



Media Release

RAM Ratings reaffirms A₁ financial institution ratings of Alliance Bank and its banking entities

RAM Ratings has reaffirmed the A₁/Stable/P1 financial institution ratings of Alliance Bank Malaysia Berhad (Alliance Bank or the Group) and its subsidiaries. The ratings of the entities' sukuk/debt facilities have also been reaffirmed (Table 1).

The reaffirmation is premised on our view that strong loss absorption buffers in the form of robust capitalisation, a healthy earnings generation capacity and higher loan loss coverage will prepare Alliance Bank for anticipated credit weakening when loan relief measures end. We expect the Group's funding and liquidity position to remain sound, anchored by its entrenched small medium enterprise (SME) franchise.

Alliance Bank's asset quality has in recent years been weighed down by the seasoning of Alliance One Account (AOA) portfolio, a mortgage refinancing product with debt consolidation features. Further impairments from this portfolio, which accounts for 13% of the Group's loan book, contributed to a higher gross impaired loan (GIL) ratio of 2.3% as at end-September 2021 (end-March 2020: 2.0%). Growth of AOA loans has slowed as the Group further tightened its underwriting criteria. While asset quality weakness will likely be more pronounced after repayment assistance expires, stepped-up remedial measures and the better economic outlook should moderate the extent of deterioration.

Aided by steady earnings accretion, the Group's post-dividend common equity tier-1 capital ratio was a robust 17.1% as at end-September 2021 (without transitional arrangement: 15.6%). GIL coverage, including regulatory reserves, stood at a healthy 111% as at the same date. These factors, coupled with a strong earnings generation capacity, will afford the Group sufficient headroom to withstand higher credit losses.

In 1H FY Mar 2022, Alliance Bank delivered a pre-tax profit of RM418 mil (+53.0% y-o-y), thanks to lower impairment charges and a broader margin. This lifted its return on risk-weighted assets to an annualised 2.3%, a noticeable improvement from 1.3% in FY Mar 2021. Upheld by a rich pool of high-yielding loans, the Group's net interest margin was an enviable 2.5% (annualised) for the period (FY Mar 2021: 2.3%). Margin expansion is also attributed to ongoing funding optimisation, inter alia, by trimming and repricing costlier fixed deposits and replacing debt securities at a lower interest rate.

Alliance Bank recently announced the proposed sale of its stockbroking business – housed under Alliance Investment Bank Berhad (Alliance Investment) – given the segment’s sub-scale operations and the Group’s aim to prioritise growth of the consumer, SME and Islamic banking segments. We do not expect the disposal to have a material impact on the Group’s franchise nor earnings profile in view of the historically small contribution from stockbroking. The corporate exercise will also see Alliance Investment’s corporate finance, equity capital markets and debt capital markets businesses transferred to Alliance Islamic Bank Berhad (Alliance Islamic).

The financial institution ratings of the Group’s core subsidiaries, Alliance Islamic and Alliance Investment, are equated to Alliance Bank’s ratings, considering their strategic importance to the latter.

Table 1: Ratings of entities under Alliance Bank

	Ratings
Alliance Bank Malaysia Berhad	
i. Financial Institution Ratings	A ₁ /Stable/P1
ii. RM500 million Commercial Papers Programme (2015/2022)	P1
iii. RM1.5 billion Senior Medium-Term Notes Programme (2015/2045)	A ₁ /Stable
iv. RM2.0 billion Subordinated Medium-Term Notes Programme (2015/2045)	A ₂ /Stable
v. RM1.0 billion Additional Tier-1 Capital Securities Programme (2017/-)	BBB ₁ /Stable
Alliance Islamic Bank Berhad	
i. Financial Institution Ratings	A ₁ /Stable/P1
ii. RM300 million Islamic Commercial Papers Programme (2019/2026)	P1
iii. RM2.5 billion Perpetual Sukuk Programme (2019/-):	
- RM1.2 billion Senior Sukuk Murabahah	A ₁ /Stable
- RM800 million Tier-2 Sukuk Murabahah	A ₂ /Stable
- RM500 million Additional Tier-1 Capital Sukuk Wakalah	BBB ₁ /Stable
Alliance Investment Bank Berhad	
i. Financial Institution Ratings	A ₁ /Stable/P1

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