ALLIANCE BANK

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ALLIANCE BANK CONTINUES FOCUS ON SMEs TO DRIVE ITS GROWTH

Bank continues to support Malaysian businesses via fast, simple & innovative solutions

Kuala Lumpur, 27 August 2019 – Alliance Bank Malaysia Berhad ("Alliance Bank" or the "Bank") continues to focus on supporting Malaysian businesses to drive its financial performance.

The Bank has introduced new financial diagnostic tools to facilitate better advice to SMEs, while continuing to simplify processes for customers. In addition, Alliance Bank has accelerated unsecured lending to SMEs through its partnership with Credit Guarantee Corporation (CGC). A number of new digital solutions are also being developed to support SMEs, with planned introductions over the course of the financial year.

For the first quarter ended 30 June 2019 ("1QFY2020"), the Bank made a full provision and impairment amounting to RM74.9 million for a few large accounts. The Bank's financial results were also affected by the Overnight Policy Rate ("OPR") cut of 25 basis points ("bps"), resulting in a decline of RM8.2 million in net interest income.

"We remain vigilant in managing our credit portfolio, and prudent in our provisioning in view of the challenges enterprises face," said Mr. Joel Kornreich, Group Chief Executive Officer of Alliance Bank.

The Bank continues to focus on its FY2020 priorities to accelerate its core businesses in consumer and SME Banking. During the quarter, it grew SME loans 10% year-on-year ("YOY") to RM8.8 billion[1]. Alliance@Work, another key Transformation initiative, acquired 390 company payroll accounts and 7,091 new employee CASA accounts in the quarter, nearly tripling its CASA balances to RM214.8 million.

Alliance ONE Account ("AOA"), its innovative loan consolidation service, grew RM2.2 billion YOY to RM3.7 billion. The Personal Financing portfolio expanded 23% YOY to RM2 billion. This resulted in an overall loan growth of 6.0% YOY to RM42.7 billion, outpacing industry loan growth of 4.2%.

The Bank's better risk adjusted return loans improved 25.8%, while the lower risk adjusted return loans contracted 5.7%. Better risk adjusted return loans expanded to 44% of the overall loan portfolio compared to 37% in the previous year. This portfolio

[1] Industry contracted 0.8% YOY (Source: BNM Financial Institution Network May 2019 Statistics)

expansion was primarily due to AOA, SME, commercial, and unsecured consumer loans. Net interest income (including Islamic net financing income) rose 3.6% YOY, supported by stronger volume growth and improved loan mix from better risk adjusted return loans.

"Our focus is to provide consistent and excellent customer experience. We will also launch new digital propositions to enhance speed and simplicity in our service. We believe that doing so will help us accelerate our growth especially in the Consumer and SME banking business," said Mr. Joel Kornreich, Group Chief Executive Officer of Alliance Bank.

The Bank's net interest margin was at 2.4% affected by the May 2019's OPR cut of 25 bps. However, earnings erosion was mitigated by the Bank's stronger volume growth and enhanced loan mix from better risk adjusted return loans. Consequently, net interest income grew 3.6%, while total revenue grew 1.5% YOY, to RM406.9 million.

Quarter-on-quarter, the Bank's net credit cost increased 3.6 bps to 13.1 bps due to full provision for a few large accounts. It has since initiated recovery actions on the affected accounts.

Delivering Sustainable Underlying Growth

The Bank recorded an improved pre-provision operating profit of 4.5% QOQ to RM208.9 million, but posted RM76.7 million net profit after tax ("NPAT") for 1QFY2020. This takes into account the higher net credit cost and impairment losses from a few large accounts, and the impact of OPR cut.

- ***Revenue Growth:*** Overall 1QFY2020 revenue grew 1.5% YOY. Net interest income (including Islamic net financing income) increased 3.6% YOY, driven by strong volume growth and improved loan mix from better risk adjusted return loans.

- ***Loans Growth***: Gross loans and advances grew 6.0% YOY to RM42.7 billion outpacing the industry loan growth of 4.2% YOY. The Bank' loan origination efforts centres on the better risk adjusted return loans from SME, consumer unsecured financing, and AOA segments.

  SME loan balances grew 10% YOY to RM 8.8 billion, while Personal Financing portfolio grew 23% YOY to RM2.0 billion. AOA loan balances more than doubled to RM3.7 billion from RM1.5 billion in June 2018. The loan mix continues to improve with better risk adjusted return loans making up 44% of the portfolio as compared to 37% in the previous year.

- ***Net Interest Margin ("NIM")***: NIM declined 10 bps year-to-date ("YTD") to 2.40%, mainly due to the impact of the OPR cut on 7 May 2019. The OPR cut impact amounted to a RM8.2 million decrease in net interest income or -6 bps. However, this was alleviated by the Bank's stronger volume growth and improved loan mix from better risk adjusted return loans, namely SME and AOA. The Bank will continue to pursue an efficient funding mix to mitigate the OPR cut impact, and guides FY2020 NIM to be between 2.40% and 2.45%.

- ***Non-Interest Income:*** The Bank posted non-interest income of RM75.2 million amid the challenging external environment. Client based fee income declined RM6.4 million or 7.8% YOY mainly due to the weaker market environment, particularly in unit trust and brokerage businesses, foreign exchange sales, and trade fees.

  However, client-based fee income rebounded RM6.9 million or 10.1% QOQ as the Bank continued to focus its efforts to grow fee income. These include enhancing its relationship managers' capabilities through the Wealth Academy, and expanding cross-selling efforts for wealth management products.

- ***Operating Expenses:*** Cost-to-income ratio was within expectations at 48.7%. Operating expenses rose RM14.8 million YOY, mainly due to investments in IT infrastructure, and sales force expansion.

Effective Risk Management

- ***Healthy Funding Position:*** Customer-based funding grew 8.8% YOY to RM46.6 billion from RM42.8 billion a year ago, ahead of loan growth, supported by fixed deposits growth of RM2.8 billion YOY.

  The Bank maintained its high Current Account/Savings Account ("CASA") ratio of 35.1% due to its Alliance SavePlus proposition and Alliance@Work expansion.

- ***Healthy Liquidity Position:*** The Bank's liquidity coverage ratio and loan-to-fund ratio remained healthy at 171.3% and 85.9% respectively.

- ***Asset Quality***: The Bank's gross impaired loans ratio for the quarter grew to 1.30%. Loan loss coverage (including Regulatory Reserve) was at 128.2% in 1QFY2020.

- ***Strong Capital Ratios:*** The Bank continues to report strong capital position with Common Equity Tier-1 ("CET 1") ratio at 13.5%, Tier-1 ratio at 14.2%, and total capital ratio at 18.7%.

Enhancing Shareholder Value

- ***Net Assets per Share:*** Net assets per share grew 6.0% to RM3.69, from RM3.48 a year ago. As at 30 June 2019, the Bank's shareholders' equity was RM5.7 billion.

Looking Forward

"In FY2020, Alliance Bank will continue to grow its Consumer and SME Banking business by implementing new digital propositions and forming ecosystem partnerships to broaden acquisition," explained Mr. Kornreich. "We will continue to focus on delivering faster, simpler, and more responsive services to our clients," said Mr. Kornreich.

"All our efforts are centred on helping business owners grow their business, and create value for their stakeholder base of family, employees, business partners, and clients," he said.

Performance Summary for 1QFY2020

Revenue & Profitability

- *1QFY2020 overall revenue improved 1.5% year-on-year ("YOY") to RM406.9 million*
- *1QFY2020 net interest income grew 3.6% YOY*
  - *Gross loans grew 6.0% YOY, driven by core businesses and outpacing industry growth of 4.2% YOY. Better risk-adjusted return ("RAR") loans grew 25.8% YOY.*
  - *Net interest margin dropped 10bps to 2.40%, mainly due to Overnight Policy Rate ("OPR") cut impact of -RM8.2 million during the quarter.*
- *Non-interest income rebounded with 18.2% quarter-on-quarter ("QOQ") growth*
- *Cost-to-income ratio was at 48.7% (industry average: 49.5%)*

Effective Risk Management

- *Customer-based funding grew 8.8% YOY to RM46.6 billion, from consumer deposits and ahead of loan growth*
- *Strong CASA ratio of 35.1%.*
- *Healthy liquidity coverage ratio at 171.3%*
- *Net credit cost for the quarter was at 13.1bps, mainly due to impairment losses from a few large accounts.*
- *Gross impaired loan ratio increased 18 bps to 1.30%, from 1.12% in 4QFY2019.*
- *Sustainable capital position with common equity tier-1 ratio was at 13.5%; total capital ratio of the Bank was at 18.7%*

Key Results

- *1QFY2020 Pre-Provision Operating Profit improved 4.5% QOQ to RM208.9 million.*
- *Net profit after tax at RM76.7 million after OPR cut impact and impairment.*
- *Net assets per share grew 6.0% to RM3.69, from RM3.48 a year ago.*

Transformation Progress

- *Alliance ONE Account loans grew RM2.2 billion YOY to RM3.7 billion.*
- *Personal Financing loans expanded RM391 million or 23% YOY, to RM2.1 billion.*
- *SME loans grew 10% YOY to RM8.8 billion (vs industry: -0.8% YOY).*
- *Alliance@Work acquired 390 company payroll accounts (75% YOY growth) and 7,091 new employee CASA (24% YOY growth) in 1QFY2020*
  - *CASA balances from these new acquisitions nearly tripled to RM214.8 million.*

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About Alliance Bank Malaysia Berhad

Alliance Bank Malaysia Berhad and its subsidiaries, Alliance Investment Bank Berhad and Alliance Islamic Bank Berhad, is a dynamic, integrated financial services group offering banking and financial solutions through its consumer banking, SME banking, corporate and commercial banking, Islamic banking, investment banking, and stockbroking businesses. The Bank provides easy access to its broad base of customers throughout the country via multi-pronged delivery channels which include retail branches, Privilege Banking Centres, Business Centres, and Investment Bank branches, as well as mobile and Internet banking.

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