ALLIANCE FINANCIAL GROUP

PRESS RELEASE

11 August 2014

ALLIANCE FINANCIAL GROUP RECORDS RM130.8 MILLION NET PROFIT IN 1Q FY2015

Highlights of the 1st Quarter ended 30 June 2014 ("1Q FY2015"):

- **Revenue Growth:** The Group's net income was RM336.7 million, mainly driven by an 8.3% rise in net interest income.
- **Sustained Net Profit after Tax:** Net profit after tax was at RM130.8 million.
- **Stable Cost-to-Income Ratio:** On the back of effective cost management, the cost-to-income ratio was maintained at 48.0%.
- **Return on Equity ("ROE"):** ROE after tax was at 12.8%.
- **Loans Growth Momentum:** Net loans grew 15.7% year-on-year to RM32.8 billion, driven by expansion in Consumer and Business Banking loans portfolio.
- **Stable Asset Quality:** Gross impaired loans ratio remained at 1.4%, with loan loss coverage at 90.2%.
- **Sustained CASA Deposits:** CASA ratio at 34.7%, as CASA deposits expanded by 7.6% year-on-year to RM13.7 billion.
- **Strong Capital Ratios:** The Group's Total Capital Ratio stood at 13.2%, with Common Equity Tier 1 ("CET 1") ratio at 10.0%, well above Basel III regulatory requirements.

Kuala Lumpur, 11 August 2014 - Alliance Financial Group Berhad ("AFG" or "the Group"), comprising Alliance Bank Malaysia Berhad and its subsidiaries, today announced that for the first financial quarter ended 30 June 2014 ("1Q FY2015"), the Group reported a net profit after tax of RM130.8 million, compared to RM137.8 million in the corresponding quarter ended 30 June 2013 ("1Q FY2014").

In announcing its results, Group Chief Executive Officer, Sng Seow Wah said, “The Group had paid a special dividend of 10.5 sen per share on 26 June 2014. No interim dividend has been declared during the quarter as the dividend announcement will now coincide with the announcement of the half year interim and year end results. Any declaration of dividend will be subject to Bank Negara Malaysia (BNM)’s approval. Our continuing commitment is to pay up to 60% of the net earnings as dividends, subject to regulatory approvals and maintaining a strong capital adequacy ratio.”

Sustained financial performance

"The sustained financial performance for this quarter compared to the corresponding quarter ended 30 June 2013 was mainly attributed to the growth in interest income. Net interest income grew by 8.3% to RM199.8 million for 1Q FY2015, driven by net loans expansion particularly in the Consumer and Business Banking segments. Interest margins, however, continued to remain under pressure due to the increased competition in the industry for both loans and deposits," said Sng.

Non-interest income for the quarter was RM83.2 million, which represents a decline by 13.2% compared to the corresponding period last year if the one-off sign-on fee income of RM30 million from Bancassurance agreement with Manulife is excluded from the non-interest income in 1Q FY2014. The Group's non-interest income ratio stood at 25.7%, compared to 29.6% a year ago, excluding the one-off Bancassurance fee income.

During the first quarter, the drop in non-interest income was mainly attributed to the lower gain from disposal of financial investments. Recurring income from transaction banking, wealth management and brokerage activities continue to register steady growth, and now account for 56% of the total non-interest income.

Despite the Group’s continued investments in IT infrastructure and human capital, operating expenses for the quarter declined by RM13.2 million or 7.5% due to effective cost management. The Group also incurred staff rationalisation cost of RM10.6 million in this quarter, compared to RM22.3 million in the corresponding period last year.

"The cost-to-income ratio was maintained at 48.0% compared to a year ago. We expect the cost-to-income ratio to decline further as we continue with the initiatives to improve productivity and efficiency of our business operations. Excluding the impact of one-offs, our cost-to-income ratio would have improved to 44.9% compared to 45.7% in the corresponding period last year," said Sng.

Loans growth momentum driven by core segments

The Group's net loans, including Islamic financing, grew by 15.7% to RM32.8 billion from a year ago, driven primarily by residential property and non-residential property financing as well as SME lending.

The growth in residential and non-residential property financing is mainly attributed to the disbursements of loans previously approved, as new approvals have registered a slow down in line with the softer property market. Based on the revised SME definition by BNM effective 1 January 2014, SME lending grew by 19.9% year-on-year to RM6.3 billion, mainly driven by purchase of non-residential properties. The Business Banking portfolio, comprising lending to SME, commercial and corporate customers, now represents 42.4% of the total customer loans portfolio, with Consumer Banking making up the balance at 57.6%.

"Our two core areas of focus, specifically, consumer financing and SME lending, continue to register above industry growth rates. Growth has also been encouraging in the hire purchase financing and the share margin financing segments as part of our initiative to rebalance our portfolio," explained Sng.

Asset quality continues to improve

Despite the challenging external environment, the Group has achieved further improvement in asset quality with its adoption of a disciplined approach towards credit risk management and collection processes.

Gross impaired loans have decreased to RM452.5 million from RM559.7 million a year ago, resulting in the Group's gross impaired loans ratio improving to 1.4% in 1Q FY2015 from 1.9% a year ago, which is better than the industry's average. The Group's net impaired loans ratio stood at 0.8%, while loan loss coverage was at 90.2% as at 30 June 2014.

Healthy loan-to-deposit ratio

The Group continues to maintain a liquid balance sheet with a healthy loans-to-deposit ratio of 83.8% as at 30 June 2014, as customer deposits grew by 10.9% year-on-year to RM39.6 billion. Meanwhile, CASA deposits registered a 7.6% year-on-year growth to RM13.7 billion. The Group's CASA ratio was at 34.7% compared to 35.8% a year ago, and remains amongst the highest in the industry.

Strong capital adequacy levels

"The Group's Common Equity Tier 1 ("CET 1") ratio stood at 10.04% in 1QFY2015, while Tier 1 Capital and Total Capital ratios were at 11.06% and 13.21% respectively. The Group's capital adequacy ratios remain well above the Basel III requirements under BNM's revised Capital Adequacy Framework," said Sng.

The Group's shareholders' equity remains strong at RM4,148 million as at 30 June 2014 while the net assets per share was maintained at RM2.68 compared to a year ago.

Recent developments

The Group continues to enhance its franchise, winning a number of awards regionally. Recently, Alliance Bank was awarded the "Online Banking Initiative Of The Year-Malaysia" Award by the Asian Banking & Finance at the Retail Banking Awards 2014 for the Alliance BizSmart Online Banking initiative. Since 2006, Asian Banking and Finance has recognised the most innovative projects and the best practices in Asia's retail banking sector. The Bank's award submission stood out as BizSmart is the first in Southeast Asia to offer big business online banking tools to small businesses and has a comprehensive solution bundle for the transaction banking needs of SMEs which is a truly customer-centric solution.

Alliance Bank has also won another major regional award for its BizSmart Online Banking namely, The Asian Banker's "Best Self Service Banking Project" at the 8th Asian Banker Technology Implementation Awards Programme in May 2014.

"Winning awards and gaining recognition re-affirm that the Bank's initiatives are on the right track towards our aspiration of building the "Best Customer Service Bank" in Malaysia. Serving our customers well continues to be our key strategic focus. We will continue with our investments in infrastructure and initiatives to re-engineer our operations to improve our customer service. We will also continue to transform our branches and expand our channels to serve our customers and community better," said Sng.

Looking forward

"With the Malaysian economy expected to register gross domestic product growth of between 4.5% to 5.5% in 2014, the Group will continue to capitalise on its strengths to generate sustainable revenue from existing business in Consumer Banking and Business Banking, and expand opportunities in Wealth Management, Transaction Banking, Treasury and Investment Banking. We will continue to stay focused on key targeted customer and product segments, build strong customer relationships, as well as leverage on the Group's infrastructure and multiple distribution networks for business growth," said Sng.

Barring unforeseen circumstances, the Group expects to deliver a satisfactory performance for the financial year ending 31 March 2015.

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About Alliance Financial Group

Alliance Financial Group, comprising Alliance Bank Malaysia Berhad, 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, business banking, Islamic banking, investment banking and stockbroking businesses. It provides easy access to its broad base of customers throughout the country via multi-pronged delivery channels which include retail branches, Privilege Banking Centres, Islamic Banking Centres, Business Centres, Investment Bank branches, and direct marketing offices located nationwide, as well as mobile and Internet banking.

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