

ALLIANCE FINANCIAL GROUP RECORDS RM135 MILLION NET PROFIT IN 1QFY2018

Kuala Lumpur, 29 August 2017 - Alliance Financial Group Berhad (“AFG” or “the Group”), comprising Alliance Bank Malaysia Berhad (“the Bank”) and its subsidiaries, today announced a RM135 million net profit for the financial quarter ended 30 June 2017 (“1QFY2018”).

- *Pre-provision operating profit for the quarter improved by 7.9% year-on-year (“YOY”) to RM210.2 million.*
- *Revenue for the quarter grew 6.3% YOY to RM386.6 million.*
- *Client-based fee income for the quarter improved 3% YOY to RM81.8 million.*
- *Better risk adjusted return (“RAR”) loans grew 11.3% YOY while lower RAR loans contracted 3% YOY.*
- *Net interest margin improved 2 basis points quarter-on-quarter (“QOQ”) to 2.32%.*
- *Loans growth in the SME sector remained strong at 9.7% YOY, with excellent gross impaired loans ratio at 1.4%.*
- *Overall gross impaired loans ratio at 1.1%, better than industry average of 1.6%. Loan loss coverage ratio (including regulatory reserve) was 122.1%.*
- *Strong CASA ratio of 35.3%, contributed by strong CASA growth of 5.8% YOY.*
- *Healthy liquidity coverage ratio at 143.7% and loan-to-fund ratio at 84.3%.*
- *Strong capital position with total capital ratio of the Group at 17.2%.*

Commenting on the Group’s results, Chief Executive Officer of the Group, Mr. Joel Kornreich said, “In the first quarter of financial year 2018 (“1QFY2018”), we delivered a steady performance, with revenue growing 6.3% YOY to RM386.6 million, contributing to a strong return on equity (“ROE”) OF 10.7%. We also recorded improvement in our net interest margin at 2.32%. Client-based fee income for the quarter improved 3% YOY to RM81.8 million.”

“Small and medium-sized enterprises (“SME”) remained our best performing segment as we continue to focus on better risk adjusted returns and effective credit risk management measures. Loans growth in the SME sector grew 9.7% YOY. However, the growth momentum has slowed down in 1QFY2018 due to the challenging environment.”

“We continue to focus on growing customer based funding and optimise our deposit mix. The Group recorded an improvement in core customer deposits, including CASA and fixed deposits, at an above-industry growth of 7.4% YOY. Liquidity remains healthy with liquidity coverage ratio at 143.7% and loan to fund ratio at 84.3% respectively. We saw a steady build-up in sales for our Alliance One Account value proposition.”

“We are continuing our efforts to enhance shareholder value. The Group’s ROE for the first quarter of financial year 2018 was 10.7%, while the net assets per share improved to RM3.33, from RM3.16 a year ago,” said Mr Kornreich.

“Meanwhile, our total capital ratio remained near the top of the industry, improving to 17.2% as compared to 16.3% a year ago.”

Net profit after tax for the quarter grew 1.9% YOY to RM135 million, mainly driven by client-based fee income and net financing income. Pre-provision operating profit improved by 7.9% YOY to RM210.2 million.

Delivering Sustainable Profitability

- **Revenue Growth:** Overall net income improved 6.3% YOY. Net interest income (including Islamic net financing income) grew 5.1% YOY, driven by our focus in higher risk adjusted return (“RAR”) loans.
- **Net interest margin (“NIM”):** NIM improved marginally by 2 basis points QOQ to 2.32%. Cost of funds remained stable while gross interest margin improved slightly, driven by improvement in yields contributed by higher RAR loans.
- **Non-interest income (“NII”):** Non-interest income (including Islamic non-financing income) increased by 10% YOY. This was contributed by the improvement in client-based fee income of 3% YOY, mainly due to higher wealth management fees, trade fees and banking services fees.
- **Operating Expenses:** Operating expenses declined 2.6% QOQ mainly due to lower administrative and marketing expenses. Operating expenses increased by 4.4% YOY mainly due to higher personnel cost and administrative expenses. Overall cost-to-income ratio for the quarter improved to 45.6%, which is below the industry average. We continue

to maintain cost control as we execute our planned investment in strategic initiatives in the quarters ahead.

- **Impairment Provisions:** Credit cost for loans, advances and financing for the quarter was 7.7 basis points as compared to 7.0 basis points in 4QFY2017. The marginally higher credit cost in the quarter was due to higher collective assessment allowance stemming from impaired loans in the consumer segment. On an annualised basis, credit cost for loans, advances and financing of 30.9 basis points for the quarter was well within the management guidance for the year.
- **Return on Equity ("ROE"):** ROE for the quarter was at 10.7%.

Targeted Loans Growth Supported By Healthy Funding Position

- **Loans Growth:** Net loans and advances grew 1.3% YOY to RM38.6 billion. The Group's loan origination efforts were focused on the better RAR loans within SME, commercial, and consumer lending segments, which grew 11.3% YOY, faster than the other segments. We saw a steady build-up in sales for our Alliance One Account value proposition. Loans growth in the SME sector grew 9.7% YOY.
- **Stable Asset Quality:** The gross impaired loans ratio at 1.1% was better than industry average of 1.6%. Loan loss coverage improved slightly to 122.1% from 119.2% a year ago, reflecting a healthy position.
- **Healthy Funding and Deposit Growth:** Core customer deposits registered a YOY growth of 7.4% to RM39.2 billion, faster than industry growth of 4.1%. Core customer deposits contracted 1.3% QOQ as the Group continues to optimise funding mix, which helps to maintain cost of funds for the quarter. The funding position remains stable and supportive of business growth. The Group's CASA ratio at 35.3% remains among the highest in the industry. Furthermore, the liquidity coverage ratio and loan to fund ratio remained healthy at 143.7% and 84.3% respectively.

Capital Levels Remain Strong

- **Strong Capital Ratios:** The Group's capital position is strong with Common Equity Tier 1 ("CET 1") ratio at 12.6%. Total Capital Ratio of the Group improved to 17.2% from 16.3% a year ago. This is among the strongest in the industry. The Group continues to undertake proactive capital management to maintain healthy capital levels that are supportive of future business expansion.

Enhancing Shareholder Value

- **Net Assets per Share:** Net assets per share improved to RM3.33, from RM3.16 a year ago. As at 30 June 2017, the Group's shareholders' equity was RM5.2 billion.

Looking Forward

The Malaysian economy registered a gross domestic product ("GDP") growth of 5.6% and 5.8% in the first quarter and second quarter of 2017 respectively. However, we expect the GDP to slow down to an average of 5.2% in the remaining two quarters of the year. GDP growth is expected to be supported by domestic and external demand, manufacturing, and services sectors.

The Group will continue to leverage on its franchise strength to deliver sustainable profits and to fulfil the financial needs of our customers. It will continue to improve balance sheet efficiency by focusing on better RAR loans, liquidity management, and by mitigating credit risk.

"This year, we have launched a number of new and differentiated value propositions and will continue to scale them up for our customers. As increasing number of our customers are moving to digital channels, we will be investing in the required technology enablers to support the Bank's strategic initiatives. We will also focus on streamlining to improve the efficiency of our operations.

"We will set our sights on being a Bank that uses innovation to deliver fast, simple, and responsive solutions that are always aligned with our customers' needs. As part of our transformation growth, we will live out our brand by driving client excellence and digital innovation at key touch-points, in alignment with our new brand architecture and our vision of 'Building Alliances to Improve Lives'," said Mr Kornreich.

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About Alliance Financial Group

The 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 services through its consumer banking, SME banking, corporate and commercial banking, Islamic banking, investment banking and stockbroking.

It provides easy access to its broad base of customers throughout the country via multi-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.

With over five decades of proud history in contributing to the financial community in Malaysia, with its innovative and entrepreneurial business spirit through its principal subsidiaries, the Group is committed to delivering the best customer experience and creating long-term shareholder value.

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