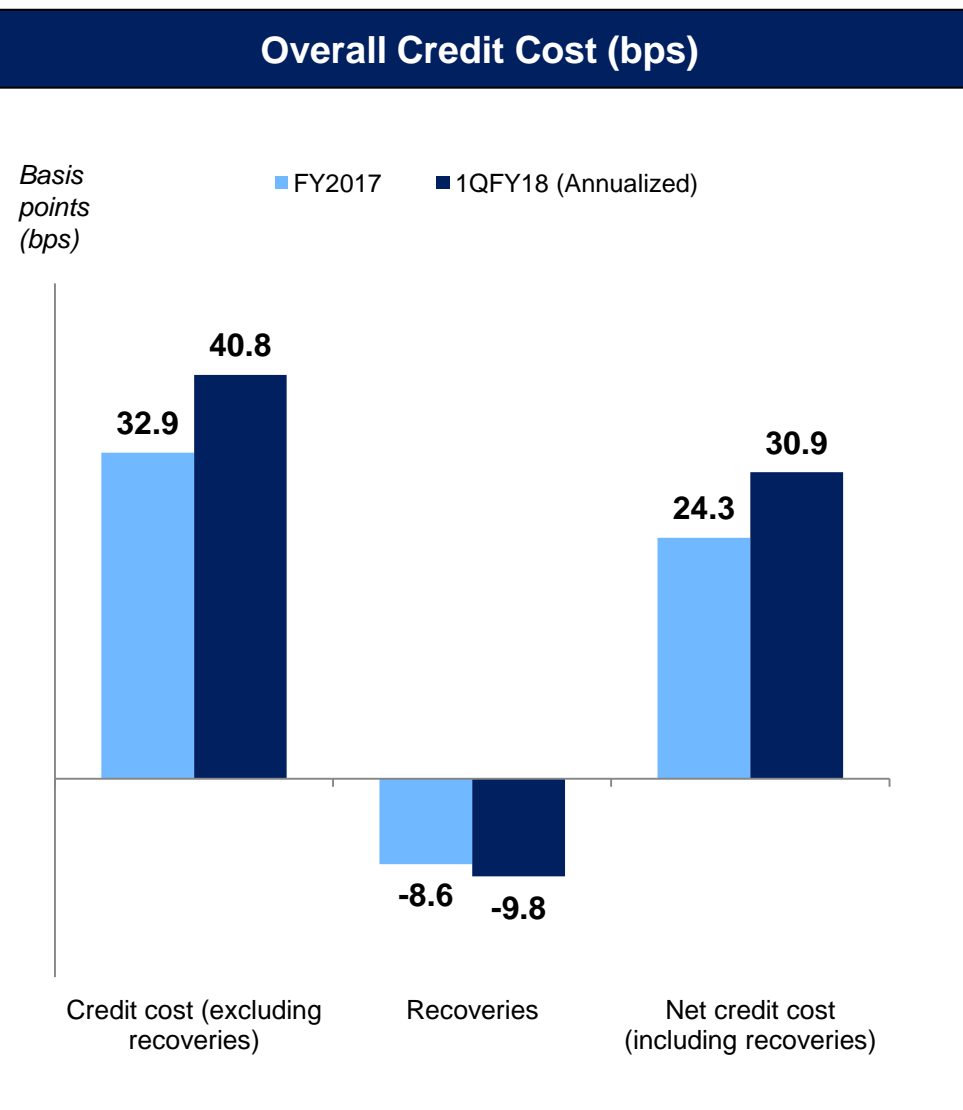
Based on Mar'17 local peers' average

Liquidity: LCR, LFR & LDR



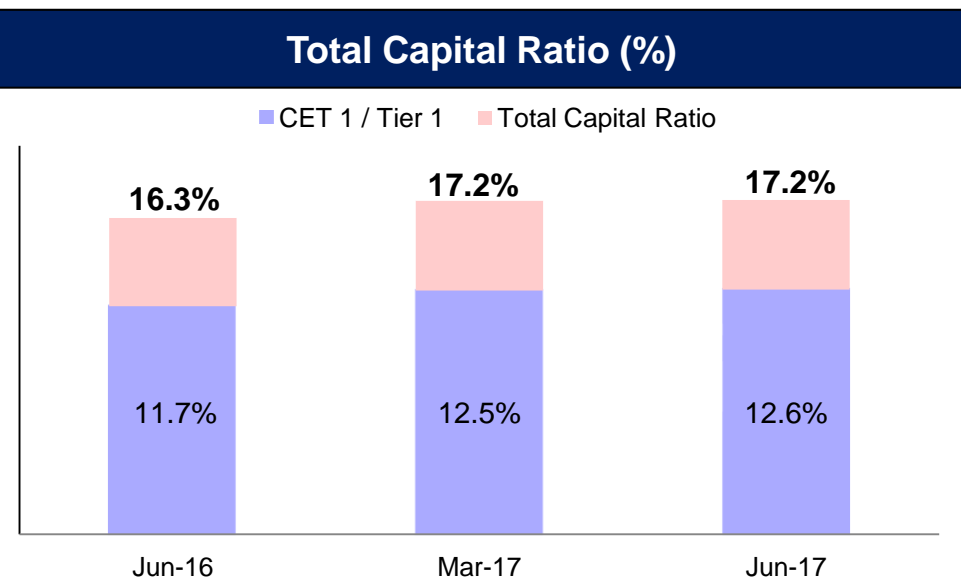
Credit cost within management guidance

- a) 1QFY18: Annualized net credit cost at 30.9 bps
- b) Higher credit cost mainly from personal financing portfolio (marginal increase in projected net credit cost to under 6% in FY18 from 5.63% in FY17)
- c) Mitigating proactive actions:
 - intensify collection & remedial programs
 - tighten cut-off score for salaried applicant
 - participate in CTOS National Fraud Bureau



Sustainable capital ratios

- a) Strong CET-1 ratio at 12.6%, after retained earnings and regulatory reserve provision
- b) Total capital ratio maintained at 17.2%
- c) Capital levels to remain stable with continuing focus on RAR on loans and client based fee income
- d) Proactive capital management to be supportive of future business expansion



Capital Ratios (after proposed dividends)	CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Alliance Financial Group	12.6%	12.6%	17.2%
Alliance Bank	11.1%	11.1%	15.9%
Alliance Islamic Bank	13.9%	13.9%	14.9%

Steady progress in strategic initiatives

Key Initiatives	Timeline of Launch	Progress Update
<ul style="list-style-type: none"> ▪ Alliance@Work <ul style="list-style-type: none"> ○ Leverage business owner relationships to meet their personal banking needs, their families and their employees ○ Cash2Home, mobile banking 	1H FY18	<ul style="list-style-type: none"> ▪ Recruited key personnel: <ul style="list-style-type: none"> ○ Head of Alliance@Work ○ Head of Client Relationship Manager ▪ Working on strategic alliances for bulk acquisition ▪ Continue to improve account opening and sales processes ▪ On-boarding >30 companies, with >2,400 employees' account opened or in progress
<ul style="list-style-type: none"> ▪ Alliance One Account (AOA) <ul style="list-style-type: none"> ○ Debt consolidation service for consumers 	1H FY18	<ul style="list-style-type: none"> ▪ Recruited all sales headcount ▪ Conducting internal analysis to expand AOA sales team ▪ Strong sales acceptance: >RM300 million (July'17) ▪ 1QFY18: RM81m new loans

Investments commenced in 1QFY18, will increase in coming quarters

Growth Y-o-Y	FY17	FY18 (BAU)	FY18 (BAU and Transformation)	1QFY18 (BAU)	1QFY18 (BAU and Transformation)
Revenue	3.2%	7%	8%	6.2%	6.3%
PPOP	5.8%	8%	-1%	8.9%	7.9%
NPAT	-1.9%	5%	-7%	2.9%	1.9%
Cost to income ratio	47.1%	<47%	<52%	45.1%	45.6%
ROE	10.5%	~ 10.5%	~ 9.5%	10.8%	10.7%
Progress Update		<u>Investments:</u> ▪ Total costs of RM90 million : ○ Sales force (50%) ○ Technology (20%) ○ Marketing (30%)	<u>Cost savings</u> ▪ RM5 million from restructuring (Phase 1) <u>New revenue:</u> ▪ RM11 million new revenue stream	<u>Investments in-progress:</u> ▪ RM2.2 million in 1QFY18, will increase in quarters ahead <u>Incremental revenue:</u> ▪ RM0.3 million from Alliance One Account (on-track)	

Focus on sustainable profitability and transformation**Key Results**

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- **Cost to income ratio** at 45.6%,
positive JAWS (+7.9%)

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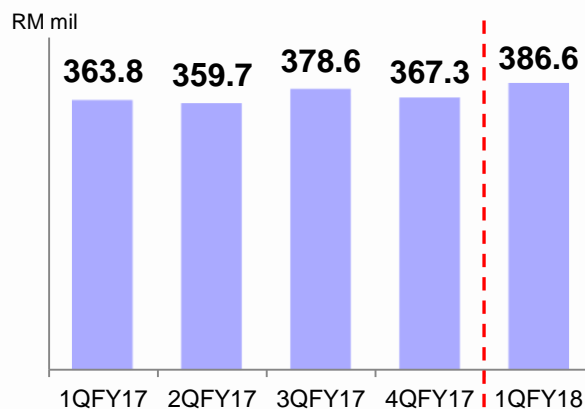
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Appendix - Financial Results:

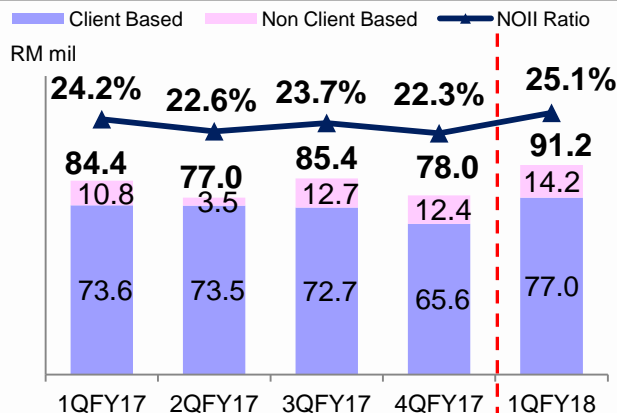
- 1Q FY18

Net profit after tax: RM135.0 million

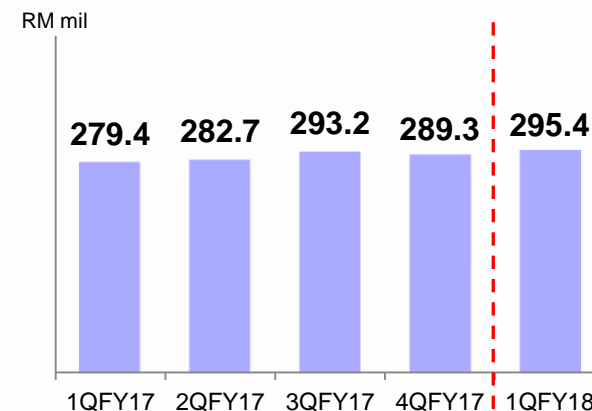
Revenue



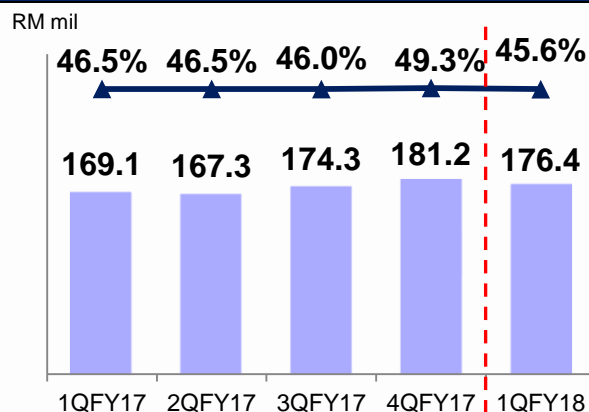
Non Interest Income ^ & NOII Ratio



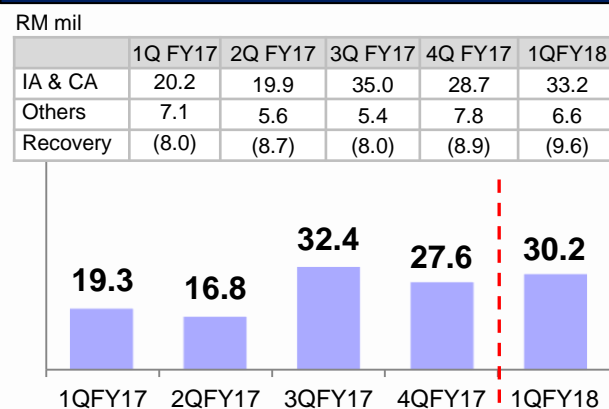
Net Interest Income & Islamic Banking Income



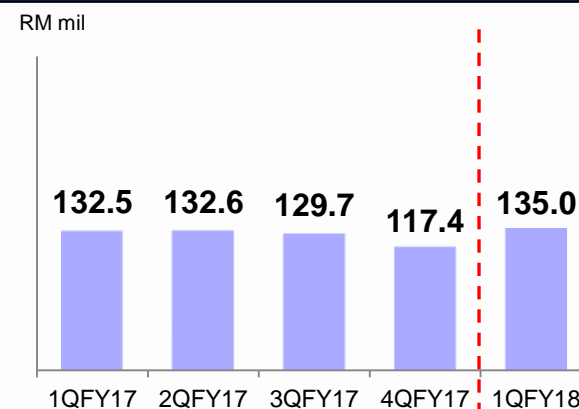
Operating Expenses & CIR Ratio



Credit Cost



Net Profit



Note: ^ excluding Islamic Banking Income

Income Statement	1QFY17 RM mil	1QFY18 RM mil	Y-o-Y Change Better / (Worse)	
			RM mil	%
Net Interest Income	212.1	217.4	14.0	5.1%
Islamic Net Financing Income	63.6	72.3		
Islamic Non-Financing Income	3.7	5.7	8.8	10.0%
Non-Interest Income	84.4	91.2		
Net Income *	363.8	386.6	22.8	6.3%
Operating Expenses	169.1	176.4	(7.4)	(4.4%)
Pre-Provision Operating Profit	194.7	210.2	15.5	8.0%
Net Credit Cost ^	19.3	30.2	(10.9)	(56.1%)
Pre-tax profit	175.4	180.0	4.6	2.6%
Net Profit After Tax	132.5	135.0	2.5	1.9%

- **Revenue** grew 6.3% y-o-y, thanks to:
 - +5.1% increase in net interest income⁺.
 - +10.0% improvement in non-interest income⁺.
- **Net interest income** (including Islamic net financing income) grew 5.1% y-o-y, driven by higher risk adjusted return (“RAR”) loans.
- **Client based fee income** grew RM2.4 million or +3.0% y-o-y mainly attributed to higher wealth management fees and trade fees.
- **Non client based non-interest income** increased RM6.5 million y-o-y mainly due to higher FX trading income .
- **Operating expenses** increased RM7.4 million y-o-y due to higher personnel cost and admin & general expenses
- **Pre-provision operating profit** grew 8% y-o-y.
- Higher **credit cost** due to higher collective assessment allowance on loans and financing.

Notes:

* Revenue

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

* Inclusive of Islamic Banking Income

Income Statement	4QFY17 RM mil	1QFY18 RM mil	Q-o-Q Change Better / (Worse)	
			RM mil	%
Net Interest Income	212.8	217.4	4.4	1.6%
Islamic Net Financing Income	72.5	72.3		
Islamic Non-Financing Income	4.0	5.7	14.9	18.2%
Non-Interest Income	78.0	91.2		
Net Income *	367.3	386.6	19.3	5.3%
Operating Expenses	181.2	176.4	4.8	2.6%
Pre-Provision Operating Profit	186.1	210.2	24.1	12.9%
Net Credit Cost ^	27.6	30.2	(2.6)	(9.4%)
Pre-tax profit	158.5	180.0	21.5	13.6%
Net Profit After Tax	117.4	135.0	17.6	15.0%

- **Revenue** grew 5.3% q-o-q, thanks to:
 - +1.6% increase in net interest income⁺
 - +18.2% improvement in non-interest income⁺
- **Net interest income** (including Islamic net financing income) grew 1.6% q-o-q, driven by higher risk adjusted return ("RAR") loans.
- **Client based fee income** increased RM5.7 million or +7.5% q-o-q was mainly contributed by higher wealth management fees, trade fees and banking services fees.
- **Non client based non-interest income** grew RM9.2 million q-o-q due to higher gain in financial investment activities and higher FX trading income.
- **Operating expenses** dropped RM4.8 million q-o-q due to lower admin and general expenses and lower marketing expenses.
- **Pre-provision operating profit** grew 12.9% q-o-q.
- Higher **credit cost** due to higher collective assessment allowance on loans and financing.

Notes:

* Revenue

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

* Inclusive of Islamic Banking Income

Balance Sheet	Jun 16 RM bil	Jun 17 RM bil	Change Y-o-Y	
			RM bil	%
Total Assets	54.5	54.6	0.1	0.2%
Treasury Assets*	9.6	11.6	2.0	19.9%
Net Loans	38.1	38.6	0.5	1.3%
Core Customer Deposits ⁺	36.5	39.2	2.7	7.4%
CASA Deposits	14.8	15.6	0.8	5.8%
Shareholders' Funds	4.9	5.2	0.3	5.3%
Net Loans Growth (y-o-y)	3.1%	1.3%		
Core Customer Deposit ⁺ Growth (y-o-y)	2.5%	7.4%		

- **Net loans** grew 1.3% y-o-y, with focus on better RAR loans namely SME, commercial and consumer unsecured lending.
- **Better RAR loans** grew 11.3% y-o-y while lower RAR loans contracted 3.0% y-o-y.
 - SME loans growth of +9.7% y-o-y (industry : +8.8%#).
 - Strong sales acceptance for Alliance One Account.
- **Core customer deposits:** +7.4% y-o-y, faster than industry growth of 4.1%.
- **CASA deposits** grew by +5.8% y-o-y (vs industry: +7.8%), despite intensified market competition for deposits.
- **Liquidity coverage ratio:** 143.7% (vs 126.1% in June 2016) (industry[^]: 140.6%).

Notes:

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

⁺ Core Customer Deposits = CASA + Fixed Deposit

[^] BNM Monthly Statistical Bulletin Jun 2017

[#] industry SME loan growth based on May 2017 statistics (latest available)

Balance Sheet	Mar 17 RM bil	Jun 17 RM bil	Change Q-o-Q	
			RM bil	%
Total Assets	54.1	54.6	0.5	0.9%
Treasury Assets*	11.6	11.6	0.0	(0.1%)
Net Loans	39.0	38.6	(0.4)	(0.9%)
Core Customer Deposits ⁺	39.7	39.2	(0.5)	(1.3%)
CASA Deposits	15.5	15.6	0.1	0.9%
Shareholders' Funds	5.1	5.2	0.1	0.8%
Net Loans Growth (y-o-y)	1.5%	1.3%		
Core Customer Deposit ⁺ Growth (y-o-y)	5.4%	7.4%		

- **Net loans** contracted marginally by 0.9% q-o-q mainly due to the weaker operating environment.
- Focus on **better RAR loans**:
 - Strong sales acceptance for Alliance One Account.
- **Core customer deposits** dropped slightly by 1.3% q-o-q.
- **CASA deposits** growth of +0.9% q-o-q (industry: +1.1%), despite intensified market competition for deposits.
- **Liquidity coverage ratio**: 143.7% (vs 155.5% in March 2017) (industry[^]: 140.6%).

Notes:

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

⁺ Core Customer Deposits = CASA + Fixed Deposit

[^] BNM Monthly Statistical Bulletin Jun 2017

[#] industry SME loan growth based on May 2017 statistics (latest available)

	Financial Ratios	1QFY17	4QFY17	1QFY18
Shareholder Value	Return on Equity	11.0%	9.5%	10.7%
	Earnings per Share	8.7sen	7.7sen	8.8sen
	Net Assets per Share	RM3.16	RM3.30	RM3.33
Efficiency	Net Interest Margin	2.22%	2.30%	2.32%
	Non-Interest Income Ratio	24.2%	22.3%	25.1%
	Cost to Income Ratio	46.5%	49.3%	45.6%
Balance Sheet Growth	Net Loans (<i>RM bil</i>)	38.1	39.0	38.6
	Total Deposits (<i>RM bil</i>)	44.4	44.4	44.2
Asset Quality	Credit cost (basis points) (annualised)	18.8	28.5	30.9
	Gross Impaired Loans Ratio	1.2%	1.0%	1.1%
	Net Impaired Loans Ratio	0.7%	0.6%	0.7%
	Loan Loss Coverage Ratio ^	119.2%	136.7%	122.1%
Liquidity	CASA Ratio	33.3%	34.8%	35.3%
	Loan to Deposit Ratio	86.7%	88.5%	88.2%
	Loan to Fund Ratio	83.5%	85.2%	84.3%
	Liquidity Coverage Ratio	126.1%	155.5%	143.7%
Capital	Common Equity Tier 1 Capital Ratio	11.7%	12.5%	12.6%
	Tier 1 Capital Ratio	11.7%	12.5%	12.6%
	Total Capital Ratio	16.3%	17.2%	17.2%

Note:

^ Loan Loss Coverage includes Regulatory Reserve provision; excluding Regulatory Reserve, 87.5% at 1QFY18 (vs. 96.6% at 4QFY17)

THANK YOU

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